ANNUAL REPORT 2017/18

BANG & OLUFSEN A/S, Comreg: 41257911

BANG & OLUFSEN

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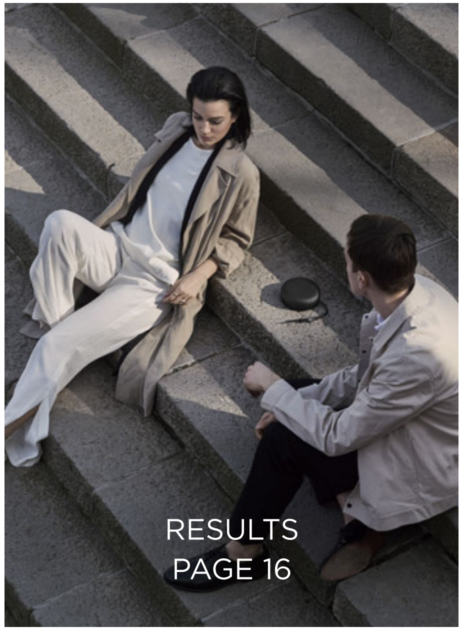
ABOUT BANG & OLUFSEN

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 audio products are sold worldwide in Bang & Olufsen monobranded stores, online and in multibranded stores. The company employs around 1,000 people and operates in more than 70 markets and Bang & Olufsen's shares are listed on NASDAQ Copenhagen A/S.



2017/18 AT A GLANCE

Momentum in the business remained high in 2017/18, with a revenue increase of 11 per cent and an improvement in profitability. The result was driven by continued growth in the B&O PLAY business unit in key growth countries such as China as well as positive effects from the changed operating model.

11%

(14% in local currency)

REVENUE GROWTH

Group revenue increased double digit for the third consecutive year

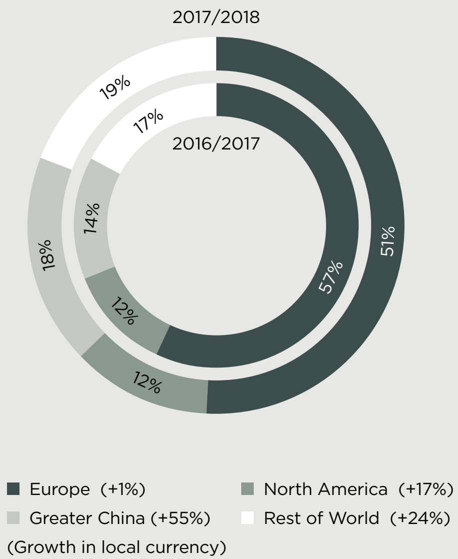
3%

(underlying)

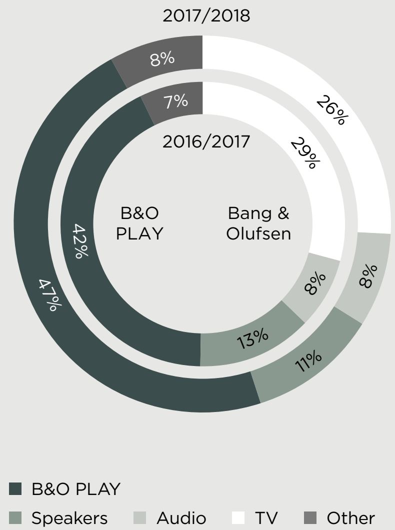
EBIT MARGIN

Group earnings improved and is on track to reach long-term targets

REVENUE SPLIT BY REGION



PRODUCT CATEGORY SPLIT



REVENUE, DKK MILLION	EBITDAC MARGIN, UNDERLYING	FREE CASH FLOW, DKK MILLION	NUMBER OF MONO-BRANDED STORES	NUMBER OF MULTI-BRANDED STORES
3,285	9%	85	565	6,705
(2016/17: 2,954)	(2016/17: 3%)	(2016/17: 307)	(2016/17: 626)	(2016/17: 6,424)

LETTER TO SHAREHOLDERS

Dear shareholders,
Bang & Olufsen made significant progress in 2017/18. Our efforts to transform our operating model, launch innovative and progressive products and strengthen both our brand and our go-to-market approach have enabled us to deliver improved financial results. Revenue grew by 11 per cent in line with our guidance, making 2017/18 the third consecutive year of double-digit growth for Bang & Olufsen. We also improved the company's profitability, generated a positive free cash flow and are reporting a positive net result.

Through its more agile and asset-light operating model Bang & Olufsen has built a strong platform for the future supported by its solid financial position. The consistent traction and positive development of the Group's strategic initiatives and results have motivated the Board of Directors to perform a thorough analysis of the company's future capital structure. Based on the results of this analysis, we will propose to initiate a share buyback programme of DKK 485 million, which will be initiated following the approval of the shareholders at the Annual General Meeting.

Ole Andersen
Chairman

Henrik Clausen
President & CEO

Although we have already made solid progress, the potential to grow in key markets and to increase the company's revenue and profitability remains significant. Over the next three years, we expect to continue to report double-digit growth and further improve the profitability of the company.

Our brand remains the foundation of the company, building on the core capabilities of sound, design and craftsmanship. During 2017/18, we continued to strengthen our position as a luxury-lifestyle brand. We started to align our execution across the Bang & Olufsen and the B&O PLAY business units, creating a more consistent customer approach.

Effective 1 June 2018, we integrated our business units and going forward we will operate under a single brand, Bang & Olufsen, with a functional organisational and Group Management team setup. This will enable an aligned approach to customers across all touchpoints, build brand equity and create a more efficient organisation.

The last couple of years, we have formed brand partnerships with innovative companies like LG, HARMAN, and HP. These partnerships will become an even more integral part of our business going forward and help increase the awareness of our brand, while driving revenue and profitability, We have also entered into collaborations with other luxury-lifestyle brands and artists such as Saint Laurent, Supreme and David Lynch to expose new customers to our brand and amplify our core capabilities.

We also made further progress in our efforts to minimise the environmental impact of the company. We did not, however, manage to reduce the accident frequency and the number of long-term illness cases caused by psychological work environment. This will be addressed as part of the updated CSR strategy that aims to strengthen the company's positive impact on society and ensure a strong CSR culture.

During the past year, we launched several innovative and progressive products aimed at different use cases (see description of use cases on page 10). In the Staged category, we launched the BeoLab 50 speaker and the BeoVision Eclipse TV. The latter is a product of our strategic technology partnership with LG. It marks an important milestone for the company in terms of focusing on the core capabilities and leverage key partners in their fields of expertise. In the Flexible Living category, we launched several products, among other, a special coloured version of the BeoSound 1. In the On-the-go category we introduced a range of new products, including the Beoplay E8, a true wireless earphone, our flagship headphones H8i and H9i and most recently the new Earset.

We continued to improve the customer experience around our products and services in 2017/18. We announced that future versions of selected products will have Google Assistant and Apple Airplay 2 built in and we will continue to leverage the capabilities of leading technology partners to drive innovation and enrich the customer experience.

During 2017/18, we invested in Innovation Lab, signed a partnership agreement with SoundHub Denmark and strengthened our digital capabilities. This means that we are in a good position to ensure that our products remain compatible in an ever-changing technological environment, while we continue to elevate our core capabilities.

We succeeded in increasing revenue and improving the profitability of the Group. Especially in Greater China, the strong local organisation and solid partner setup were key factors of driving significant revenue growth.

In North America, we have created a platform for future growth. We have implemented a new organisational setup and are rebuilding our distribution channel with the focus on key urban areas, starting with New York and the West Coast. In Europe, we saw flat revenue developments. Our main priority in Europe continues to be the transformation of retail distribution across mono- and multibrand channels and to provide a strong luxury-lifestyle experience. With a digital team now in place, we are implementing a new branded e-commerce platform that is expected to launch in Spring 2019.

“Our efforts to transform our operating model, launch innovative and progressive products and strengthen both our brand and our go-to-market approach have enabled us to deliver improved financial results.”

In 2018/19, we will continue to execute our strategy diligently and adapt to new technology trends and customer demands. We will ensure this by strengthening our position as a luxury-lifestyle brand across all regions, product categories and sales channels and by continuing to leverage our revised operating model. With the functional organisation in place to support our single-brand approach and a more seamless customer experience, we have the prerequisites to achieve our vision of becoming the most desired audio brand in the world.

We would like to express our sincere gratitude to each and every one of our employees. Without their hard work, the progress we have made this year would not have been possible.

Ole Andersen
Chairman

Henrik Clausen
President & CEO

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 innovative and progressive products created on the core capabilities of sound, design and craftsmanship, and improve customer centricity. Based on an agile and asset-light operating model, the ambition is to achieve the growth potential and increase profitability over the coming years.

STRATEGIC THEMES

BRAND
Strengthen luxury lifestyle position

PRODUCTS & INNOVATION
Focus on core capabilities, 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

Achieving the growth potential

The transformation of Bang & Olufsen into a viable business is on track. The company has focused on its core capabilities, and the operating model has been transformed in order to leverage technology and supply chain partnerships. This approach has resulted in three years of double-digit growth, and a return to profitability and delivered positive cash flow.

While the improvements achieved so far are significant, there continues to be a large untapped potential for growth within Bang & Olufsen's target group. In order to capitalise on these opportunities, the company intends to strengthen its position as a luxury-lifestyle brand across all customer touchpoints. This includes strengthening brand and marketing communication, product innovation and retail execution as well as all digital platforms. At the same time, the company will continue to leverage the benefits of its revised operating model.

The continued growth and improved earnings will significantly strengthen the company's cash flow generation.

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 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 customer experience at the center of technology and ensuring meticulous attention to detail in products as well as in the broader customer experience. The products created will cater for the target customers whose lifestyles involve prioritising curated experiences and appreciating the added value of superior sound, design and craftsmanship.

Ensuring consistent brand execution

Over the past six years, the company has successfully grown its B&O PLAY business unit, building on the Bang & Olufsen brand heritage. Bang & Olufsen and B&O PLAY have operated as separate business units due to their different operational agendas, while at the same time supporting a common brand equity. The brand equity remains very strong, but brand awareness remains low compared to consumer electronics peers in the growth regions outside Europe. In 2017/18, the company developed closer and more consistent ties between the two business units. A unified execution has ensured a more impactful marketing approach and facilitated a more consistent customer experience, in particular in key markets such as China and the US.

Effective 1 June 2018, the company integrated the two business units and going forward will operate under a single brand, Bang & Olufsen, with a functional organisational setup fully aligned with the roles and responsibilities of the Group Management team as well as the rest of the organisation. This single-brand approach will be gradually implemented during 2018/19 across marketing, product packaging, in store visual merchandising, digital platforms and other touchpoints.

The company's target customers are the "creative curators". The target group is consistent with the key customer groups of the former Bang & Olufsen and B&O PLAY business units and is defined predominantly on the basis of their creative mindset and their interest in curated experiences rather than the classical demographics of gender, age, and social status.

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 customers to the brand and the core capabilities of Bang & Olufsen. In the future, brand partnering will become an even more integral part of the company's strategy to drive revenue, profitability, and to increase brand awareness and will provide access to complimentary capabilities within technology and innovation.

In addition to brand partnerships, Bang & Olufsen engages in brand collaborations with like-minded brands and artists. In 2017/18, the company executed new collaborations with brands and artists such as Saint Laurent, Supreme 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 its core capabilities and its brand experience and awareness.

PRODUCTS & INNOVATION

Innovation based on core capabilities
Product development will focus on launching innovative and progressive products that truly manifest Bang & Olufsen's unique core capabilities of sound, design and craftsmanship and the positioning of the Bang & Olufsen brand. The products will cater for three main use cases.

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

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

The digital engagement with customers will be a key driver of future growth. Therefore, Bang & Olufsen will create a stronger and more consistent approach to the way customers interact with products through apps and product platforms. All Bang & Olufsen products must emanate luxury in the way they are installed, used and serviced. Furthermore, they will be based on technology ecosystems to ensure industry standard compatibility, such as with Apple Airplay 2 and Google Cast.

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
		

DISTRIBUTION & CHANNELS

Targeted approach to driving retail
Bang & Olufsen has delivered high growth rates in recent years, but the potential to increase brand awareness and market penetration remains significant in most markets. Therefore, the company will increase the level of marketing spending in the coming years. The higher spending will be a combination of increased digital activation as well as increased 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 drive traffic and sales across all channels.

The company's communication and retail focus will be concentrated on key metropolitan areas across all regions to achieve scale in building awareness. To emphasise and strengthen the brand position, the company's brand activities will be centred in five key trend cities: London, New York, Paris, Shanghai and Tokyo. This includes plans to open a flagship store in each of these cities, either in collaboration with local partners or as company-owned stores. The first store opening is scheduled for New York in early 2019.

Over the course of the current strategy period, the company intends to strengthen brand consistency through an updated retail design at all retail touchpoints. The goal will be to create a consistent visual expression of the company's brand positioning towards consumers.

The company will focus market execution in three regions; EMEA (Europe, Middle East and Africa), Asia and the Americas. In EMEA, the main focus will be to create strong clusters of stores in key locations and enhance consistency across branded and multibranded retail and online channels. In Asia, focus will be on growing key countries – in particular China and Japan – through strong partnerships and based on the competent and focused local organisations established in those markets over the last two years. In the Americas, the organisation and its distribution channels were restructured during 2017/18 and focus during the current strategy period will be to build brand presence in key urban areas, starting with New York and the West Coast and over time expanding to other parts of the US.

STRONG GROWTH THROUGH KEY URBAN AREAS OVER THE NEXT THREE YEARS

TOP 20 COUNTRIES

Focus on top 20 countries, which represented >92% of the Group turnover (■)

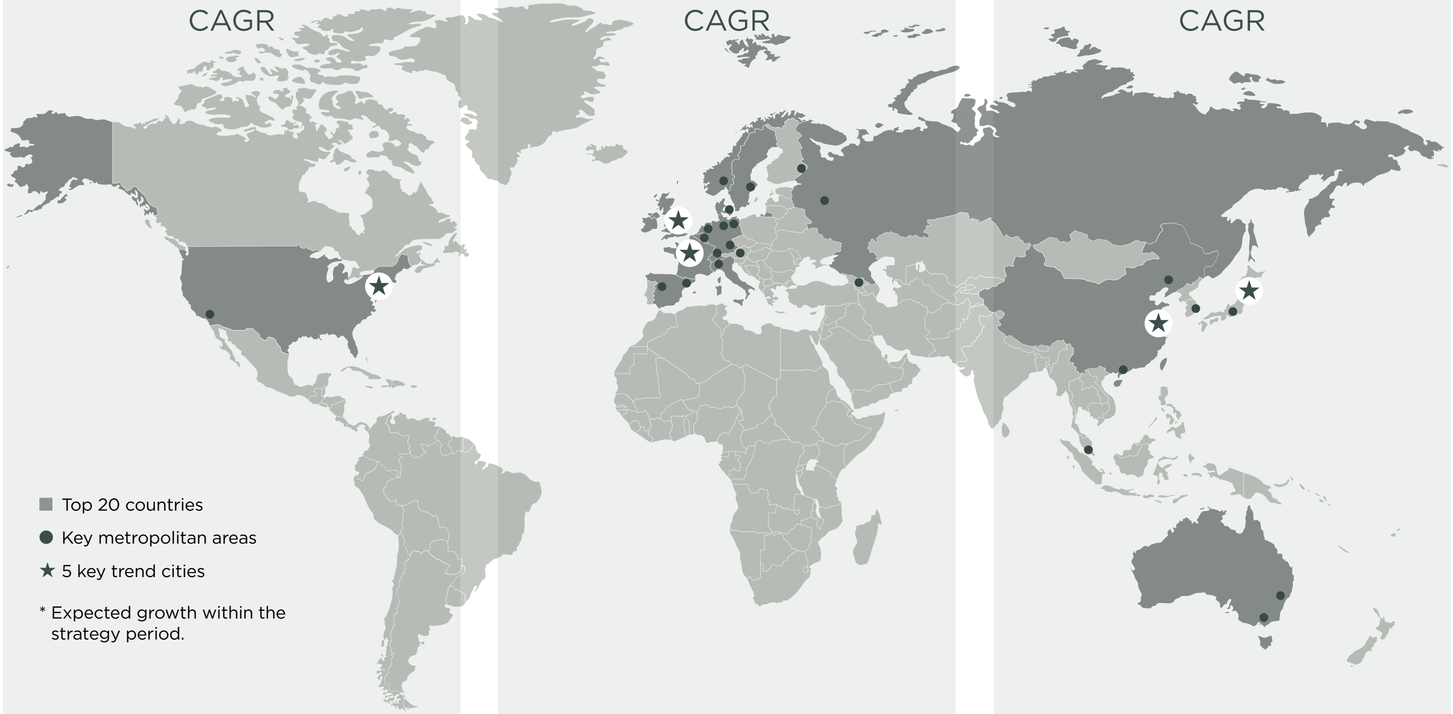
KEY METROPOLITAN AREAS

Establish clusters in key metropolitan areas and focus on building awareness in these areas (●)

5 KEY TREND CITIES

5 major trend and fashion cities; NYC, London, Paris, Shanghai and Tokyo where Bang & Olufsen will drive sublime brand and customer experience (★)

AMERICAS	EMEA	ASIA
>20%*	>5%*	15-20%*
CAGR	CAGR	CAGR



Improving distribution and channels
The company will work towards creating a more seamless customer experience across both physical and digital channels. In addition, to ensure greater consistency of visual expression, the company will also ensure strong omnichannel focus on order fulfilment and service.

While branded distribution will continue to play an essential role in the overall sales and brand positioning of the company, it will also undergo a transformation. To succeed, the branded retail stores must be located in urban, high traffic locations near related luxury-lifestyle retailers. To be profitable, this requires a distribution setup with fewer, but stronger partners that operate in clusters and have the scale to deliver a consistent customer experience and drive an efficient retail business.

Multibrand stores (TPR) 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 will be prioritised accordingly going forward.

In Spring 2019, a new e-commerce platform will be launched, which over time will enable e-commerce across all product categories as well as facilitate omnichannel features and functionality that will ensure closer integration between on- and offline channels. Increased digital interaction will also lead to a deeper understanding of customers and their needs and ensure real-time and more contextual customer engagement.

CHANNEL OVERVIEW

	PURPOSE
MONOBRAND	• Give the full brand experience • Cater for customers already familiar with the brand and special customer requests • Expose new customers to luxury-lifestyle experience brand execution
MULTIBRAND	• Manifest the brand and build brand equity to targets • Attract new customers in high street locations • Drives sales volume
ONLINE	• Meeting the customers in their own space and time • Support the customer 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 strengthens its competencies within areas such as product creation and design, brand and retail execution, customer insights and experience as well as digital platforms. The company made several key senior management and key role recruitments within these areas in 2017/18 and strengthening capabilities within the entire organisation continues to be a priority.

The company will continue to focus 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.

FINANCIAL TARGETS

In the Annual report 2016/17, the company stated three-year financial targets (2017/18-2019/20). These targets are unchanged. In this report an additional year, 2020/21, has been added to the strategy period.

The company aims to deliver more than 10 per cent growth on average over the next three years. The company expects growth in all three regions.

- EMEA: >5 per cent CAGR
- Asia: 15 – 20 per cent CAGR
- Americas: >20 per cent CAGR

Combined with the initiatives taken to change the operating model and the increased income from the brand partnering business, the continued growth momentum is expected to ensure a profitability level (EBIT margin) of more than 15 per cent by the end of the current strategy period, which expires in May 2021.

As the company's operating model limits the amount of capital needed to drive the growth momentum, the free cash flow generation is expected to significantly increase in the future and to exceed 10 per cent of Group revenue by May 2021.

The outlook excludes impacts from non-recurring and aperiodic items that may occur during the financial year.

FINANCIAL TARGETS

(%)	2017/18 Realised	2020/21 Target
Group revenue growth	11	>10
- EMEA	1	>5
- ASIA	40	15-20
- Americas	3	>20
EBIT margin	4	>15
Free cash flow	DKK 85m	>10% of revenue

OUTLOOK FOR 2018/19

In 2018/19, the Group expects to maintain the current momentum by growing in all regions, and further improve the profitability of the business.

Revenue
Revenue growth for the Group is expected to be above 10 per cent compared to 2017/18. Growth in the first half of 2018/19 is expected to be adversely impacted by the transformation of the distribution channel.

- EMEA is expected to grow more than 5 per cent. Europe is expected to grow moderately as key focus for the year will be to create strong clusters in key locations and establish increased consistency across mono- and multibrand retail. The remaining region is expected to show higher growth through key partners.

- Asia is expected to grow more than 10 per cent. The key focus for 2018/19 will be on growing key countries – in particular China and Japan – through strong partnerships. Revenue in China is expected to be adversely impacted by the transition from company-owned to partner-owned stores.

- The Americas is expected to grow more than 20 per cent. US focus will be to build presence in key urban areas, starting with New York and the West Coast. In the remaining region, growth will be driven through strong local partners.

The revenue growth is expected to be driven mainly by the On-the-go and the Flexible Living product categories. In the Staged product category innovative and progressive products such as the BeoSound Shape are expected to grow, while products such as stereo speakers and TVs will decline.

During the year, the Group will work with partners to strengthen the execution of the luxury-lifestyle experience of the brand. Revenue related to brand partnering is expected to show a moderate increase compared to 2017/18.

Capacity Costs
The changed operating model will result in further reductions of development costs in 2018/19. Concurrently, significant investments will be made within distribution and marketing related to increasing brand awareness, improving customer experience in retail, strengthening the digital platforms, and building capabilities within the company. Therefore, capacity costs in percentage of revenue is expected to be unchanged compared to 2017/18.

Earnings
The EBIT margin is expected to improve compared to 2017/18 and be in the range of 7-9 per cent for 2018/19. The improved profitability will mainly be related to an increase in revenue and improved gross margin.

Free cash flow
The Group's free cash flow is expected to be above DKK 100 million.

The outlook excludes impacts from potential aperiodic items.

SAFE HARBOUR STATEMENT

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

RESULTS

KEY FIGURES

BANG & OLUFSEN A/S – GROUP

(DKK million)	**2017/18**	2016/17	2015/16	2014/15	2013/14
Income statement:					
Revenue	3,285	2,954	2,633	2,356	2,162
Gross margin, %	40.9	38.1	36.1	24.6	38.4
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	292	25	(106)	(535)	(95)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	398	199	46	(376)	81
Earnings before interest and tax (EBIT)	122	(129)	(202)	(807)	(261)
Financial items, net	(5)	(37)	(39)	(6)	(29)
Earnings before tax (EBT)	118	(166)	(242)	(803)	(286)
Earnings, continuing operations	81	(117)	(198)	(607)	(228)
Earnings, discontinued operations	-	-	(10)	664	199
Earnings after tax	81	(117)	(208)	57	(29)
Financial position:					
Total Assets	2,921	2,847	2,832	3,449	2,892
Share capital	432	432	432	432	393
Equity	1,710	1,586	1,725	1,921	1,604
Net interest-bearing deposit/(debt)	985	900	599	788	(374)
Net working capital	100	27	319	261	657

(DKK million)	**2017/18**	2016/17	2015/16	2014/15	2013/14
Cash flow:					
– from operating activities	248	352	(5)	55	184
– from investment activities	(163)	(45)	(182)	858	(285)
Free cash flow	85	307	(187)	913	(101)
– from financing activities	(9)	(17)	(223)	233	64
Cash flow for the period	75	291	(409)	1,146	(37)
Key figures:					
EBITDA-margin, %	12.1	6.7	1.8	(16.0)	3.8
EBIT-margin, %	3.7	(4.4)	(8.4)	(34.3)	(12.1)
Return on assets, %	7.1	(6.9)	(10.2)	(36.1)	(10.6)
Return on invested capital, excl. Goodwill, %	92.5	20.1	(4.1)	(41.5)	(0.9)
Return on equity, %	4.9	(7.0)	(11.4)	3.2	(1.8)
Full time employees at the end of the period	1,028	1,169	1,734	2,015	2,180
Stock related key figures:					
Earnings per share (EPS), DKK	2	(3)	(5)	1	(1)
Earnings per share, diluted (EPS-D), DKK	2	(3)	(5)	1	(1)
Price/Earnings	73	(38)	(13)	44	(84)

For definitions refer to section 5.7.

FINANCIAL REVIEW

The Group generated strong growth in 2017/18, reporting an 11 per cent increase in revenue to DKK 3,285 million. Profitability improved significantly, and resulted in an increase in EBIT of DKK 251 million and a positive free cash flow of DKK 85 million for the year.

Revenue
Group revenue was DKK 3,285 million in 2017/18 against DKK 2,954 million last year for an increase of 11 per cent (14 per cent in local currencies), which was in line with the guidance for the year.

The Bang & Olufsen business unit
The Bang & Olufsen business unit generated revenue of DKK 1,737 million against DKK 1,718 million last year for a 1 per cent increase (4 per cent in local currencies). The divestiture or closures of company-owned stores adversely impacted revenue by DKK 49 million compared to the previous financial year.

Revenue generated in the TV category increased by DKK 45 million compared to last year due to the successful introduction of the new BeoVision Eclipse in the first half of the year. The TV category contributed 26 per cent of revenue, compared to 27 per cent in 2016/17.

Revenue in the Audio category was up by DKK 44 million and accounted for 8 per cent of revenue - the same share as last year. Products such as the BeoSound Shape, BeoSound 1 and BeoSound 2 continued to perform well in the market, while revenue related to audio drivers such as BeoSound Moment declined.

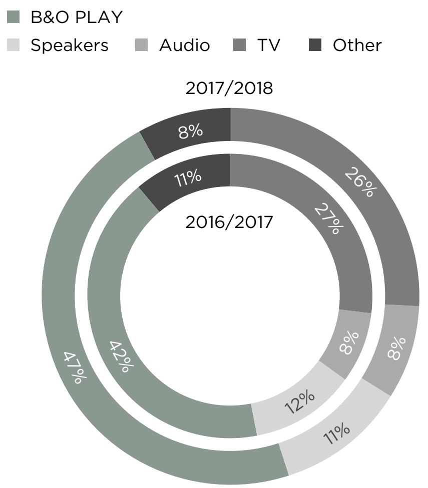
Revenue in the Speaker category was unchanged compared to last year. Newly launched products such as BeoLab 50 compensated for the adverse impact of end-of-life products and a slight decline in existing products. The share of revenue from speaker sales was 11 per cent against 12 per cent last year.

Brand Partnering revenue increased to DKK 166 million in 2017/18 compared to DKK 140 million last year. Growth was driven through existing Brand Partners.

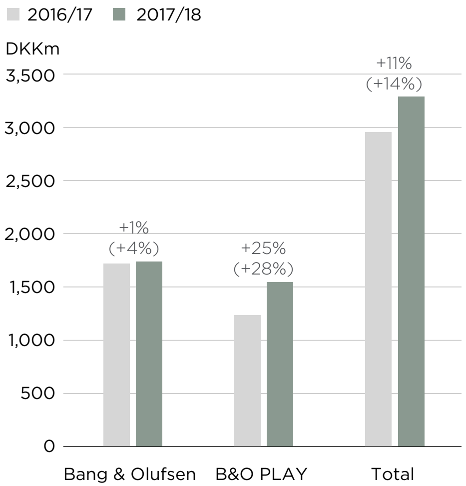
The B&O PLAY business unit
The B&O PLAY business unit generated revenue of DKK 1,549 million against DKK 1,236 million last year corresponding to a 25 per cent improvement (28 per cent in local currencies). Growth was driven by new and existing products such as the Beoplay E8 wireless earphones, the H9i headphones, the Beoplay A1 portable speaker, the Beoplay A9 wireless multiroom speaker and the Beoplay H5 wireless earphones.

Non-recurring and aperiodic income and costs
In 2017/18, the Group's capacity costs were impacted by DKK 6 million in non-recurring and aperiodic items.

SHARE OF REVENUE (%)
(growth in local currency in parenthesis)



REVENUE BY BUSINESS UNIT
(growth in local currency in parenthesis)



Last year, the Group gross margin was impacted by DKK 42 million and capacity costs were impacted by DKK 86 million, which were mainly related to the restructuring of the Bang & Olufsen business unit in May 2017 and the restructuring of the distribution network. The amount of DKK 86 million breaks down into DKK 23 million in development costs, DKK 53 million in distribution and marketing costs and DKK 10 million in administrative costs.

Gross margin
(All gross margins are underlying business)

The Group gross margin was 40.9 per cent against 39.7 per cent last year. Both the Bang & Olufsen and the B&O PLAY business unit gross margins improved compared to last year.

The gross margin for the Bang & Olufsen business unit was 45.2 per cent against 42.4 per cent in the previous financial year. The significant improvement in gross margin was driven by an overall improvement in product profitability, especially on TVs, increased income from brand partnering, and a change in product mix.

The gross margin for the B&O PLAY business unit was 36.1 per cent against 35.7 per cent last year. The gross margin was primarily driven by higher volumes and positive scalability impacts on the supply chain, while adversely impacted by channel clean-up in Europe in the second half of the financial year.

Capacity costs
(All capacity costs are underlying business)

Capacity costs amounted to DKK 1,234 million, compared to DKK 1,208 million last year, which was an increase of 2 per cent.

Distribution and marketing costs were DKK 729 million compared to DKK 725 million last year. The increase was a result of continued investment in growth opportunities particularly in the B&O PLAY business unit, while spending in the Bang & Olufsen business unit declined because of fewer company-owned and company-operated stores.

Administrative costs amounted to DKK 104 million against DKK 98 million last year.

Development costs recognised as an expense (incl. amortisation and impairment losses) were DKK 401 million against DKK 386 million last year. The increase was mainly a result of a significantly lower capitalisation rate than last year.

Development costs incurred declined by DKK 50 million compared to last year. This was mainly a result of the changes made to the operating model, as a greater share of development costs are now incurred by technology partners.

The capitalised development costs were DKK 106 million compared to DKK 174 million last year, corresponding to a capitalisation rate of 36.6 per cent compared to 48.1 per cent last year. The lower capitalisation rate reflects the fact that due to the revised operating model, a larger proportion of Bang & Olufsen's development costs are incurred in

CAPITALISED DEVELOPMENT COSTS AND CARRYING AMOUNTS (DKK MILLION)

	2017/18	2016/17
Capitalised, net	106	174
Carrying amount, net	222	335

the early stage of the innovation process, when development costs are not capitalised.

Total amortisation charges and impairment losses on development projects were DKK 218 million compared to DKK 222 million last year. The net effect on earnings before interest and tax (EBIT) of amortised and capitalised amounts was negative at DKK 113 million compared to last year's negative effect of DKK 48 million.

Earnings

EBITDAC in the underlying business was DKK 281 million compared to DKK 81 million in the underlying business last year, an improvement of DKK 200 million. This corresponds to an EBITDAC margin of 9 per cent, which was in line with the guidance of an EBITDAC margin of 8-10 per cent.

EBIT in the underlying business was DKK 110 million compared to an EBIT loss of DKK 32 million last year, corresponding to a DKK 142 million improvement. EBIT was DKK 122 million compared to a loss of DKK 129 million last year.

Financial items, net for the year were an expense of DKK 5 million against an expense of DKK 37 million last year. The change mainly related to currency adjustments and interest expenses.

Tax on earnings for the year was an expense of DKK 36 million compared to an income of DKK 49 million last year. Income tax was negatively impacted by the effect from the US tax reform, which resulted in a non-cash write-down of the US tax assets of DKK 7 million.

The net earnings for the Group were DKK 81 million against a net loss of DKK 117 million last year.

Developments in balance sheet items and cash flows

Investments in intangible assets was DKK 106 million, corresponding to 3 per cent of revenue, which mainly related to development projects. The investment in tangible assets was DKK 61 million compared to DKK 64 million last year.

At the end of 2017/18, the net working capital was DKK 100 million against DKK 27 million at the end of 2016/17. The net working capital increased by DKK 73 million due to the development in trade receivables, which was mainly a result of higher sales.

Free cash flow in 2017/18 was DKK 85 million. The positive free cash flow was driven primarily by positive earnings, which compensated for a net working capital increase of DKK 73 million. This was in line with the DKK 91 million realised last year, when last year's amount is adjusted for the impact related to the divestiture of Automotive and the sale of the factory in the Czech Republic, which accounted for a total of DKK 216 million.

At the end of the financial year, the Group had a net deposit of DKK 985 million, compared to DKK 900 million at the end of 2016/17.

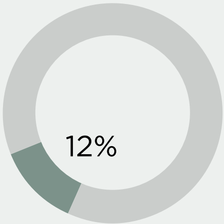
The Group equity increased to DKK 1,710 million from DKK 1,586 million last year due to positive earnings. The Group equity ratio was 59 per cent at the end of 2017/18 against 56 per cent at the end of 2016/17.

Subsequent events

No material events have occurred after 31 May 2018.

BANG & OLUFSEN MARKETS 2017/18

NORTH AMERICA



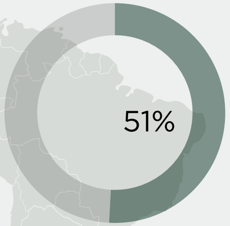
GROWTH:

10%

(17% local currency)

REVENUE:
DKK 402 MILLION

EUROPE



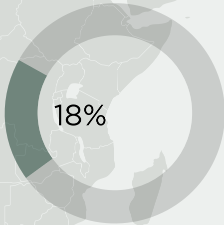
GROWTH:

0%

(1% local currency)

REVENUE:
DKK 1,679 MILLION

GREATER CHINA



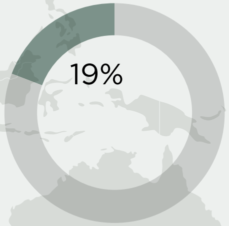
GROWTH:

43%

(55% local currency)

REVENUE:
DKK 589 MILLION

REST OF WORLD



GROWTH:

24%

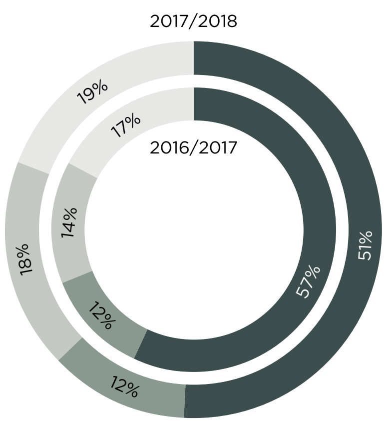
(24% local currency)

REVENUE:
DKK 615 MILLION

MARKET DEVELOPMENTS

The Greater China and Rest of World were the main revenue growth drivers in 2017/18. Growth was primarily driven by B&O PLAY products, which performed well through both existing and new retailers.

REVENUE BY REGION



Channel revenue development
During 2017/18, Bang & Olufsen worked to improve brand consistency across all retail touchpoints. The aim was to create a consistent customer experience and manifest the brand position in order to drive traffic and sales across all channels.

Strengthening the customer experience in the Bang & Olufsen monobranded distribution channel remained a focus area. Initiatives included working with the current network of retailers to increase training, best practice sharing, improve the sales process and in-store demonstrations as well as visual merchandising. Revenue through the B1 and shop-in-shop (monobrand) channel increased by 6 per cent in 2017/18 compared to 2016/17, despite the net closure of 61 monobrand stores (10 per cent) and the negative revenue impact from the divestiture and closure of 11 company-owned stores.

B&O PLAY focused on improving sales per store and like-for-like growth, driven by increased brand awareness and stronger in-store merchandising, while continually adapting distribution to reflect store performance. Revenue through third-party retail (multibrand) and e-commerce increased by 24 per-cent to DKK 1,009 million in 2017/18 from DKK 812 million last year. Growth was mainly driven by sales through channels such as department stores, airport retail, strong consumer electronics stores and selected etailers.

Greater China
Revenue in Greater China was DKK 589 million in 2017/18 compared to DKK 412 million in 2016/17, corresponding to a 43 percent increase (55 percent in local currencies). Growth was primarily driven by sales of B&O PLAY products on etail platforms operated by local partners.

Growth in Greater China was attributable to the strengthening of the local organisation over the past two years. The transformation of the mono- and multibranded retail network continued in 2017/18. Underperforming company-owned stores were closed or sold to new retail partners, and the company continues to investigate further growth opportunities by recruiting partners that can take over the remaining 16 company-owned stores and further expand the monobrand distribution channel. Underperforming multibrand stores were also closed in order to ensure a stronger and more consistent brand execution both on- and offline.

During the financial year, the number of monobranded stores was reduced by 21 leaving a total of 45 branded stores in Greater China at 31 May 2018. The number of multibrand stores was 794 compared to 1,146 at the end of 2016/17, as a number of small, unprofitable multibrand stores were closed.

Europe
Revenue in Europe was DKK 1,679 million in 2017/18, which was largely unchanged from the 2016/17 revenue of DKK 1,681 million. Revenue was adversely impacted by DKK 28 million related the divestiture or closure of under-performing company-owned stores in 2016/17. When adjusted for divestitures and closures, Europe grew by 2 per cent compared to last year, driven by both Bang & Olufsen and B&O PLAY.

In Europe, the transformation of the retail distribution continued. The organisational structure has been adjusted and recruitment for key positions has been initiated. An updated legal framework has been created to ensure more consistent execution as well as to enable a better way to manage product assortments across channels.

The transformation of the monobrand retail network continued, with the primary focus on creating strong clusters in key metropolitan areas. A total of 37 (net) underperforming monobrand stores were closed during the year. Furthermore, initial steps were taken to refocus the multibrand retail network towards building distribution through department stores, airport retail as well as selected consumer electronics and etailers. The number of multibrand stores was 3,106 compared to 3,278 at the end of 2016/17.

North America
Revenue in North America was DKK 402 million in 2017/18 compared to DKK 367 million in 2016/17, corresponding to a 10 per cent increase (17 per cent in local currencies). Growth was mainly attributable to B&O PLAY and Brand Partnering, whereas revenue in Bang & Olufsen declined.

During the year, the organisation and distribution were reset. A new regional head office was set up in New York and key recruitments have been made. Furthermore, relationships were established with several key multibrand retailers.

The number of monobrand stores declined from 24 at 31 May 2017 to 14 at 31 May 2018. The number of multibrand stores increased to 1,447 from 790 at the end of 2016/17.

Rest of World
Rest of World revenue was DKK 615 million in 2017/18, up from DKK 495 million in 2016/17, corresponding to an increase of 27 percent (27 percent in local currencies) compared to last year. Growth was driven primarily by B&O PLAY and Brand Partnering and Bang & Olufsen revenue also showed a moderate improvement.

The emphasis in Rest of World was to further expand collaboration with key partners in key markets. The number of monobrand stores increased by 7 and reached a total of 110 stores at the end of the financial year. The number of multibrand stores was 1,358 compared to 1,210 at the end of 2016/17.

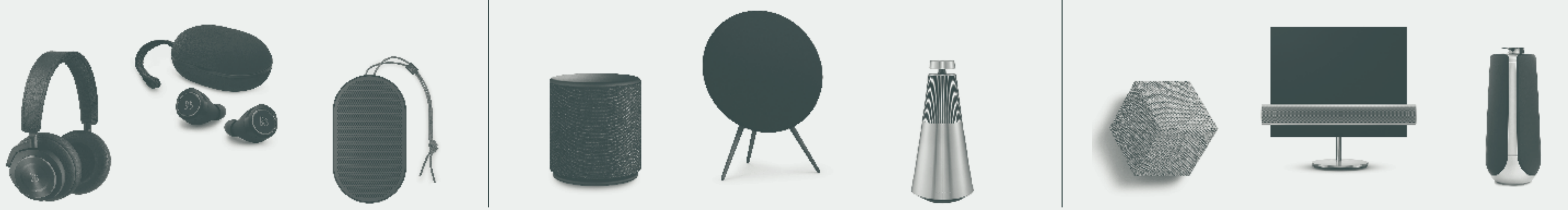
DISTRIBUTION DEVELOPMENT (NUMBER OF STORES)

	B1		Shop-in-shop		Third-party retail	
	31/5/2018	31/5/2017	31/5/2018	31/5/2017	31/5/2018	31/5/2017
Europe	284	297	112	136	3,106	3,278
North America	14	22	0	2	1,447	790
Greater China	31	36	14	30	794	1,146
Rest of World	81	91	29	12	1,358	1,210
Total	**410**	**446**	**155**	**180**	**6,705**	**6,424**

PRODUCTS, PARTNERSHIPS AND COLLABORATIONS

In 2017/18, Bang & Olufsen launched many innovative and progressive products based on the core capabilities within sound, design and craftsmanship. The products are divided into three product categories.

ON - THE - GO	FLEXIBLE LIVING	STAGED



STAGED

Products that are used in stationary settings for immersive listening or viewing experience

BEOLAB 50

BeoLab 50 offers the ultimate audio experience in a design characterised by aluminum surfaces and oak wood lamellas that are recognisable trademarks of Bang & Olufsen products. The extraordinary performance of BeoLab 50 has benefitted from the uncompromising acoustic research and technological development of BeoLab 90 and shares several features with this iconic landmark loudspeaker.

BEOVISION ECLIPSE

The latest TV from Bang & Olufsen offers the ultimate immersive cinematic experience with focus on creating the beautifully-designed sound. BeoVision Eclipse builds on Bang & Olufsen's core competencies within design, sound and craftsmanship, while offering OLED TV technology to create the ultimate TV experience. The TV is available in two sizes – a 55" and a 65" version.

BEOSOUND SHAPE

BeoSound Shape is a wall-mounted, modular speaker system based on hexagonal tiles that can be placed creatively on the wall in every imaginable size and pattern. The system also offers unique resonance damping features, ideal for large multipurpose rooms in private homes as well as in shops, studios, showrooms, offices and hotel lobbies. The BeoSound core connectivity hub enables wireless streaming of high quality music from mobile devices via streaming technologies such as AirPlay, Chromecast or Bluetooth and includes multiroom functionality.

FLEXIBLE LIVING

Products for consumers who want flexibility in use and placement in domestic settings

BEOPLAY M3

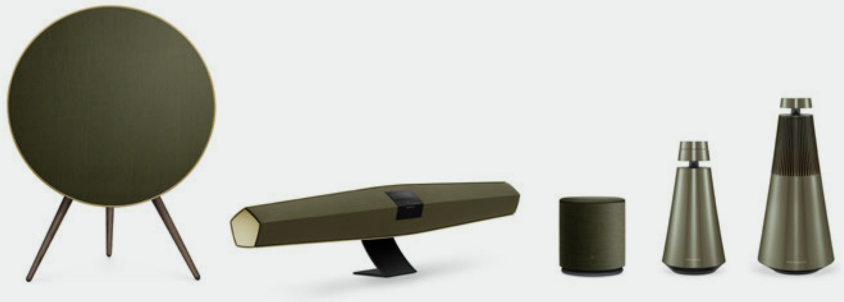
The family of wireless home speakers was expanded with the launch of the compact Beoplay M3. The user can choose between instant music listening with Bluetooth, streaming music directly from a smart device to the speaker, or the speaker can be connected to Wi-Fi for a multiroom setup which can be controlled from the Bang & Olufsen app. Beoplay M3 comes with Chromecast Built-in and supports Beolink Multiroom.

BEOSOUND 1 PIANO BLACK

Bang & Olufsen introduced the portable wireless speaker BeoSound 1 in a special edition, Piano Black. In the process of getting the right finish and hue of black, the speaker has been polished and anodised several times to achieve a reflective surface in pure black.

HARMONIES BY BANG & OLUFSEN

The colour-coordinated collection called Harmonies by Bang & Olufsen includes connected audio products in a limited, lush green tone. The colour is named ‘Infantry Green’ and is inspired by nature. The Harmonies Collection is featuring the multiroom enabled products that can perform and interact in perfect harmony as one. The collection includes the connected audio products Beoplay A9, Beoplay M5, BeoSound 1, BeoSound 2 and BeoSound 35.



ON-THE-GO

Products that are mobility based, built around nomadic use cases. This includes both immersive experiences and social experiences

BEOPLAY H9I

The wireless Beoplay H9i over-ear headphones are crafted in luxurious materials such as lightweight aluminium, cowhide leather and soft lambskin. The new ANC (Active Noise Cancellation) headphones also bring forward new features such as transparency mode that makes it possible to – with one quick gesture – turn off the music and the ANC at the same time and listen to the surroundings. Proximity Sensor is a feature that automatically pauses the music or video streaming, when the headphones are removed.

BEOPLAY P6

The heritage design and premium feel of the Beoplay P6 speaker, combined with extremely powerful sound and improved battery capabilities, gives the user a versatile speaker which blends perfectly with the existing portfolio of Bluetooth speakers. Beoplay P6 is designed by Cecilie Manz to ensure 360-degree dispersion of sound in any room, while also boasting Scandinavian design that will add to any interior and can easily be moved around the home.

BEOPLAY H8I

The classic design of the Beoplay H8 headphones was streamlined to give Beoplay H8i a more contemporary and light appearance. Playtime has been increased by more than 100 per cent and many of the smart features from Beoplay H9i have been added to further improve the listening experience. The headphones can, for instance, be paired to two devices at the same time, so the listener does not have to disconnect from one device to connect to the other.

ON-THE-GO

Products that are mobility based, built around nomadic use cases. This includes both immersive experiences and social experiences

BEOPLAY E4

The next generation of active noise cancelling earphones is designed as a stylish accessory for commuters and travelers. Each earpiece is crafted from lightweight aluminium and comes with soft memory foam ear tips that provide all day comfort.

EARSET

The Earset comes with wireless audio technology, Bang & Olufsen signature sound and a fresh look for the next generation, while preserving the flexible design aspects that led to the success of the original. The original lines for the design were drawn in the '90s with a strong focus on making a set of earphones flexible enough to adapt to any ear.

BEOPLAY E8

The company's first truly wireless earphones. Beoplay E8 offers a seamless listening experience on the move and a design in premium materials that remain at the heart of the Bang & Olufsen heritage.

BEOPLAY E8 PINK

Bang & Olufsen launched Beoplay E8 in a Powder Pink version inspired by the pale pink blooms of the Yoshino cherry tree. They were sold globally in limited quantities. Since its launch in September 2017, E8 has become the fastest selling product within the Beoplay range.

BEOPLAY E8 ALL WHITE AND ALL BLACK

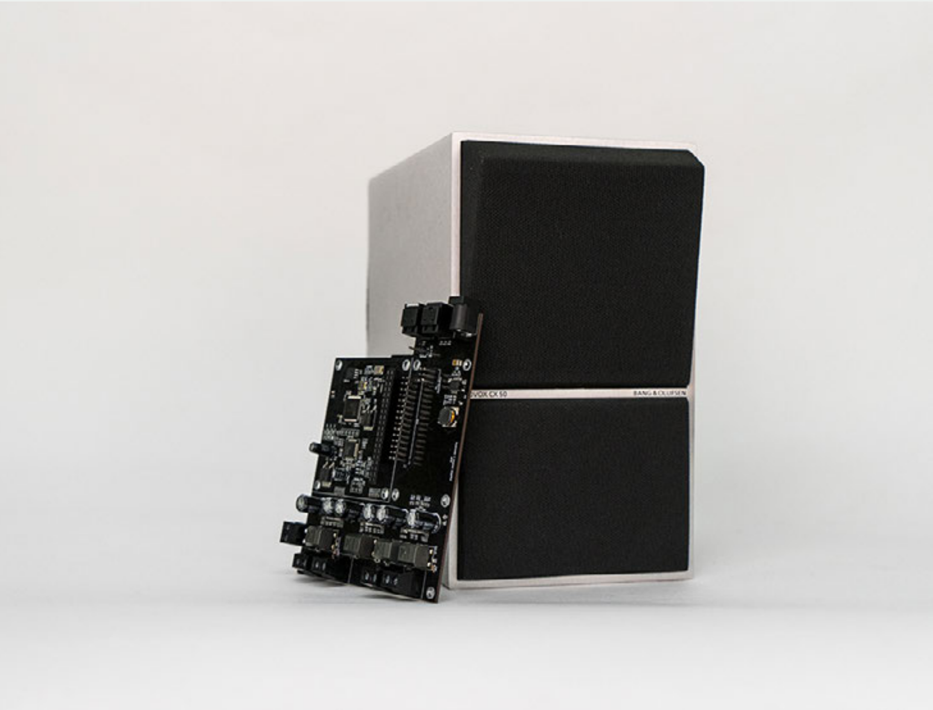
The Beoplay E8 portfolio was expanded with a Special Edition Collection in two colours – Beoplay E8 All White and Beoplay E8 All Black. The two new versions build on the success of Beoplay E8, the Group's first truly wireless earphones.

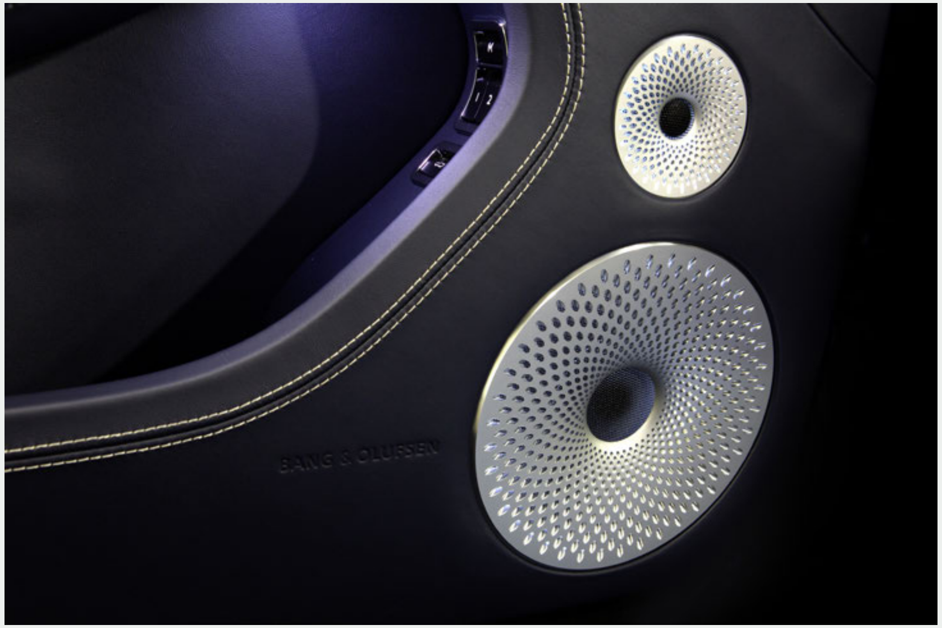
PARTNERSHIPS AND COLLABORATIONS

The Group continues to develop the brand partnering activities, and new brand collaborations were announced in the 2017/18 financial year

BEOCREATE 4 CHANNEL AMPLIFIER

Bang & Olufsen teamed up with HiFiBerry to launch a new open source DIY product, which enables customers to upgrade their vintage speakers themselves to today's wireless standards. The product is called Beocreate 4 Channel Amplifier, and it is essentially a piece of hardware. It is the first time that Bang & Olufsen enables and encourages customers to upcycle classic speakers with a DIY product.





AUDIO SYSTEM FOR BENTLEY

It was announced that the new Bentley Continental GT will feature an exclusive audio system from Bang & Olufsen. The 1,500 watt audio system features 16 active speakers and illuminated aluminium grills produced in Bang & Olufsen's aluminium factory. Besides being a source of income, the collaboration with Bentley, facilitated by the strategic partnership with HARMAN, helps create brand awareness among consumers.

PARTNERSHIPS AND COLLABORATIONS

The Group continues to develop the brand partnering activities, and new brand collaborations were announced in the 2017/18 financial year

PARTNERSHIP WITH LAMBORGHINI

Bang & Olufsen added an acoustic element to the new Lamborghini Urus Super SUV, with a specially developed, surround sound in-car entertainment system to be offered as an option on the new car. The collaboration with Lamborghini, facilitated by the strategic partnership with HARMAN, is in line with Bang & Olufsen's strategy to explore, build and create strong collaborations.

BEOPLAY A9 DAVID LYNCH

Bang & Olufsen announced a collaboration with cult-classic director, screenwriter, actor, and musician David Lynch. Together Bang & Olufsen and David Lynch have created a limited edition Beoplay A9 speaker with a custom lithographic speaker cover featuring Lynch's famed "Paris Suite" works. The collaboration generated significant media coverage in especially the USA.

COLLECTION FOR SAINT LAURENT

The collection was designed for an exclusive Saint Laurent launch in Paris. The collection consists of three products in a very limited edition made in collaboration with the French luxury fashion house. The three products are Beoplay P2 Black, Beoplay H9 Black and Beoplay A9 Black, all customised with Saint Laurent logo and minor changes in material and finish.

CORPORATE SOCIAL RESPONSIBILITY

At Bang & Olufsen, CSR is an integral part of the company's business model. It is Bang & Olufsen belief that businesses acting responsibly will create long-term value for both their stakeholders and for society, and Bang & Olufsen works closely with key stakeholders to stay focused on CSR in its daily operations.

In 2017/18, Bang & Olufsen made further progress in the company's efforts to minimise its adverse impact on society and adopt more sustainable and socially responsible practices. A detailed description of Bang & Olufsen's CSR efforts, key initiatives and results achieved in 2017/18, as well as the activities and objectives planned for 2018/19, can be found in Bang & Olufsen's Corporate Social Responsibility report 2017/18. The report complies with section 99a of the Danish Financial Statements Act, and it is available in its entirety on the Bang & Olufsen website at https://www.bang-olufsen.com/da/corporate/responsibility/corporate-social-responsibility.

Bang & Olufsen recognises the UN Global Compact and the ILO declaration on human rights, labour rights, environment and anti-corruption. Consequently, the company's CSR efforts and CSR policy are structured in accordance with the UN Global Compact guidelines.

Bang & Olufsen's CSR policy

The Bang & Olufsen CSR policy covers the policy areas in accordance with international standards. The policy is supported by Bang & Olufsen's code of business conduct and its anti-corruption policy, which describe Bang & Olufsen's CSR requirements to suppliers and guidelines for their employees.

Bang & Olufsen's CSR policy sets out the guidelines for corporate social responsibility activities within the framework of the Bang & Olufsen Group.

Bang & Olufsen commits to ensuring compliance both within the organisation as well as for partners and suppliers.

Human rights

Bang & Olufsen commits, in all matters within the Group's control, to supporting and respecting the protection of internationally proclaimed human rights.

Employee rights

Bang & Olufsen commits to showing the greatest degree of social responsibility towards its employees. Bang & Olufsen supports the abolition of child labour and forced labour, and condemns discrimination in employment and occupation.

Bang & Olufsen attaches great importance to freedom of association and recognises the right to collective bargaining.

Bang & Olufsen commits to be a tolerant workplace where each employee thrives and has the possibility to develop and create a good work-life balance.

Anti-corruption (business integrity)

Bang & Olufsen strongly dissociates itself from all kinds of corruption, including extortion, bribery, and facilitation payments of any kind. Bang & Olufsen does not tolerate the acceptance, offering, promising or paying of bribes of any form. Reports of breaches to the policy will be investigated thoroughly and appropriate actions will be taken on the basis of such investigation.

Reports of breaches to the policy will be investigated thoroughly and appropriate actions will be taken based on such investigation. Bang & Olufsen is subject to serious criminal and civil penalties for breaches of applicable anti-corruption laws. Consequently, any employee who breaches the Anti-Corruption policy may be subject to criminal and/or civil penalties, including imprisonment and very substantial fines, which will not be reimbursed by Bang & Olufsen. In addition, any employee who breaches the policy may be subject to disciplinary action by Bang & Olufsen, up to and including termination of their contract of employment.

Environment

Bang & Olufsen has an integrated thinking with regard to the environmental consequences the production and products have on employees, customers and the environment. This means that we include the aspects of environment, working environment and product environment, in the production and in the products. We use the word "environment" broadly to cover the areas of work environment, product environment and external environment, and these areas are all integrated in the production.

As a responsible company, Bang & Olufsen commits to creating sustainable products in a sustainable way. The considerations involved in the operation, design, and longevity of products must be in mutual balance with the environmental impact of production. Bang & Olufsen complies with existing legislation in the countries where Bang & Olufsen produces and sells products.

More specifically, Bang & Olufsen aims to focus on the areas where the right balance between effort and impact can be achieved:

- Improve the work environment and the health and safety conditions of employees.
- Prevent work-related illnesses and/or injuries.
- Improve and prevent negative environmental impact from production.
- Prevent negative environmental and climate impact from use of products as well as maintain high focus on developing sustainable products.

CSR efforts, objectives and results

In 2017/18, Bang & Olufsen continued the work to continually improve the working environment and reduce the environmental impact of the Group's activities. Independent supplier audits were conducted with re-audits of suppliers with zero deviations from the Code of Conduct. Bang & Olufsen's CSR activities and targets for 2017/18 year are summarised in the table below.

The company did not manage to reduce the accident frequency or the number of cases involving long-term illness caused by psychological work environment. The rise in accident frequency was mainly due to special weather conditions in Struer, causing black ice in the parking lot. New procedures are in place to avoid this in the future. The number of long-term illness cases due to psychological work environment rose from 4 to 11. Bang & Olufsen will take action to counter that by ensuring much closer follow-ups in the Health, Safety and Environment groups and taking action, based on insights from the annual engagement survey, a new survey introduced in January to track employee engagement and satisfaction.

FRAMEWORK

POLICY AREA	TOPIC	OBJECTIVES	ACTUAL RESULTS
HUMAN RIGHTS AND EMPLOYEE RIGHTS	Collective agreement for employees (suppliers and contractors)	• Risk assessment of supplier base to identify audit needs. Conduct CSR audits and follow up accordingly	ACCOMPLISHED Audits completed - No zero tolerance issues. One self-assessment was not returned
	Zero accidents	• Accident frequency must not exceed 2 (reduction of 5 per cent compared to 2016/17) Frequency is number of accidents per 1 million work hours • Accident severity must not exceed 0.070 (reduction of 5 per cent compared to 2016/17) Degree of severity based on the number of hours of absence per 1,000 work hours	OBJECTIVE NOT ACCOMPLISHED Frequency was 3.5 compared to the target of 2 Severity of 0.102 compared to target of 0.070
	Employee health & life balance	• Reduce number of cases involving long-term illness (full and part time) caused by psychological work environment	OBJECTIVE NOT ACCOMPLISHED 11 cases were reported this year compared to 2 last year
ENVIRONMENT	Energy savings in facilities	• Energy optimisation initiative with target of 591.4 tonnes CO_2 reduction (equivalent to 2,517,057 kWh). Impact in 2017/18: 259 tonnes CO_2 reduction (equiva-lent to 1,088,349 kWh)	ACCOMPLISHED 1,180,720 kWh ≈ 281.3 tonnes CO_2
BUSINESS INTEGRITY	Affirm commitment on business integrity and maintain and rein-force a strong compliance culture in terms of anti-competitive practices. All sales organisation employees to complete antitrust training	• All sales organisation employees to complete antitrust training	ACCOMPLISHED All employees in sales-related positions have completed antitrust training. Two sessions were held with Sales organisation, and a follow-up meeting will take place in June for those who could not attend the first two meetings
	Supplier audit on compliance with anti-corruption laws	• Receive certification from top 20 suppliers of compliance with the anti-corruption policy	ACCOMPLISHED All of our top 20 suppliers have now certified towards Bang & Olufsen that they are compliant with Bang & Olufsen's Anti-Corruption policy

Updated CSR strategy and targets

Bang & Olufsen has a clear ambition to strengthen the company's positive impact on society and build a more responsible business.

For that purpose, Bang & Olufsen has over the past year developed an updated strategy with input from both internal and external stakeholders and guided by the United Nations Sustainable Development Goals.

The outcome is a new coherent CSR framework at Bang & Olufsen that is firmly rooted in the company's values, purpose and brand and has the following focus areas: Environmental impact, Responsible Employer, Role in Society and Responsible Partner and with eight CSR Commitments. The strategy will follow the company's business plan expiring in June 2021.

NEW CSR FRAMEWORK

	ENVIRONMENTAL IMPACT	RESPONSIBLE EMPLOYER	ROLE IN SOCIETY	RESPONSIBLE PARTNER
OUR CSR COMMITMENTS	RESOURCE EFFICIENT OPERATIONS Work towards climate neutral operations	WORK LIFE No serious injuries and high employee engagement	FUTURE INNOVATORS Inspire and educate the next generation to support the innovators of tomorrow	SUPPLY CHAIN Engage med suppliers to raise responsibility standards
	SUSTAINABLE PRODUCTS Minimise the environmental impact of our products	DIVERSE CULTURE 25% female leaders by 2021	SOUND & HEALTH Engage with partners to improve people's health through sound	RETAILERS Engage with retail partners to ensure a strong compliance culture
OUR FOUNDATION	BRAND, PURPOSE, CORE VALUES			

CSR TARGETS 2018/19

ENVIRONMENTAL IMPACT

KPIS FOR 2018/19

- Reduce CO_2 emissions by 5 per cent in facilities
- Initiate analysis to gain insights on environmental impact of our products in order to reduce footprint and start to implement recommendations
- Begin to implement RoHS 2 Directive

RESPONSIBLE EMPLOYER

KPIS FOR 2018/19

- Improve employee engagement from 71 to 73
- Zero fatalities
- Accident frequency must not exceed 2 (3.5 in 2017/18). Frequency is number of accidents per 1 million work hours. Number of long-term illness cases (full and part time) caused by psychological work environment most not exceed 6 cases (11 in 2017/18)
- Bring women in management positions to 20 per cent

ROLE IN SOCIETY

TARGETS FOR 2018/19

- To help at least 15 startups and SMEs by knowledge sharing and support through partnership with SoundHub Denmark
- Partner with organisations to raise awareness of the positive impact of sound on mental health
- Contribute to research to expand existing knowledge on how sound can impact health.
- Run at least 10 initiatives to help and promote STEM competencies for young people

RESPONSIBLE PARTNER

TARGETS FOR 2018/19

- Receive certification from all tier 1 suppliers on compliance with the anti-corruption policy
- Deploy our compliance programme to 90 per cent of our monobranded retail partners
- Initiate analysis to better understand the environmental impact of our supply chain and start to implement recommendations

THE BANG & OLUFSEN SHARE

Bang & Olufsen aims to create shareholder value by generating sustainable double-digit growth and enhanced profitability, while maintaining a conservative capital structure.

Investor Relations Policy
It is Bang & Olufsen's objective to inform NASDAQ Copenhagen A/S, current and potential investors as well as equity analysts and brokers quickly and accurately about all relevant matters relating to the Group. The purpose of such information is to increase the knowledge of Bang & Olufsen among investors and provide investors with structured, continuous and relevant information that meets the requirements for making informed investment decisions in regard to Bang & Olufsen shares.

The information provided and the issuance of such information must always be in accordance with applicable rules and regulations issued by NASDAQ Copenhagen A/S or other relevant bodies.

More information and further details regarding the Investor Relations Policy may be found at www.bangolufsen.com/investors.

Shareholder return
The Bang & Olufsen share price was DKK 137.2 on 31 May 2018, corresponding to an increase of 33 per cent for the financial year. The OMXC Mid Cap index was unchanged in the same period. The average daily turnover of the Bang & Olufsen share was DKK 12,696,333 in 2017/18 compared to DKK 6,638,823 in 2016/17.

At the end of the financial year, Bang & Olufsen had a share capital of DKK 431,974,780, consisting of a single share class (43,197,478 shares each with a nominal value of DKK 10). Each share entitles the holder to one vote, and all shares carry equal rights. Bang & Olufsen a/s holds 22,999 treasury shares to cover the company's share based incentive programme.

Investor meetings
Investor meetings and/or conference calls are held following the release of each quarterly report to provide participants with the opportunity to address questions to the Executive Management Board.

SHARE PRICE DEVELOPMENT 1 JUNE 2015 TO 31 MAY 2018

THE BANG & OLUFSEN SHARE

Stock exchange:	NASDAQ Copenhagen A/S
Identification code (ISIN)	DK 0010218429

	2017/18	2016/17
Closing price at 31 May	137.2	103.0
Market value at 31 May (DKK million)	5,927	4,446
Nominal share value (DKK)	431,974,780	431,974,780
Nominal value (DKK)	10	10
Shares issued	43,197,478	43,197,478
Treasury shares	22,999	22,999
Shares in circulation	43,167,479	43,167,479
Registered shareholders (approx.)	21,000	21,500
Of which in Denmark (approx.)	20,300	21,000
Listed capital placed in Denmark	53%	47%

MAJOR SHAREHOLDERS

At 31 May 2018, Bang & Olufsen had three shareholders holding more than 5 per cent of the company's share capital.

Name	Number of shares held	Capital/Votes (%)
Sparkle Roll (Denmark) Limited	6,469,358	14.9%
Arbejdsmarkedets Tillægspension	4,986,921	11.5%
Nordea Investment Funds	2,490,766	5.8%

The conference calls may subsequently be accessed at www.bang-olufsen.com/investors. In addition, it is also possible to contact the company's Investor Relations representative who is responsible for maintaining an ongoing dialogue with current and potential shareholders.

Capital structure and distribution to shareholders

Bang & Olufsen has undergone a significant transformation in recent years and the strategy is beginning to deliver positive earnings and a positive free cash flow. The Board of Directors believes it would be prudent to reduce the net cash position to reflect that the company is well underway to establish a more sustainable and profitable business model. Being fully aware that the company operates in a market sensitive to economic trends and fast-moving technology change, the Board of Directors assesses that a current suitable level for Bang & Olufsen's net cash position is a minimum of DKK 500 million.

The Board of Directors recommends that the net cash position be reduced by distributing excess capital to the shareholders. Based on the target net cash position and the financial results for 2017/18, the Board of Directors propose to initiate a share buyback programme of DKK 485 million, which will be carried out subject to approval by the shareholders at the Annual General Meeting.

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

Analyst coverage
The following brokers covered the Bang & Olufsen share at the end of the financial year:
- ABG Sundal Collier
- Danske Markets Equities
- Nordea Markets
- Sydbank

Website
Bang & Olufsen invites investors and other stakeholders to visit the company's website at www.bang-olufsen.com, where a wide range of information of interest to investors is available, including announcements, annual reports, interim reports, the financial calendar, the company's history and a presentation of its products.

Contact
The company's Investor Relations representative handles the day-to-day dialogue with analysts as well as with current and potential shareholders.

Investor Relations:
Claus Højmark Jensen
Tel: +45 9684 1251
Email: investors@bang-olufsen.dk

Annual General Meeting
Bang & Olufsen a/s' Annual General Meeting will be held on Thursday, 23 August 2018 at Struer Statsgymnasium, Jyllandsgade 2, DK-7600 Struer.

FINANCIAL CALENDAR

2018

Thursday, 23 August	Annual General Meeting (Deadline for subjects and proposals to the agenda is 12 July)
Thursday, 4 October	Interim report (1st quarter 2018/19)

2019

Tuesday, 15 January	Interim report (2nd quarter 2018/19)
Thursday, 4 April	Interim report (3rd quarter 2018/19)
Thursday, 11 July	Annual report 2018/19
Wednesday, 21 August	Annual General Meeting (Deadline for subjects and proposals to the agenda is 10 July)
Thursday, 3 October	Interim report (1st quarter 2019/20)

GOVERNANCE

BOARD OF DIRECTORS

OLE ANDERSEN
(1956)

Chairman
Year of first appointment, 2009
State-authorised public accountant
M.Sc. (Economics and Business Administration)

Directorships and other offices:
Chr. Hansen Holding A/S (Chairman), Danske Bank A/S (Chairman), NASDAQ OMX Nordic (Member of the Nomination Committee)

This member is considered independent. Chairman of the Remuneration and Nomination Committees

Number of shares in Bang & Olufsen a/s at the end of the year:

84,650 (2016/17: 84,650)

JUHA CHRISTENSEN
(1964)

Deputy Chairman
Year of first appointment, 2016

Directorships and other offices:
Cogniance Inc. (Chairman), Cloud-Made Ltd. (Chairman), Netcompany A/S, The Pad, Inc. (Chairman)

This member is considered independent. Chairman of the Technology Committee, Member of the Remuneration Committee

Number of shares in Bang & Olufsen a/s at the end of the year :

6,000 (2016/17: 0)

ALBERT BENSOUSSAN
(1959)

Year of first appointment, 2014
Kering (CEO of Luxury – Watches & Jewelry activities), Master of Business Administration (MBA)

Directorships and other offices:
Sowind Group SA (Chairman), QEELIN HOLDING LUXEMBOURG (Director), POMELLATO S.p.A. (Director), Sigatec (Board member), MANUFACTURE ET FABRIQUE DE MONTRES ET CHRONOMETRES, ULYSSE NARDIN LE LOCLE SA (President), Boucheron Holding SAS (Membre comité stratégique), Boucheron Joaillerie (USA), Inc. (Director), Boucheron Suisse SA (Board Member), Luxury Timepieces & Jewellery outlets Limited + USA, Inc. (Director and President), BOUCHERON RUS 000 (Director), Kering (Macau) Watches and Jewelry Limited (Director)

This member is considered independent. Member of the Audit Committee

Number of shares in Bang & Olufsen a/s at the end of the year:

3,000 (2016/17: 3,000)

BRIAN BJØRN HANSEN
(1972)

Year of first appointment, 2015
Employee-elected
Senior Business Manager, Smart Home

Number of shares in Bang & Olufsen a/s at the end of the year:

480 (2016/17: 480)

GEOFF MARTIN
(1969)

Year of first appointment, 2015
Employee-elected
Senior Technology Specialist, Sound Design

Number of shares in Bang & Olufsen a/s at the end of the year:

844 (2016/17: 728)

IVAN TONG KAI LAP
(1960)

Year of first appointment, 2016
Sparkle Roll Group Limited (Chairman and Executive Director), Bachelor's Degree in Business Administration

Directorships and other offices:
Grand Concept Limited Hong Kong (Director), Sparkle Roll Group Limited incl. sixteen 100% owned subsidiaries (Executive Director until 31 December 2017)

This member is considered independent. Member of the Audit Committee

Number of shares in Bang & Olufsen a/s at the end of the year:

2,600 (2016/17: 0)

JESPER JARLBÆK
(1956)

Year of first appointment, 2011
state-authorised public accountant
M.Sc (Economics and Business Administration)

Directorships and other offices:
Basico Consulting Group (Chairman), Catacap Management ApS (Chairman), Frokost.DK Aps (Chairman), GroupCare Group A/S (Chairman), Falcon Fondsmæglerselskab A/S (Chairman), Happy Helper A/S (Deputy chairman), Berlin Invest 2017 ApS (Board Member), Materieludlejning Holding Group ApS (Chairman), A-Solutions A/S (Chairman), Polaris III Invest Fonden (Board Member), Earlbrook Holding Group A/S (Director and Board Member), Smartshare systems A/S (Board Member), Business Angels Fond - London II A/S (Director and Board member), Bookboon Corporate Group A/S (Chairman), Lyngsoe systems holding A/S (Board Member), Active Inspiration Technologies Ltd (Board member)

This member is considered independent. Chairman of the Audit Committee, Member of the Nomination Committee and Technology Committee

Number of shares in Bang & Olufsen a/s at the end of the year:

6,500 (2016/17: 6,500)

MADS NIPPER
(1966)

Year of first appointment, 2014
Grundfos Holding A/S (Group President/CEO),
M.Sc. Business Administration

Directorships and other offices:
Danish Crown A/S (Deputy chairman)

This member is considered independent. Member of the Nomination Committee

Number of shares in Bang & Olufsen a/s at the end of the year:

5,770 (2016/17: 5,770)

MAJKEN SCHULTZ
(1958)

Year of first appointment, 2013
M.Sc. Political Science
PhD Business Administration

Directorships and other offices:
Danish Crown A/S (Board Member), Danske Spil A/S (Board Member), Realdania (Board Member), VCI Holding ApS (Director), Professor of Management at Copenhagen Business School, International Research Fellow, Oxford University

This member is considered independent. Member of the Remuneration Committee

Number of shares in Bang & Olufsen a/s at the end of the year:

5,300 (2016/17: 5,300)

SØREN BALLING
(1971)

Year of first appointment, 2017
Employee-elected
Production Engineer, Mechanics

Number of shares in Bang & Olufsen a/s at the end of the year:

1,214 (2016/17: 0)

EXECUTIVE MANAGEMENT BOARD

HENRIK CLAUSEN
(1963)

President & CEO
Employed since 1 July 2016
MBA from INSEAD, Paris
BA International Trade, Copenhagen Business School
MSc Electrical Engineering, Technical University of Denmark

Directorships*)
None

Number of shares in Bang & Olufsen a/s at the end of the year:

51,000 (2016/17: 36,800)

ANDERS AAKÆR JENSEN
(1974)

Executive Vice President & CFO
Employed since 1 August 2014
Cand Oecon, Economics IMD
(International Institute for Management Development) - Business Programs

Directorships*)
None

Number of shares in Bang & Olufsen a/s at the end of the year:

17,516 (2016/17: 7,200)

STEFAN PERSSON
(1967)

Excecutive Vice President
Employed since 1 September 2014
MSc The institute of Technology at Linköping University

Directorships*)
Terranet AB (Board member)

Number of shares in Bang & Olufsen a/s at the end of the year:

8,687 (2016/17: 3,000)

JOHN MOLLANGER
(1970)

Excecutive Vice President Brand & Products
Employed since 18 April 2017
Bachelor in International Business from I.C.L. Business School in Lyon
Executive education in Strategic Marketing from Stanford University, USA.

Directorships*)
None

Number of shares in Bang & Olufsen a/s at the end of the year:

8,125 (2016/17: 0)

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

CORPORATE GOVERNANCE

Compliance with recommendations for corporate governance

The company's Board of Directors and Executive Management Board constantly strive to ensure transparency and accountability through building trusted relationships with shareholders, customers, suppliers, employees and the community.

Being listed on NASDAQ Copenhagen A/S, and in accordance with Section 107b of the Danish Financial Statements Act, the company is covered by the recommendations for corporate governance implemented by NASDAQ Copenhagen A/S in "rules for issuers of shares". The company follows all recommendations that are part of the Corporate Governance disclosure requirements applicable to companies listed on NASDAQ Copenhagen.

Pursuant to these rules, the company must apply the recommendations adopted based on the "comply-or explain" principle. In November 2014, NASDAQ Copenhagen A/S implemented revised recommendations for corporate governance. These recommendations were revised in November 2017. The company complies with the recommendations currently applicable and expect to comply with the revised recommendations when these become effective from 2018/19.

Corporate Governance Report
The Board of Directors of the company has prepared a report on corporate governance for 2017/18. This report is available for review and download at www.bang-olufsen.com/investor/corporate-governance/uk. The report contains three parts:

- a description of the management structure
- a description of the company's approach to the "Recommendations for Corporate Governance"
- the main elements of the company's internal control and risk management systems

Management structure
The company's management structure comprises the Board of Directors and Executive Management Board. Further information is available in the above-mentioned corporate governance report.

Board self-assessment
The Chairman of the Board of Directors is responsible for conducting an annual review of the Board's performance, addressing the effectiveness of the Board, the processes supporting its work, individual board members' contributions and the Chairman's performance.

In Summer 2017/18, an evaluation was conducted by the individual directors and executives anonymously completing a comprehensive online questionnaire which was summarised by an external consultant.

The result of the evaluation was presented to the Board of Directors on 13 September 2017 by the Chairman. Conclusion of the evaluation is that the Board of Directors is generally well organised and well-functioning and gives an overall impression of a high-performing board of directors. The evaluation also identified some minor areas in which improvements can be achieved. These improvements have been initiated. The Chairman held individual meetings with the other directors to review their performance.

Diversity
The Board of Directors believes that diversity in general, including diversity of gender, culture, nationality and competencies strengthens the way a company operates. In April 2013, the Board of Directors adjusted the company's objectives for the diversity of the members of the Board of Directors elected by the General Meeting in relation to gender in order to comply with new Danish legislation of objectives to increase the proportion of the underrepresented gender on the Board of Directors.

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 2018. Target date for this goal was in June 2018 and is now postponed to the General Meeting 2019.

THE BOARD OF DIRECTORS CONSISTS OF THE FOLLOWING MEMBERS WITH THE FOLLOWING FUNCTIONS:

	CHAIRMAN	DEPUTY CHAIRMAN	AUDIT COMMITTEE	NOMINATION COMMITTEE	REMUNERATION COMMITTEE	TECHNOLOGY COMMITTEE	EMPLOYEE-ELECTED
Albert Bensoussan			●				
Brian Bjørn Hansen							●
Geoff Martin							●
Ivan Tong Kai Lap			●				
Jesper Jarlbæk			●	●		●	
Juha Christensen		●			●	●	
Mads Nipper				●			
Majken Schultz					●		
Ole Andersen	●			●	●		
Søren Balling							●

For further information about the Board of Directors refer to the section ‘Board of Directors’ on pages 40-42.

There is currently one female member in the Board of Directors and 3 members who are non-local. Since the new target was set, the Board has been extended with two male candidates, one proposed by a major shareholder and the other proposed by the Board based on his specific skills within technology. No further candidates were elected at the General Meeting 2017. The Board will continue to assess the need for new candidates.

In 2017, the company reached its goal of having not less than 15 per cent female members at senior management level. However, the share of women in senior management in the Bang & Olufsen Group decreased from 15.7 per cent on 31 May 2017 to 12.5 per cent on 31 May 2018. However, the share of women had increased to 17.1% on 1 July 2018. Senior management is defined as the Executive Management Board and the Director+ group. The total number of employees in this group at the end of May 2017 was 40 employees.

The Board of Directors has set out a policy to increase the proportion of women in senior management where the relevant action points are as follows:

- Secure at least one female candidate for vacancies arising in senior management
- Ensuring an appropriate level of female participants in the Bang & Olufsen talent programme

Following the fact that the goal for 2017 was reached, a new target for the share of women in senior management in the Bang & Olufsen Group was set. The goal is hereafter to have not less than 25 per cent female members at Director+ level by May 2020.

The senior management team has a diverse composition with a large number of international profiles. On 31 May 2018, a total of 32.5 per cent of senior management were non-Danish.

Other information in accordance with the Financial Statements Act § 107 a

The company’s Articles of Association state the following:

The Board of Directors is in the period until 31 May 2019 authorised at one or more times to decide to increase the company's share capital by up to a nominal value of DKK 43,197,470 by issuing new shares at market price or at a discount to market price by way of cash contribution or otherwise. The capital increase shall be with preemptive subscription rights for the company's existing shareholders. The new shares shall in all respects rank pari passu with the existing shares. The new shares shall be negotiable instruments, shall be issued to named holders and shall rank for dividends and other rights in the company from such time as is determined by the Board of Directors in its decision to increase the company's share capital pursuant to this section, although no more than one year after the date of registration.

The Board of Directors is in the period until 31 May 2019 authorised at one or more times to decide to increase the company's share capital by up to a nominal value of DKK 43,197,470 by issuing new shares at market price by way of cash contribution or otherwise. The capital increase shall be without pre-emptive subscription rights for the company's existing shareholders. The new shares shall in all respects rank pari passu with the existing shares. The new shares shall be negotiable instruments, shall be issued to named holders and shall rank for dividends and other rights in the company from such time as is determined by the Board of Directors in its decision to increase the company's share capital pursuant to this section, although no more than one year after the date of registration.

Pursuant to Article 4, sections 4 and 5 in the Articles of Association, the Board of Directors may not decide to increase the company's share capital by more than a total nominal value of DKK 43,197,470 equal to 10 per cent of the total share capital of the company.

The Board of Directors may implement the necessary amendments to the Articles of Association in connection with changes to the capital structure in accordance with the above resolution.

This authorisation has not been utilised in 2017/18.

At the Annual General Meeting in September 2017, the Board of Directors were authorised in the period until 30 September 2018, to let the company acquire own shares up to a nominal value corresponding to 10 per cent of the company's share capital, provided that the share price does not deviate by more than 10 per cent from the most recently quoted market price for the shares on NASDAQ Copenhagen A/S at the time of the purchase. This authorisation has not been utilised in 2017/1018.

Specific information concerning the possibilities of amending the Articles of Association can be found in the company's Articles of Association on the company's website: http://www.bangolufsen.com/da/investors.

The company shall be managed by a Board of Directors of between 4 and 8 members elected by the shareholders at the Annual General Meeting and any representatives elected by the company's employees as required by law. The members of the Board of Directors elected at the Annual General Meeting shall retire at each year's Annual General Meeting, but shall be eligible for re-election. Board members elected by the Annual General Meeting comprise a group of experienced international business executives. The previous age limit for members of the Board of Directors no longer applies.

Under the Danish Companies Act, employees in the Group's Danish companies have the right to elect a number of directors and alternates to the Board of Directors. Employees are entitled to elect the equivalent of half the board members elected by the Annual General Meeting, albeit not less than two members.

Employees have chosen to elect board members on group level, which means that only representatives on the Board of Directors of the parent company, Bang & Olufsen a/s are elected. The employees have, therefore, elected three colleagues to the main Board of Directors.

The latest election of employees to the Board of Directors took place in June 2015 by means of a written, secret and direct vote. Employee-elected board members are elected for a four-year period and eligible employees are those who are of age and who on the election day have been employed by the company for at least 12 months. The three Employee-elected board members which were elected at the election in June 2015 joined the Board of Director's after the Annual General Meeting in September 2015. The election of employees to join the Board of Directors at the Annual General Meeting in 2019 for a four-year period will take place early 2019.

Should an Employee-elected board member's employment be terminated, the employee in question will retire from the Board of Directors and be replaced by an elected substitute. An employee-elected board member has the same rights, obligations and responsibilities as the other board members.

Remuneration

Remuneration is based on responsibilities, competencies and performance and is designed to be competitive and in line with market practice of comparable listed companies.

The company's remuneration policy is reviewed annually by the Remuneration Committee and the Board and the overall objective of the Remuneration Policy is to attract, motivate and retain qualified members of the Board and the Executive Management Board as well as to align the interests of the Board and the Executive Management Board with the interests of the company's shareholders.

The remuneration of the Board and the Executive Management Board shall be designed to support the strategic goals of the company and to promote value creation for the benefit of the shareholders of the company. Finally, the remuneration levels shall ensure that the company is able to attract and retain highly qualified members for both its Executive Management Board and Board of Directors.

Executive Management Board

The remuneration of the Executive Management Board and Board of Directors is assessed annually. The Board of Directors decides on the remuneration of the Executive Management Board and other key employees based on a recommendation from the Remuneration Committee of the Board.

Members of the Executive Management Board receives an annual base in line with market practice and based on the individual member's responsibilities and performance. Further, they are entitled to customary non-monetary benefits such as company car, insurance, newspaper, telephony and internet access.

The Annual General Meeting has adopted "General guidelines concerning incentive-based remuneration" pursuant to which members of the Management Board and other key employees, at the discretion of the Board of Directors, can be offered to participate in a Matching Shares Program.

The company's CEO can terminate his employment by giving 12 months' notice and the company can terminate the employment by giving 24 months' notice. The CEO is subject to a non-competition clause. For further information about remuneration to the CEO refer to note 2.2 and note 4 in the consolidated and the parent company financial statements respectively.

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, Vice Chairman, and members and chairmen of permanent committees. Members of the Board of Directors do not receive any incentive-based remuneration.

BOARD FEE STRUCTURE 2017/18

	Board fee	Committee fee
Board member base fee	300,000	
Chairman of the Board base fee	900,000	
Vice Chairman base fee	450,000	
Chairman of the Audit Committee		150,000
Chairman of other Committees		75,000
Ordinary Committee members		75,000

RISK MANAGEMENT

Operating in a business environment characterised by constant disruptive innovation and radical change, our strong systematic and proactive approach to risk management is a valuable tool with which to identify and mitigate key risks and to become winners among luxury lifestyle brands in tomorrow's marketplace.

INTRODUCTION

Ensuring strong and holistic risk management is an essential pillar in navigating the complex business context and in understanding the company's risk exposure and impact across the global value chain.

Relevant risks are identified, monitored and reported to the Board of Directors through an Enterprise Risk Management process, which follows an annual schedule. Furthermore, risks identified are discussed by Executive Management Board several times during the year. The purpose of this process is to stay focused on current risks and to identify risks as early as possible, thereby enabling the Executive Management Board to take a proactive approach to adapting business processes and controls to meet, manage or mitigate such risks, or to prevent potential increases in the current level of exposure.

Risks identified are evaluated on the basis of their possible impact on a number of criteria, including safety, business, reputational and financial impact, and the likelihood of the risk materialising. Clear roles and responsibilities are assigned in relation to key risks, and mitigation initiatives are identified, prioritised and launched. The categories of key risk identified and reported to the Board of Directors are described below, including measures taken to mitigate such risks.

Risk management forms an integral part of doing business at Bang & Olufsen.

At Bang & Olufsen, a risk is defined as an event or a development that could significantly reduce Bang & Olufsen's ability to

- achieve the company's financial targets
- execute the company's strategy
- maintain the company's license to operate

Risks identified are divided into three main categories

- strategic risks
- operational risks
- financial risks

The risk management system applied at Bang & Olufsen is designed to balance risk and reward throughout the company's operations in alignment with the established risk appetite to generate maximum value to shareholders and other stakeholders

By strongly focusing on the Enterprise Risk Management process, the Executive Management Board and the Board of Directors can ensure that risk management forms an integral part of decision-making processes at Bang & Olufsen. The risk management process is constantly evolving, with Bang & Olufsen continuing to improve work on identifying, evaluating and monitoring relevant risks. The list below does not include all risks that could ultimately affect Bang & Olufsen.

Key developments and activities performed in 2017/18

In addition to managing risk as part of Bang & Olufsen's day-to-day business operations, the company performed a number of targeted risk management activities during the past year for the purpose of meeting its ambition and defined risk management objectives. As part of these activities, Bang & Olufsen focused in 2017/18 on further developing its risk management capabilities, including a formalised risk management framework, policy and employee guidelines to be applied in all day-to-day business operations.

During the past financial year, focus was on further developing a firm risk management governance structure and on assigning clear roles and responsibilities to stakeholders across the organisation to ensure that risks are managed at an appropriate level by people with the appropriate mandate and the right competencies.

OVERVIEW OF THE RISK MANAGEMENT PROCESS 2017/18

Risk identification and assessment is conducted on an annual basis to identify and assess risks across Bang & Olufsen's two segments; Bang & Olufsen and B&O PLAY, the company's core business areas and value chain, including corporate strategy, brand partnering, innovation, product development, sourcing, operations, sales and marketing, IT, human resources and finance.

The risk assessment exercise includes 1) analysis of internal and external information and data, 2) a series of interviews with the Executive Management Board and other key stakeholders, 3) further analysis and consolidation of identified risks based on their potential impact and probability, and 4) a validation process with the Executive Management Board, in which risks identified are validated, analysed and prioritised to establish the company risk profile.

As a part of the risk assessment process, risk ownership of the top strategic risks is assigned to relevant members of the Executive Management Board, who are subsequently responsible for managing those risks in day-to-day business operations. For risks categorised as operational or financial, risk ownership is assigned to the relevant owner within the organisation, who through his/her function will be responsible for managing the risk as part of the day-to-day operations.

KEY RISKS IDENTIFIED

Strategic risks

Distribution channels

Bang & Olufsen may not be able to sustain revenue growth in Europe while implementing its go-to-market strategy for all channels, embracing monobrand, multibrand and e-commerce. The impact on monobrand stores will be substantial over the next couple of years, as a number of stores will be closed or relocated and new partnerships and clusters will be established. The future multibrand distribution will be based on a selective process and will lead to certain partnerships being terminated and to new partnerships being established.

In selected countries and cities, Bang & Olufsen currently distributes its products through a network of exclusive Bang & Olufsen monobrand stores (i.e. the so-called B1 stores). The performance and success of these monobrand stores is important to Bang & Olufsen. Furthermore, the continuing success of this distribution channel relies on the company's ability to attract a sufficient volume of new and suitable monobrand stores to sustain expected growth and attract the target customer segment. Customer experience is in focus and must be supported by the front-line organisation.

As such, the risk is related to the company's ability to implement the go-to-market strategy for all channels, embracing monobrand, multibrand and E-commerce, while still being able to sustain revenue growth in Europe.

To manage and mitigate this risk, Bang & Olufsen has devised a three-year plan to continue to focus on building a strong network of monobrand stores that will provide customers with the unique in-store Bang & Olufsen experience. Setting up stores at the right geographical locations and establishing new partnerships is key to this plan.

Bang & Olufsen anticipates significant growth in eCom sales over the next three years. In support of that potential, the company has initiated a process of establishing a future digital eCom platform in combination with building a strong organisation to drive eCom sales. Plans have been made to build competencies and capabilities, including employer branding for digital and software-related talent.

Growth in the US and Chinese markets

Expanding the company's existing market platform in the US and Chinese markets is a significant opportunity and a key element of the company's business strategy for the coming years. Both the US and Chinese markets offer a substantial growth potential and attractive opportunities to further expand brand awareness among Bang & Olufsen's target customers. However, as both are highly competitive markets, that requires a transformation of the company's go-to–market approach.

To mitigate these risks and take advantage of the opportunity, Bang & Olufsen developed a go-to-market strategy for the US and Chinese markets in 2017/18. The company is working systematically to build its brand presence, e.g. through targeted marketing initiatives, and to develop its distribution network and logistics set-up. In addition, the company constantly monitors market developments and customer preferences to best meet product expectations. The goal is to continue building strong and robust organisations and processes in the two countries.

Outsourcing and dependency on suppliers

Bang & Olufsen's outsourcing and partnership strategy leads to dependency on a few strategic suppliers for timely production and delivery of products that are compliant with the company's high-quality standards. Failure by a supplier to deliver products as agreed may have a significant impact on Bang & Olufsen's ability to deliver products to the distribution network, which in turn would affect revenue growth in the short and medium term.

To ensure strong partnerships with these suppliers, Bang & Olufsen performs a rigorous supplier selection process to ensure that the suppliers selected meet the company's requirements for its long-term partners. The intention is to build long-term partnerships with the suppliers selected. In addition, Bang & Olufsen has a monitoring system in place that verifies the performance of suppliers and provides early warnings of suppliers failing to meet the required standards.

To further mitigate this risk, Bang & Olufsen pursues, where possible, a dual sourcing strategy aimed at ensuring the company's ability to source 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.

Change in product portfolio
Bang & Olufsen's future product strategy will result in a product portfolio with fewer launches and higher anticipated sales volumes per launch. The product portfolio entails increased reliance on the success of each product launch, which can lead to declining turnover, and the inability to supply distribution partners if product demand turns out differently than expected.

To mitigate this risk Bang & Olufsen is optimising its Product Launch Management process in an effort to challenge and support the go-to-market phase. Furthermore, focus is on strengthening the conceptualisation and customer centricity for the purpose of making product launches more successful.

People
For its global success, Bang & Olufsen relies heavily on having the right people. The company's annual employee engagement survey, BeoVoice, had a 93% response rate in 2018 and showed high scores on satisfaction, a great desire to perform, and strong relations with the workplace. These are strong drivers of overall business performance, and ensure high future ratings, attracting and retaining the right talent will be paramount to earning high ratings in the future.

Bang & Olufsen's ability to successfully execute on its strategy and build a sustainable organisation for the future that is able to compete in highly competitive markets of operation will be at risk if if the company is unable to attract, retain and grow the right competencies on an ongoing basis. In addition, failure to ensure that the organisation is fully aligned with the corporate strategy may jeopardise the company's ability to deliver on its ambitious strategic targets and ability to execute its strategy. To mitigate this risk, employer branding is a crucial part of the strategic agenda going forward, the focus being on reducing the gap in competencies and capabilities within strategically important areas such as retail, digital, software, etc.

Bang & Olufsen has identified four key focus areas for the coming years. Employer branding among critical target groups and a strengthened recruitment process will help the company attract and onboard the right talent in the future. The company's employer value proposition should enable us to speak to the target groups we need in the organisation. In recruitment, expectations for job and performance must be aligned and provide a candidate experience that is on brand. Succession planning for critical positions globally will secure consistency in delivery and quality, as well as support for the strategy.

Simultaneously, the company's ambitions require that Bang & Olufsen focus on current capabilities, strengthening them to meet the requirements of the future and ensure that they match the company's aspirations.

Operational risks

Inability to adequately protect the IT infrastructure and key systems against the risk of security incidents
Bang & Olufsen's business depends to a large and growing extent on having 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 business interruption or disclosure of business-critical, confidential data, which could affect Bang & Olufsen's competitive position or damage the company's reputation. With the launch of the new EU data protection regulation, which was fully implemented by the company in May 2018, this is an ever more present financial risk in terms of both handling and securing confidential employee data and customer data.

To mitigate these risks, Bang & Olufsen actively applies a range of measures, such as technical security tests and controls, various process monitoring controls and internal employee awareness campaigns on IT security, data security and confidentiality. A cyber security assessment is currently being performed along with related action plans. During 2017/18, Bang & Olufsen further strengthened its information security organisation and governance as well as its specific defences in order to ensure that Bang & Olufsen stays on top of the constantly evolving threat landscape.

Intellectual property rights

In the fast-changing area of consumer electronics, securing and maintaining the company's intellectual property rights is key to sustaining the company's brand and maintaining its unique design components and its value proposition. From this perspective, the risk entails the possibility of Bang & Olufsen facing intellectual property infringements by competing brands, suppliers or professional counterfeiters. Another potential risk scenario could be a competitor claiming that Bang & Olufsen infringes on their intellectual property rights. Both of these risk events could lead to a loss of revenue and brand value for Bang & Olufsen. To mitigate such risk, Bang & Olufsen has over the past year worked to establish an IP strategy including underlying firm processes on IP execution. Further, Bang & Olufsen makes use of advanced technology and control measures to scan the internet for and to stop imports of counterfeit products in order to close down the sale of such products as soon as they are intercepted.

Ethics and Compliance

Operating in a global context, Bang & Olufsen faces various challenges related to ensuring high-quality products while maintaining good and ethical business practices. This entails a particular focus on countries, in which the risk of fraud or corruption may be high. To mitigate this, Bang & Olufsen operates internal control systems to minimise the risk of staff becoming involved in illegal or unethical activities. This also entails encouraging employees to use the company's whistleblower system if they experience or suspect irregularities of any kind. Furthermore, Bang & Olufsen strives to comply with all international and national legislation, regulation and guidelines within each of the countries, in which the company operates. To manage this risk Bang & Olufsen recognises the UN and ILO declarations on human rights, labour rights, the environment and anti-corruption, and through the UN Global Compact, the company works to ensure sound and good business operations.

Financial risks

Foreign exchange risk and credit risk

As a result of Bang & Olufsen's global presence, the Group's income statement, balance sheet and equity are exposed to macro-economic and financial risk at any given time.

The main risks are:

- foreign exchange risk; and
- credit risk related to the distribution network

Bang & Olufsen continually assesses these risks at Group level. It is the Group's policy not to speculate in financial risk, hence the financial risk management is solely directed towards hedging such risks in relation to operations and financing.

Bang & Olufsen mainly sources products in US dollars but sells in a basket of currencies.

It is the Group's practice to hedge a substantial amount of its net cash flows in foreign currency over a 9-18-month horizon against its base currency, Danish kroner. The Group actively seeks to achieve hedge account treatment for its foreign exchange hedging programme.

The Group is predominantly exposed to credit risk on trade receivables to partners in its distribution network. The customer base and distribution network are well diversified with no material concentration risk on any single party or geography. In addition, as a general matter of policy, the Group requires business partners to provide security in their business in exchange for granting credit facilities. The Group continually monitors the framework for credit risk assessment in order to mitigate potential credit risk. In addition, the Group, monitors such risks in relation to the specific parties involved and, if required, takes the necessary action to minimise the risk of credit losses.

For further information about the Group's management of financial risks, please see note 4.3 Financial Instruments in the consolidated financial statements.

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CONSOLIDATED INCOME STATEMENT

1 June – 31 May

(DKK million)	Notes	2017/18	2016/17
Revenue	2.1	**3,285.5**	**2,954.0**
Production costs	2.2	(1,941.3)	(1,827.9)
Gross profit		**1,344.2**	**1,126.1**
Development costs	2.2, 2.3	(400.9)	(408.9)
Distribution and marketing costs	2.2	(734.5)	(778.2)
Administration costs	2.2, 2.4	(104.3)	(107.7)
Other operating income		17.6	39.7
Other operating expenses		(0.1)	-
Operating profit (EBIT)		**122.1**	**(129.0)**
Financial income	4.2	13.3	2.4
Financial expenses	4.2	(17.9)	(39.4)
Financial items, net		(4.6)	(37.0)
Earnings before tax (EBT)		**117.5**	**(166.0)**
Corporation tax	2.5	(36.0)	49.4
Earnings for the year		**81.5**	**(116.5)**
Earnings per share			
Earnings per share (EPS) DKK		1.9	(2.7)
Diluted earnings per share (EPS-D) DKK		1.9	(2.7)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

1 June – 31 May

(DKK million)	Notes	**2017/18**	2016/17
Earnings for the year		**81.5**	**(116.5)**
Items that will be reclassified subsequently to the income statement:			
Exchange rate adjustment of investment in foreign subsidiaries		(2.1)	(2.3)
Change in fair value of derivative financial instruments used as cash flow hedges		94.1	(28.9)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:			
Transfer to revenue		13.1	2.9
Transfer to production costs		(54.2)	6.3
Income tax on items that will be reclassified to the income statement	2.5	(11.7)	4.4
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit plans		1.1	0.7
Income tax on items that will not be reclassified to the income statement	2.5	(0.3)	(0.2)
Other comprehensive income for the year, net of tax		**40.0**	**(17.1)**
Total comprehensive income for the year		**121.5**	**(133.6)**

CONSOLIDATED BALANCE SHEET

at 31 May

(DKK million)	Notes	31/5/18	31/5/17
Goodwill		43.5	47.0
Acquired rights		2.2	4.2
Completed development projects		181.3	196.9
Development projects in progress		40.8	137.9
Intangible assets	3.1	**267.8**	**386.0**
Land and buildings		115.7	75.2
Plant and machinery		55.6	48.6
Other equipment		5.5	5.2
Leasehold improvements		0.3	4.6
Tangible assets in course of construction and prepayments for tangible assets		7.1	45.0
Tangible assets	3.2	**184.2**	**178.6**
Investment property	3.3	**15.5**	**16.0**
Other financial receivables	3.4	**39.3**	**41.2**
Deferred tax assets	2.5	**249.3**	**279.2**
Total non-current assets		**755.9**	**901.0**

(DKK million)	Notes	31/5/18	31/5/17
Inventories	3.5	**352.2**	**347.3**
Trade receivables	3.5	510.0	410.3
Other financial receivables	3.4	11.1	11.3
Corporation tax receivable		18.5	13.0
Other receivables		96.5	71.7
Prepayments		7.9	13.7
Total receivables		**644.0**	**520.0**
Cash		**1,154.7**	**1,079.2**
Assets held for sale		**14.0**	**-**
Total current assets		**2,164.9**	**1,946.5**
Total assets		**2,920.8**	**2,847.4**

CONSOLIDATED BALANCE SHEET
at 31 May

(DKK million)	Notes	31/5/18	31/5/17
Share capital	4.5	432.0	432.0
Translation reserve		16.6	18.7
Reserve for cash flow hedges		28.5	(12.8)
Retained earnings		1,232.4	1,148.2
Total equity		**1,709.5**	**1,586.2**
Pensions	3.6	13.6	14.5
Deferred tax	2.5	10.5	10.7
Provisions	3.7	33.1	28.0
Mortgage loans	4.1	160.9	170.2
Other non-current liabilities		1.4	1.6
Deferred income	3.8	76.4	123.7
Total non-current liabilities		**295.9**	**348.7**
Mortgage loans	4.1	9.2	9.1
Provisions	3.7	33.6	79.4
Trade payables		516.7	463.2
Corporation tax payable		3.3	8.2
Other liabilities		290.1	327.7
Deferred income	3.8	60.1	25.0
Other current liabilities		**913.0**	**912.5**
Liabilities associated with assets held for sale		**2.4**	**-**
Total liabilities		**1,211.3**	**1,261.2**
Total equity and liabilities		**2,920.8**	**2,847.4**

CONSOLIDATED CASH FLOW STATEMENT

1 June – 31 May

(DKK million)	Notes	2017/18	2016/17
Earnings for the year		81.5	(116.5)
Amortisation, depreciation and impairment losses		275.5	327.9
Adjustments for non-cash items	5.1	17.0	(48.4)
Change in receivables		(131.0)	(5.9)
Change in inventories		(12.6)	59.6
Change in trade payables etc.		59.6	154.4
Cash flow from operations before interest and taxes		**290.0**	**371.1**
Interest received and paid, net		(11.6)	(9.3)
Income tax paid		(30.7)	(9.5)
Cash flow from operating activities		**247.7**	**352.3**
Purchase of intangible non-current assets		(106.0)	(177.5)
Purchase of tangible non-current assets		(60.9)	(64.3)
Sales of tangible non-current assets		1.8	2.6
Proceeds from sale of businesses		-	122.9
Change in financial receivables		2.1	71.3
Cash flow from investing activities		**(163.0)**	**(45.0)**
Free cash flow		**84.7**	**307.2**
Repayment of long-term loans		(9.2)	(10.4)
Settlement of share options		-	(6.1)
Cash flow from financing activities		**(9.2)**	**(16.5)**
Change in cash		**75.5**	**290.7**
Cash, 1 June		1,079.2	788.5
Cash, 31 May		**1,154.7**	**1,079.2**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

1 June – 31 May

(DKK million)	Share capital	Translation reserve	Reserve for cash flow hedges	Retained earnings	Total
Equity 1 June 2017	**432.0**	**18.7**	**(12.8)**	**1,148.2**	**1,586.2**
Earnings for the year	-	-	-	81.5	81.5
Exchange rate adjustment of investment in foreign subsidiaries	-	(2.1)	-	-	(2.1)
Change in fair value of derivative financial instruments used as cash flow hedges	-	-	94.1	-	94.1
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:					
Transfer to revenue	-	-	13.1	-	13.1
Transfer to production costs	-	-	(54.2)	-	(54.2)
Income tax on items that will be reclassified to the income statement	-	-	(11.7)	-	(11.7)
Actuarial gains/(losses) on defined benefit plans	-	-	-	1.1	1.1
Income tax on items that will not be reclassified to the income statement	-	-	-	(0.3)	(0.3)
Comprehensive income for the year	-	(2.1)	41.3	82.4	121.6
Share based payment	-	-	-	1.8	1.8
Equity 31 May 2018	**432.0**	**16.6**	**28.5**	**1,232.4**	**1,709.5**
Equity 1 June 2016	**432.0**	**21.0**	**2.5**	**1,269.3**	**1,724.9**
Earnings for the year	-	-	-	(116.5)	(116.5)
Exchange rate adjustment of investment in foreign subsidiaries	-	(2.3)	-	-	(2.3)
Change in fair value of derivative financial instruments used as cash flow hedges	-	-	(28.9)	-	(28.9)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:					
Transfer to revenue	-	-	2.9	-	2.9
Transfer to production costs	-	-	6.3	-	6.3
Income tax on items that will be reclassified to the income statement	-	-	4.4	-	4.4
Actuarial gains/(losses) on defined benefit plans	-	-	-	0.7	0.7
Income tax on items that will not be reclassified to the income statement	-	-	-	(0.2)	(0.2)
Comprehensive income for the year	-	(2.3)	(15.3)	(116.0)	(133.6)
Share based payment	-	-	-	1.1	1.1
Settlement of share options	-	-	-	(6.1)	(6.1)
Equity 31 May 2017	**432.0**	**18.7**	**(12.8)**	**1,148.2**	**1,586.2**

SECTION 1 BASIC OF REPORTING

This section introduces Bang & Olufsen's financial accounting policies in general, as well as an overview of management's key accounting estimates and the new IFRS requirements. All group companies follow the same Group accounting policies. A detailed description of accounting policies related to specific reported amounts is presented in each note to the relevant financial items.

1.1 Basis of reporting

Basic principles
The consolidated financial statements of the Bang & Olufsen Group and the financial statements for 2017/18 for Bang & Olufsen a/s have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish requirements for the presentation of financial statements for listed companies (class D entities).

The consolidated and the separate financial statements are presented in DKK, which is the presentation currency for the Group and the functional currency for the parent company.

Assets are recognised in the balance sheet when it is probable that future economic benefits resulting from a past event will flow to the Group. Liabilities are recognised in the balance sheet when it is probable that the Group will give up future economic benefits as a consequence of a legal or constructive obligation resulting from a past event. The value of the assets and liabilities should be able to be measured reliably.

The consolidated financial statements have been prepared on a going concern basis and under the historical cost convention with the exception of derivatives, which are measured at fair value.

Individual assets or groups of assets that are to be disposed of collectively are classified as assets held for sale, when the activities to carry out such a sale have been initiated and the activities are expected to be disposed of within 12 months.

Liabilities of a disposal group that are directly related to assets held for sale are presented correspondingly. Assets held for sale are related to the divestiture of company-owned and company-operated stores.

Consolidation
The consolidated financial statements comprise the parent company, Bang & Olufsen a/s, and the companies (subsidiaries), which are controlled by the parent company. The parent company is presumed to have control when it directly or indirectly holds more than 50 per cent of the voting rights or in other ways can exercise or is exercising controlling influence.

Companies in which the Group directly or indirectly holds between 20 per cent and 50 per cent of the voting rights and has a significant influence but not control are regarded as associates.

The consolidated financial statements have been prepared on the basis of the financial statements of the parent company and its subsidiaries. The consolidated financial statements have been prepared by adding uniform items. The financial statements that are used for the consolidation are prepared in accordance with the Group's accounting principles. In the process of consolidation, intra-group income and expenses, intra-group accounts receivable, and payable and dividend, profits and losses from transactions between the consolidated companies have been eliminated. In the consolidated financial statements the subsidiaries' items are recognised 100 per cent.

Translation of foreign currency
On initial recognition, transactions in a currency other than the company's functional currency are translated at the exchange rate prevailing at the transaction date. Receivables, payables and other monetary items in foreign currency that have not been settled at the balance sheet date are translated at the exchange rates prevailing at this date. Currency gains and losses arising between the transaction date and the date of payment or the balance sheet date, respectively, are recognised in the profit and loss account as financial income or financial costs. Tangible and intangible non-current assets, inventories and other non-monetary assets that have been purchased in a foreign currency and that are measured at historical cost prices are translated at the exchange rate prevailing at the transaction date.

When recognising companies that present their financial statements in another functional currency than Danish kroner (DKK) in the consolidated financial statements, profit and loss accounts are translated

1.1 Basis of reporting (continued)

using average exchange rates for the year. The balance sheet items are translated using the exchange rates prevailing on the balance sheet date. Goodwill is regarded as belonging to the acquired company and is translated using the exchange rates prevailing on the balance sheet date.

Translation differences arising from the translation of the foreign subsidiaries' balance sheet items at the beginning of the year to the exchange rates prevailing at the balance sheet date, and from the translation of the profit and loss accounts from average exchange rates to the balance sheet date exchange rates, are recognised in other comprehensive income.

Similarly, translation differences that arise on changes made directly to the foreign company's equity are recognised in other comprehensive income.

Production costs
Production costs comprise wages, consumption of stock and indirect costs, (including salaries, depreciation/amortisation and impairment losses) that are incurred with the purpose of achieving 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 etc.
Administration costs etc. comprise costs for the administrative personnel, management, office costs, depreciation/ amortisation and impairment losses.

Other operating income and other operating expenses
Other operating income and other operating expenses comprise income and expenses of a secondary nature relative to the principal activities of the Bang & Olufsen a/s Group.

Adoption of new or amended IFRS
Bang & Olufsen has adopted all new, amended standards, revised accounting standards, and interpretations (IFRIC) as endorsed by the EU and effective for the financial year 1 June 2017 - 31 May 2018. This has not resulted in any changes to the accounting policies, and has not had a material impact in 2017/18.

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the EU effective on or after 1 January 2017, it has been assessed that the application of these new IFRS has not had a material impact on the consolidated financial statements in 2018.

New or amended EU endorsed accounting standards
IASB has issued a number of new standards, amendments to existing standards and bases for conclusions that have not yet come into force, but which will become effective in financial years after 2017/18. New and revised standards are expected to be implemented on the effective date. The following standards are in general expected to change current accounting regulation most significantly:

- IASB has issued IFRS 9 'Financial Instruments', with effective for annual reports beginning on or aftet 1 January 2018. The implementation of IFRS 9 is mainly expected to impact recognition and measurement of trade receivables. Based on an analysis of the Group's debtor mass, including an assessment of ECL (expected credit losses), it is assessed that the standard will have an immaterial effect of less than DKK 5 million on Bang & Olufsen.
- IASB has issued IFRS 15 'Revenue from contracts with customers', with effective for annual reports beginning on or after 1 January 2018. During 2017/18, Bang & Olufsen has performed an analysis of contracts with customers and concluded, that revenue recognition will not be impacted significantly from implementing IFRS 15. IFRS 15 would have had an estimated negative impact on 2017/18 consolidated revenue of less than 0.2 per cent, with no impact on earnings.
- IASB has issued IFRS 16 "Leases", with effective date 1 January 2019. The change in lease accounting requires capitalisation of the majority of the Group's operational lease contracts. The effects of the standard have not yet been analyzed in detail and the financial impact of the new standard will depend on the lease agreements in effect at the time of adoption. It is expected that EBITDA will increase with an amount equal to the operating lease payments. Based on the operational lease commitment as of 31 May 2018, Bang & Olufsen has a minimum lease obligation of DKK 114 million, corresponding to 4 per cent of the total balance that will be recognised in the Group's assets with a corresponding impact on liabilities.

All other new or amended standards and interpretations, which are not yet effective, are not expected to have any material impact.

1.2 Critical accounting estimates and judgements

When applying the Group'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 provisions, development projects, trade receivables, inventories 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 critical accounting estimates and judgements are described under the sections to which they relate.

Accounting estimate/judgement	Note
Deferred tax assets	2.5
Development projects	3.1
Inventories	3.5.1
Trade receivables	3.5.2
Provision for warranty and fairness	3.7

SECTION 2 RESULTS FOR THE YEAR

This section contains notes relating to earnings for the year including operating segments, development and staff costs and taxes for the year. A detailed description of the results for the year is given in the Financial Review on pages 17-20.

2.1 Operating segment information

Accounting policies
Revenue recognition
Revenue is recognised in the income statement, when delivery and transfer of the risks of ownership to the customer has taken place, if the revenue can be measured reliably, and payment is expected to be received. Revenue is recognised net of value added tax and discounts related to the sale.

Revenue regarding sales of goods is recognised in the income statement, if the transfer of the risks of ownership to the customer has taken place before the end of the financial year.

Licence income and royalties from brand partnerships is recognised in accordance with the agreements and when it is probable that future economic benefits will flow to the Bang & Olufsen Group and these benefits can be measured reliably.

Segment information
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. From 1 June 2018, the segment information will be changed to a geographic approach.

The Group's reportable segments are:
- Bang & Olufsen
- B&O PLAY

The segments are split based on differences in products. Bang & Olufsen is the traditional core business and sold through Bang & Olufsen's B1 stores and through shop-in-shops. B&O PLAY products are sold through the traditional Bang & Olufsen distribution channels and through third party distribution and e-commerce. License income from brand partnerships is included in the Bang & Olufsen segment.

The segment's performance measurement is gross profit. Segment income and costs include the items that can be directly attributed to the individual segment.

The segment's asset measurement is a sum consisting of completed development projects, development projects in progress and trade receivables. The internal management reporting does not include segment liabilities.

Trade between the Group's reportable segments is carried out at arm's length conditions.

The Group's geographical areas are:
- Europe
- North America incl. Canada
- Greater China
- Rest of world

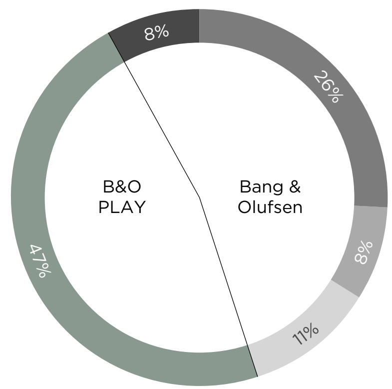
Greater China includes China, Taiwan and Hong Kong.

The geographical areas are split on the basis of the location of the customers and non current assets.

As the Group's domicile is Denmark disclosure is also made of total non-current assets and net revenue split between Denmark and the Rest of world.

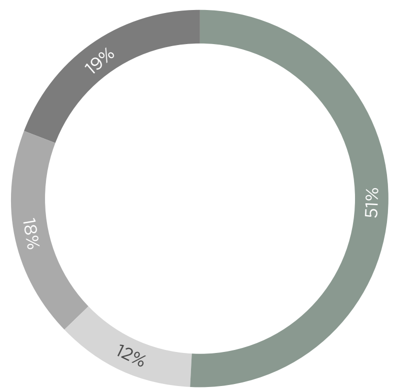
SHARE OF REVENUE 2017/18 (%)

B&O PLAY
Speakers Audio TV Other



REVENUE BY REGION 2017/18 (%)

Europe North America
Greater China Rest of World



2.1 Operating segment information (continued)

	2017/18			
(DKK million)	Bang & Olufsen	B&O PLAY	Unallocated	**Total**
Revenue, Group	**1,736.9**	**1,548.6**	**-**	**3,285.5**
Gross profit, Group	**785.6**	**558.6**	**-**	**1,344.2**
Gross margin-%	**45.2**	**36.1**	**-**	**40.9**
Amortisation, depreciation and impairment losses	(249.2)	(26.3)	-	(275.5)
Other non-allocated capacity costs	-	-	(946.6)	(946.6)
Financial income	-	-	13.3	13.3
Financial expenses	-	-	(17.9)	(17.9)
Earnings before tax	**-**	**-**	**(951.2)**	**117.5**
Completed development projects	163.0	18.3	-	181.3
Development projects in progress	38.3	2.5	-	40.8
Total segment assets	201.3	20.8	-	222.1
Unallocated assets	-	-	2,698.7	2,698.7
Total assets, Group	**201.3**	**20.8**	**2,698.7**	**2,920.8**
Denmark	690	59	-	749
Rest of world	269	69	-	338
Average number of full-time employees, Group	**959**	**128**	**-**	**1,087**

2.1 Operating segment information (continued)

	2016/17			
(DKK million)	Bang & Olufsen	B&O PLAY	Unallocated	**Total**
Revenue, Group	**1,717.5**	**1,236.5**	**-**	**2,954.0**
Gross profit, Group	**685.3**	**441.4**	**-**	**1,126.1**
Gross margin-%	**39.9**	**35.7**	**-**	**38.1**
Amortisation, depreciation and impairment losses	(308.0)	(19.8)	-	(327.9)
Other non-allocated capacity costs	-	-	(927.2)	(927.2)
Financial income	-	-	2.4	2.4
Financial expenses	-	-	(39.4)	(39.4)
Earnings before tax	**-**	**-**	**(964.2)**	**(166.0)**
Completed development projects	182.2	14.7	-	196.9
Development projects in progress	132.4	5.5	-	137.9
Total segment assets	314.6	20.2	-	334.8
Unallocated assets	-	-	2,512.6	2,512.6
Total assets, Group	**314.6**	**20.2**	**2,512.6**	**2,847.4**
Denmark	811	70	-	881
Rest of world	720	42	-	762
Average number of full-time employees, Group	**1,531**	**112**	**-**	**1,643**

2.1 Operating segment information (continued)

	Total non-current assets		Total revenue	
(DKK million)	**2017/18**	2016/17	**2017/18**	2016/17
Geographical information				
Europe	436.6	571.4	1,679.2	1,680.5
North America	2.1	1.4	402.3	366.7
Greater China	28.1	6.8	588.6	412.0
Rest of world	0.7	1.0	615.4	494.8
Total	**467.5**	**580.6**	**3,285.5**	**2,954.0**
Denmark	422.4	526.6	501.5	359.4
Rest of world	45.1	54.0	2,784.0	2,594.6
Total	**467.5**	**580.6**	**3,285.5**	**2,954.0**

Non-current assets do not include deferred tax assets, pension assets and non-current financial assets.

Bang & Olufsen Group has no transactions with individual customers which make up more than 10% of the Group's revenue.

The Group's total revenue is derived from the sale of goods DKK 3,119.2 million and license income of DKK 166.3 million (in 2016/17 DKK 2,813.5 million from sales of goods and DKK 140.5 million from license income).

2.2 Staff costs

(DKK million)	**2017/18**	2016/17
Wages and salaries etc.	550.9	642.0
Share-based payment	1.8	1.1
Pensions	41.3	42.3
Other social security costs	18.5	31.9
Total	**612.6**	**717.3**
Expensed as follows*:		
Production costs	170.0	212.2
Development costs	132.4	177.6
Distribution- and marketing costs	233.6	255.9
Administration costs	76.6	71.6
Total	**612.6**	**717.3**
Average number of full-time employees	**1,087**	**1,643**

*Comparative figures for 2016/17 have been restated

2.2 Staff costs (continued)

	2017/18			2016/17		
Whereof to:	Board of directors	Executive management board	Other key employees	Board of directors	Executive management board	Other key employees
Wages, salaries and fees	4.7	16.4	7.5	4.1	11.4	7.0
Pensions	-	1.2	0.9	-	0.7	0.8
Bonus	-	5.3	1.8	-	0.8	1.0
Total	4.7	22.8	10.2	4.1	12.9	8.8
Share-based payment	-	2.1	1.1	-	(0.7)	0.5
Total remuneration	**4.7**	**24.9**	**11.3**	**4.1**	**12.2**	**9.3**

In 2017/18, there were 8 members of staff in the group 'Other key employees' (2016/17; 7 members).

Specified as follows:	2017/18	2016/17
Remuneration of Executive management board:		
Henrik Clausen	12.8	6.6
Anders Aakær Jensen	3.9	3.9
Stefan K Persson	3.2	3.3
John Mollanger	5.0	0.7
Tue Mantoni	-	(2.3)
Total	**24.9**	**12.2**

The value of the share-based payment expresses the group income statement effect of allocated matching shares.
Please see note 4.6 for further information about the Group's matching shares programme.

2.2 Staff costs (continued)

(DKK million)	2017/18	2016/17
Remuneration of the Board of directors:		
Ole Andersen (chairman)	1.1	0.9
Juha Christensen (deputy chairman)	0.5	0.2
Jim Hagemann Snabe (resigned 14.09.2017)	0.2	0.6
Jesper Jarlbæk	0.6	0.4
Majken Schultz	0.4	0.3
Albert Bensoussan	0.4	0.3
Mads Nipper	0.4	0.3
Ivan Tong	0.4	0.2
Søren Balling (appointed 01.08.2017)	0.3	-
Brian Bjørn Hansen	0.3	0.3
Geoff Martin	0.3	0.3
Jesper Olesen (resigned 31.07.2017)	0.1	0.3
Total	**4.7**	**4.1**

2.3 Development costs

Accounting policies
Development costs, which do not meet the criteria for capitalisation as defined in note 3.1 are recognised in the income statement as development costs along with amortisation and impairment losses on capitalised development projects.

(DKK million)	2017/18	2016/17
Incurred development costs before capitalisation	288.4	360.9
Herof capitalised	(105.6)	(173.7)
Incurred development costs after capitalisation	182.8	187.2
Capitalisation (%)	*36.6*	*48.1*
Total amortisation charges and impairment losses on development projects	218.1	221.6
Total	**400.9**	**408.9**

2.4 Fees to auditors appointed at the Annual General Meeting

(DKK million)	2017/18	2016/17
Statutory audit	3.2	3.0
Tax services	-	1.2
Other services	0.6	1.3
Total	**3.8**	**5.5**

EY were re-appointed as auditors at the Annual General Meeting on 13 September 2017.

2.5 Taxation

Accounting policies
Tax for the year, which includes the current tax and changes in deferred tax for the year, is recognised in profit or loss with the share that is attributable to the result for the year and in other comprehensive income or directly in equity with the share, which can be attributed to entries made in other comprehensive income or directly in equity, respectively.

Current income tax payable and current income tax receivable is recognised in the balance sheet as the tax calculated on the year's taxable income adjusted for prepaid tax.

When calculating current tax for the year, the tax rates and regulations prevailing at the balance sheet date in the different countries are used.

Deferred tax is recognised using the balance sheet liability method on all temporary differences between the tax base and the carrying amount of assets and liabilities, except for deferred tax on temporary differences that arise either on initial recognition of goodwill or on initial recognition of a transaction that is not a business combination, and where the temporary difference on initial recognition affects neither accounting profit or loss nor the taxable income.

Deferred tax on temporary differences relating to investments in subsidiaries and associates is recognised, unless the parent company is able to control when the deferred tax is realised, and it is probable that the deferred tax will not be realised as current tax within the foreseeable future.

The deferred tax is calculated based on the planned use of each asset and settlement of each liability, respectively.

Based on the laws that have been enacted or substantively enacted at the balance sheet date, the deferred tax is measured using the tax rates and regulations in the different countries that are expected to prevail when the deferred tax is expected to be realised as current tax. The change in deferred tax due to changes in tax rates or regulations is recognised in profit or loss unless the deferred tax is attributable to transactions that have previously been recognised directly in equity or in other comprehensive income. In the latter case, the change is also recognised directly in equity or in other comprehensive income, respectively.

Deferred tax assets, including the tax value of any tax loss carryforwards, are recognised in the balance sheet at the value of which the asset is expected to be realised 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.

The parent company is jointly taxed with all Danish subsidiaries. The current Danish corporation tax is distributed between the jointly taxed companies in proportion to their taxable income.

Critical accounting estimates and judgements
Deferred tax assets are recognised in the balance sheet at the value at which the asset is expected to be realised 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. The deferred tax asset amount to DKK 249.3 million as at 31 May 2018 (DKK 279.2 million as at 31 May 2017) corresponding to a decrease of DKK 29.9 million in the 2017/18 financial year.

The company aims to deliver more than 10 per cent revenue growth on average over the next three years. The company expects growth in all regions especially in North America and the Greater China Region. Combined with the initiatives taken to change the operating model and the increased income from the brand partnering business, the continued growth momentum is expected to ensure a profitability level (EBIT margin) of more than 15 per cent by the end of the current strategy period, which expires in May 2021. As the company's operating model only requires a limited amount of capital to sustain the growth momentum, the free cash flow generation is expected to significantly increase in the future and to exceed 10 per cent of Group revenue by May 2021. Based on the positive development in 2017/18 and expectations to improve probability in the coming years it is management opinion that the recognised deferred tax asset can be utilised within a five years period.

2.5 Taxation (continued)

Income statement and other comprehensive income

(DKK million)	**2017/18**	2016/17
Tax recognised in:		
Income statement	36.0	(49.4)
Other comprehensive income	11.4	(4.4)
Total	**47.4**	**(53.8)**
Current tax charge/credit	18.8	14.9
Adjustment for prior periods, current tax	(1.1)	2.3
Current tax	17.7	17.2
Change of deferred tax	22.7	(72.3)
Adjustments from change in tax rate	7.0	1.3
Deferred tax	29.7	(71.0)
Total taxation	**47.4**	**(53.8)**

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

2.5 Taxation (continued)

The taxation charge in the income statement that would arise at the standard rate of DK corporation tax is reconciled to the actual tax charge as follows:

	2017/18		2016/17	
	%	DKKm	%	DKKm
Tax calculated on earnings before tax	22.0	25.8	22.0	(36.5)
Non-deductible costs and non-taxable income	(0.5)	(0.6)	2.2	(3.7)
Deviating tax rates in foreign subsidiaries	1.9	2.2	0.6	(0.9)
Changes in tax rates	5.9	7.0	(0.8)	1.3
Adjustments to prior periods	(0.1)	(1.1)	(1.4)	2.3
Re-capitalised tax loss carry-forwards	-	-	6.9	(11.4)
Foreign withholding tax	1.4	1.6	(0.3)	0.5
Other	0.1	1.1	0.6	(1.0)
Annual effective tax rate/taxation charge in income statement	**30.7**	**36.0**	**29.8**	**(49.4)**

Balance sheet

Deferred tax assets

(DKK million)	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry-forwards	Other	**Total**
Deferred tax assets 1 June 2016	62.2	3.4	8.5	15.6	73.8	45.5	209.0
Changes in tax rates	-	-	-	-	(0.9)	(0.3)	(1.2)
Recognised in the income statement	13.4	(1.0)	(2.4)	0.7	59.3	1.4	71.4
Deferred tax assets 31 May 2017	75.6	2.4	6.1	16.3	132.2	46.6	279.2
Changes in tax rates	(0.1)	(0.6)	(0.7)	(0.5)	(5.1)	-	(7.0)
Recognised in the income statement	(31.7)	0.3	(0.1)	1.8	21.6	(14.8)	(22.9)
Deferred tax assets 31 May 2018	**43.8**	**2.1**	**5.3**	**17.6**	**148.7**	**31.8**	**249.3**

2.5 Taxation (continued)

Deferred tax assets primarily relate to the jointly-taxed Danish companies and the subsidiaries in Norway, Sweden, Austria, Germany, the UK, France, Italy, Spain, the US, Singapore, Hong Kong, China, Deferred tax assets have been calculated based on local tax rates.

In “Other” in deferred tax assets includes a tax asset of DKK 24.6 million from deferred income.

In 2017/18, a deferred tax asset of DKK 127.0 million has been recognised in the jointly-taxed Danish companies based on tax los s carryforwards, which can be indefinitely carried forward. This deferred tax as set has been recognised on the basis of Management 's expectations of the Group's long-term earnings up to five years.

In 2017/18, Bang & Olufsen US tax assets of DKK 9.2 million has been capitalised regarding tax losses carried forward. This is a decrease from 2016/17 due to a write-down of the asset of DKK 6.9 million as a result of the US tax reform. The recognition is based on the expectations to future earnings in Bang & Olufsen US. Unrecognised deferred tax assets amount to DKK 22.9 million in the US and total DKK 33.0 milion for the Group (2016/17: DKK 42.3 million). The basis for the unrecognised deferred tax assets includes tax losses of DKK 109.2 million. The tax losses can be carried forward for a period of 1-20 years.

Deferred tax liabilities

(DKK million)	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry-forwards	Other	**Total**
Deferred tax liabilities 1 June 2016	12.1	(0.1)	0.5	-	-	(1.1)	11.5
Recognised in the income statement	(1.7)	-	(0.1)	-	-	1.0	(0.8)
Deferred tax liabilities 31 May 2017	10.4	(0.1)	0.4	-	-	(0.1)	10.7
Recognised in the income statement	-	-	-	(0.2)	-	-	(0.2)
Deferred tax liabilities 31 May 2018	**10.4**	**(0.1)**	**0.4**	**(0.2)**	**-**	**(0.1)**	**10.5**

Deferred tax has been provided for based on local tax rates.

2.6 Earnings per share

	2017/18	
(DKK million)	Basic	Diluted
Earnings for the year	81.5	81.5
Weighted average number of shares in issue - million	43.2	43.2
Dilution due to matching shares	-	-
Total weighted average number of ordinary shares in issue - million	43.2	43.2
Earnings per ordinary share	1.9	1.9

	2016/17	
(DKK million)	Basic	Diluted
Earnings for the year	(116.5)	(116.5)
Weighted average number of shares in issue - million	43.2	43.2
Dilution due to share options and matching shares	-	-
Total weighted average number of ordinary shares in issue - million	43.2	43.2
Earnings per ordinary share	(2.7)	(2.7)

2.7 Other operating income and expenses

Other operating income and other operating expenses comprise income and expenses of a secondary nature relative to the principal activities of the Bang & Olufsen A/S Group. 2016/17 included the gain from the sale of the Czech subsidairy.

SECTION 3 OPERATING ASSETS AND LIABILITIES

This section contains notes relating to the assets that form the basis for the activities in the Bang & Olufsen Group and the related liabilities.

3.1 Intangible assets

Accounting policies

Asset class	Recognition	Valuation	Amortisation method	Estimated useful life
Goodwill	When recognising goodwill, the goodwill amount is allocated to those of the Group's activities that generate independent cash flows (cash-generating units). The definition of cash-generating units is in accordance with the managerial structure and the internal management accounting and reporting in the Group.	Goodwill is initially recognised and measured as the difference between on the one hand, the cost price of the acquired company, the value of minority interests in the acquired company and the acquisition date fair value of previously held equity interests, and, on the other hand, the fair value of the acquired assets, liabilities and contingent liabilities.	N/A	Indefinite – tested for impairment annually.
Development projects (under construction)	Clearly defined and identifiable projects if probable that they can be marketed as new products in a potential market.	Measured at cost price. This comprises costs, including salaries and depreciation/amortisation that relate directly to the development projects, and which are necessary to complete the project from the time when the development project initially meets the criteria for recognition as an asset. Reimbursements and grants are deducted from the cost price.	N/A	N/A until completed – tested for impairment annually.
Development projects (completed)		Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	2-6 years for completed development projects, or over remaining term of intellectual property right if less
Acquired rights	Software, key money and patents.	Measured at cost price less accumulated amortisation and impairment losses.	Straight-line	Over the shorter of the estimated useful life and the term of the contract.

3.1 Intangible assets (continued)

Critical accounting estimates and judgements
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 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 2016/17 financial year. Development projects amount to DKK 222.1 million as at 31 May 2018 (DKK 334.8 million as at 31 May 2017). The main additions in the 2017/18 financial year are development projects relating to TV including the platform and speakers.

Impairment
The carrying amount of intangible non-current assets with a definite useful life is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

For development projects in progress and goodwill the recoverable amount is determined at least once a year whether or not there are indications of impairment.

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted at their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to reduce first any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit, in a way so that no asset is reduced to a value below its fair value less costs to sell.

Impairment losses are recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount the asset's or the cashgenerating unit's carrying amount is increased to the adjusted recoverable amount, however not exceeding the carrying amount the asset or the cash-generating unit would have had if it had not been impaired. Impairment of goodwill is not reversed.

3.1 Intangible assets (continued)

(DKK million)	Goodwill	Acquired rights	Completed development projects	Development projects in progress	**Total**
Cost					
At 31 May 2016	66.4	162.8	771.2	151.6	1,152.0
Exchange rate adjustments	(0.2)	-	-	-	(0.2)
Additions	-	3.3	41.2	132.4	176.9
Disposals	-	(0.8)	(60.4)	-	(61.2)
Completed development projects	-	-	146.1	(146.1)	-
At 31 May 2017	66.2	165.3	898.1	137.9	1,267.5
Exchange rate adjustments	(0.9)	-	-	-	(0.9)
Additions	-	0.4	68.2	37.4	106.0
Disposals	(2.6)	-	(369.7)	-	(372.3)
Completed development projects	-	-	134.5	(134.5)	-
At 31 May 2018	**62.7**	**165.7**	**731.1**	**40.8**	**1,000.3**
Amortisation and impairment					
At 31 May 2016	-	(156.7)	(540.0)	-	(696.7)
Exchange rate adjustments	-	-	-	-	-
Amortisation	-	(5.4)	(221.6)	-	(227.0)
Impairment losses during the year	(19.2)	-	-	-	(19.2)
Reversed amortisation on disposals		1.0	60.4	-	61.4
At 31 May 2017	(19.2)	(161.1)	(701.2)	-	(881.5)
Exchange rate adjustments	-	-	-	-	-
Amortisation	-	(2.4)	(218.1)	-	(220.5)
Impairment losses during the year	-	-	-	-	-
Reversed amortisation on disposals	-	-	369.5	-	369.5
At 31 May 2018	**(19.2)**	**(163.5)**	**(549.8)**	**-**	**(732.5)**
Net book value					
At 31 May 2018	**43.5**	**2.2**	**181.3**	**40.8**	**267.8**
At 31 May 2017	47.0	4.2	196.9	137.9	386.0

3.1 Intangible assets (continued)

Impairment losses during the year
Goodwill
The Group's goodwill is related to the distribution network and company owned and operated stores. The goodwill relates in its entirety to the business Bang & Olufsen segment. In 2017/18 no impairment losses have been recognised (2016/17 DKK 19.2 million).

The assessment of the recoverable amount of the cash-generating units which include goodwill is based on calculations of value in use, which is calculated based on both expected future cash flows according to the company's strategy, specified in the Strategy section in management review on pages 8-15. The terminal value is determined on the assumption of a growth of 2.0 per cent (2016/17; 2.0 per cent). The growth rate is not expected to exceed the long-term growth rate. A discount rate before tax of 9 per cent is used (6.9 per cent after tax) (2016/17; 9 per cent/6.9 per cent).

Development projects
The assessment of the recoverable amount of the intangible assets excl. goodwill is based on calculations of value in use of the assets. The value in use 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 per cent (2016/17 10.0 per cent).

	2017/18	2016/17
Amortisation and impairment losses		
Production costs	1.7	3.4
Development costs	218.3	222.2
Distribution- and marketing costs	0.5	20.5
Administration costs etc.	-	0.1
Total	**220.5**	**246.2**

No impairment losses have been recognised during 2017/18 (2016/17 DKK 19.2 million).

3.2 Tangible assets

Accounting policies
Tangible non-current assets are measured at cost price with deduction of accumulated depreciation and impairment losses.

The cost price comprises the acquisition price and costs directly related to the acquisition until the time when the asset is ready for use. For self-constructed non-current assets, the cost price comprises direct costs for wages, materials, components and sub-suppliers.

Reimbursements and grants concerning tangible non-current assets are deducted from the cost price.

Interest expenses related to financing of the construction of qualifying tangible non-current assets are recognised in the cost price of the assets if they relate to the period of construction.

The cost price of a tangible non-current asset is divided into individual components that are depreciated separately if the expected useful life differs for the individual components.

For tangible non-current assets held under finance leases, the cost price equals the lower of fair value of the assets and the present value of the future minimum lease payments. The interest rate implicit in the lease or the incremental borrowing rate is used as discount rate when calculating the present value.

Asset class	Asset type	Depreciation policy
Land and buildings	Land	None
	Buildings	Straight-line over 40 years
	Interior refurbishment/ special installations	Straight-line over 10 years
Plant and machinery	Single purpose production tools	Straight-line over 3-6 years
	Other	Straight-line over 8-10 years
Other equipment	Other equipment	Straight-line over 3-10 years
Leasehold improvements	Leasehold improvements	Straight-line over term of lease, max 10 years
Tangible assets in course of construction	Tangible assets in course of construction	None

Impairment
The carrying amount of tangible non-current assets is reviewed at the balance sheet date to determine if there are indications of decreases in value. If this is the case, impairment test of the assests is performed.

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset. The assessment is based on the details specified in the Strategy section in the management review on pages 8-15.

The recoverable amount is determined as the highest value of the asset's or the cash-generating unit's fair value less costs to sell and the value in use. When the value in use is determined, the estimated future cash flows are discounted at their present value using a discount rate that reflects both the present market assessment of the time value of money and the specific risks that are connected with the asset and the cash-generating unit, respectively, for which no adjustment has been made in the estimated future cash flows.

If the asset's or the cash-generating unit's recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount. For cash-generating units the impairment loss is allocated to first reduce any goodwill amounts and then a remaining impairment loss is allocated to the other assets of the unit in a way so that no asset is reduced to a value below its fair value less costs to sell.

Impairment losses are recognised in the income statement. On any subsequent reversals of impairment losses recognised in prior periods due to changes in the estimates used to determine the recoverable amount, the asset's or the cash-generating unit's carrying amount is increased to the adjusted recoverable amount not exceeding the carrying amount the asset or the cash-generating unit would have had, had it not been impaired.

No impairment losses have been recognised during 2017/18 (2016/17 DKK 22.7 million).

3.2 Tangible assets (continued)

(DKK million)	Land and buildings	Plant and machinery	Other equipment	Leasehold improvements	Tangible assets in course of construction	**Total**
Cost						
At 31 May 2016	389.5	1,121.5	178.5	85.6	7.7	1,782.8
Exchange rate adjustments	(0.6)	0.6	(0.4)	(2.4)	-	(2.8)
Additions	1.9	14.3	1.9	2.2	44.6	64.9
Completed assets	0.6	6.7	-	-	(7.3)	-
Disposals	(17.0)	(50.7)	(21.5)	(20.9)	-	(110.1)
At 31 May 2017	374.4	1,092.4	158.5	64.5	45.0	1,734.8
Exchange rate adjustments	-	-	(0.2)	0.3	-	0.1
Additions	34.8	15.2	2.2	1.6	7.1	60.9
Completed assets	15.9	26.5	2.5	-	(44.9)	-
Disposals	(67.4)	(361.3)	(54.6)	(25.8)	(0.1)	(509.2)
At 31 May 2018	**357.7**	**772.8**	**108.4**	**40.6**	**7.1**	**1,286.6**
Amortisation and impairment						
At 31 May 2016	(291.7)	(1,058.0)	(159.6)	(63.8)	-	(1,573.1)
Exchange rate adjustments	0.3	0.4	1.9	2.4	-	5.0
Depreciation	(9.5)	(33.5)	(6.4)	(13.8)	-	(63.2)
Impairment losses	(7.5)	-	(9.6)	(5.6)	-	(22.7)
Reversed depreciation on disposals	9.3	47.0	20.4	20.9	-	97.6
At 31 May 2017	(299.1)	(1,043.9)	(153.3)	(59.9)	-	(1,556.3)
Exchange rate adjustments	0.3	0.5	0.2	0.7	-	1.7
Depreciation	(10.0)	(34.7)	(4.0)	(6.3)	-	(55.0)
Reversed depreciation on disposals	66.8	360.9	54.2	25.2	-	507.1
At 31 May 2018	**(242.0)**	**(717.2)**	**(102.9)**	**(40.4)**	**-**	**(1,102.4)**
Net book value						
At 31 May 2018	**115.7**	**55.6**	**5.5**	**0.3**	**7.1**	**184.2**
At 31 May 2017	75.2	48.6	5.2	4.6	45.0	178.6

There are no contractual obligations regarding purchase of tangible assets.

3.2 Tangible assets (continued)

(DKK million)	2017/18	2016/17
Depreciation and impairment losses		
Production costs	38.2	44.6
Development costs	3.9	4.3
Distribution- and marketing costs	12.6	29.2
Administration costs etc.	0.3	7.8
Total	**55.0**	**85.9**

No impairment losses have been recognised in relation 2017/18 (2016/17 DKK 22.7 million).

3.3 Investment property

Accounting policies
Investment property is property held to earn rental income or for capital appreciation.

Investment property is measured at cost price with deduction of accumulated depreciation and impairment losses. Investment property is depreciated on a straight-line basis over 40 years.

No impairment losses have been recognised in relation to investment property during 2017/18 (2016/17 DKK 0 million).

(DKK million)	
Cost	
At 1 June 2016	78.6
At 31 May 2017	78.6
At 31 May 2018	**78.6**
Depreciation and impairment	
At 1 June 2016	(62.1)
Depreciation	(0.5)
At 31 May 2017	(62.6)
Depreciation	(0.5)
At 31 May 2018	**(63.1)**
Net book value	
At 31 May 2018	**15.5**
At 31 May 2017	16.0

Investment property consists of property that is partly used by Medicom Innovation Partner a/s. Net book value represents the fair value of the investment property.

External rental income of DKK 2.5 million has been received from the investment property in 2017/18 (2016/17; DKK 2.4 million), and directly attributed operating expenses were DKK 1.0 million (2016/17; DKK 0.6 million).

The properties are leased on operating leases with a remaining duration of 22 months. According to the existing operating leases, a rental income of DKK 2.5 million will be received in 2018/19.

3.4 Other financial receivables

(DKK million)	
Cost	
At 1 June 2016	129.5
Exchange rate adjustments	(2.9)
Changes	(73.2)
At 31 May 2017	53.4
Exchange rate adjustments	(1.4)
Changes	(1.6)
At 31 May 2018	**50.4**
Impairment	
At 1 June 2016	(6.1)
Exchange rate adjustments	2.0
Impairment reversals/losses	3.2
At 31 May 2017	(0.9)
Exchange rate adjustments	0.2
Impairment reversals/losses	0.7
At 31 May 2018	**-**
Net book value	
At 31 May 2018	**50.4**
At 31 May 2017	52.5

The fair value of other financial receivables in the Group amounts to DKK 50.4 million (DKK 52.5 million in 2016/17). The fair value is calculated as the present value of the future excepted cash flows from the receivables.

3.5 Working capital

Accounting policies

Inventories

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.

Receivables

Receivables comprise trade receivables, other financial receivables primarily loans to external parties and other receivables. The receivables are categorised as loans and receivables, which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

On initial recognition, the receivables are measured at fair value and subsequently at amortised cost price, which normally correspond to face value less provisions for expected losses. Provisions for losses are based on an individual assessment of each outstanding account.

Prepayments

Prepayments comprise incurred costs related to the following financial years. The 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.

Deferred income

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

3.5 Working capital (continued)

Critical accounting estimates and judgements

Inventories

A specific assessment of the need for write-downs for obsolescence of inventories is made based on an assessment of the future sales potential. During the assessment the expected technological developments and the expected service periods are taken into account. The applied principles are unchanged from the 2016/17 financial year. Inventories amount to DKK 352.2 million as at 31 May 2018 (DKK 347.3 million as at 31 May 2017).

Trade receivables

Specific estimates of trade receivables are made on an assessment of the dealer's historical ability to pay and the current situation. The applied principles are unchanged from the 2016/17 financial year. The trade receivables amount to DKK 510.0 million as at 31 May 2018 (DKK 410.3 million as at 31 May 2017).

3.5.1 Inventories

(DKK million)	**2017/18**	2016/17
Raw materials	56.4	27.6
Work in progress	23.2	24.1
Spare parts	53.1	52.5
Finished goods	219.5	243.1
Total 31 May	**352.2**	**347.3**

It is Group policy that spare parts should be available for a number of years after sale of the product. Accordingly, DKK 36.9 million (2016/17; DKK 27.3 million) is expected to be realised after more than 12 months.

Other disclosures:

Inventory movement recognised in production costs	1,611.2	1,524.7
Impairment of inventories recognised in production costs	31.4	49.3

3.5.2 Trade receivables

(DKK million)	**2017/18**	2016/17
Trade receivables at 31 May (gross)	541.2	448.0
Impairment 1 June	(37.7)	(79.3)
Exchange rate adjustment to year-end rate	0.2	(4.6)
Change in impairment during the year	(12.5)	2.3
Actual losses during the year	18.8	43.9
Impairment 31 May	(31.2)	(37.7)
Trade receivables at 31 May (net)	**510.0**	**410.3**

All trade receivables fall due within one year.

Financial income of DKK 3.4 million (2016/17; DKK 1.7 million) has been recognised in the Group relating to impaired trade receivables.

Impairment of trade receivables is recognised in distribution and marketing costs in the income statement. The impairment charge is based on an individual assessment of each individual debtor's ability to pay. All overdue trade receivables are provided for, except for those where sufficient collateral has been obtained.

The carrying amount of receivables which fall due within 1 year after the end of the financial year, is expected to be a reasonable approximation of the fair value.

	2017/18	2016/17
Maturity analysis:		
Amounts not due	470.5	386.9
Overdue up to 30 days	2.9	1.4
Overdue between 30 and 60 days	10.0	5.5
Overdue between 60 and 90 days	1.0	2.7
Overdue between 90 and 120 days	11.0	0.1
Overdue more than 120 days	14.6	13.7
Trade receivables at 31 May (net)	**510.0**	**410.3**

For further details about the credit risk associated with the trade receivables, refer to Note 4.3 Financial Instruments.

3.6 Pensions

Accounting policies
As employer, the Bang & Olufsen Group participates in pension plans according to normal practice in the countries in which the Group operates. There are two types of plans; defined contribution plans and defined benefit plans.

Under defined contribution plans the Group recognises the pension contributions, which can either be a fixed amount of a fixed percentage of the monthly salary, in the income statement as they are paid to independent pension insurance companies. Any unpaid contributions are recognised in the balance sheet as a liability in 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. All pension plans in Denmark and most pension plans in the foreign subsidiaries are defined contribution plans.

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 carries the risk of any changes in the actuarially calculated capital value of the pension plans. Bang & Olufsen currently operates with defined benefit plans in Germany and in Norway.

Annual actuarial 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 and 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 asset or a pension liability.

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

If the defined benefit plan is a net asset, the asset is recognised only if it corresponds to, or is lower than unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Changes to the benefits, which relate to the employees' previous employment in the Group, cause a change in the actuarially calculated present value, which is regarded as past service costs. If the covered employees are immediately entitled to the changed benefit the change is recognised in the income statement at once. Otherwise the change is recognised in the income statement during the period, where the employees become entitled to the changed benefit.

(DKK million)	**2017/18**	2016/17
Amounts recognised in the income statement:		
Defined contribution plans	40.6	41.5
Defined benefit plans	0.7	0.8
Total pension amount charged to the income statement	41.3	42.3
Amounts recognised in the balance sheet:		
Wholly unfunded defined benefit plans	2.2	1.9
Wholly or partly funded defined benefit plans	24.1	25.2
Present value of defined benefit obligation 31 May	26.3	27.1
Fair value of plan assets	(12.7)	(12.7)
Defined benefit plans obligation 31 May	13.6	14.4
Actual return on plan assets	0.1	0.1

The Group's defined benefit plans are administered by independent pension 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.

	Germany		Norway	
	2017/18	2016/17	**2017/18**	2016/17
Actuarial assumptions:				
Calculation rate p.a.	1.8%	1.6%	2.4%	2.3%
Expected salary increase p.a.	1.5%	1.5%	2.4%	2.5%
Expected rate of return p.a.	1.5%	1.6%	2.3%	2.3%

3.6 Pensions (continued)

(DKK million)	**2017/18**	2016/17
Germany:		
Present value of future payments	18.7	19.8
Fair value of plan assets	(8.1)	(8.2)
Actuarially calculated net obligation	10.6	11.6
Norway:		
Present value of future payments	5.4	5.3
Fair value of plan assets	(4.5)	(4.5)
Actuarially calculated net receivable	0.9	0.8
Net obligation	11.5	12.5
Wholly unfunded defined benefit plans	2.3	1.9
Defined benefit plans 31 May, net	**13.6**	**14.5**

5 year overview:

(DKK million)	**2017/18**	2016/17	2015/16	2014/15	2013/14
Present value of defined benefit obligation	26.3	27.1	29.1	31.5	28.2
Fair value of plan assets	(12.7)	(12.7)	(12.8)	(13.8)	(14.8)
Deficit, defined benefit plans	13.6	14.4	16.3	17.7	13.4
Experience-based adjustments of defined benefit obligation	0.4	-	-	4.2	1.2
Experience-based adjustments of plan assets for defined benefit plans	(0.3)	0.2	0.3	(0.6)	0.6

3.7 Provisions

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 the Group has 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 on basis of past experience with warranty repairs employee anneversary benefits and other obligations.

Provisions that are expected to fall due more than one year after the balance sheet date are measured at present value.

Critical accounting estimates and judgements
The Bang & Olufsen Group repairs or replaces products that do not function satisfactorily both within the warranty period and in certain situations after the warranty period. Consequently, provisions are made for future repairs and returns. The provisions are made based on historical statistics 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.

Provisions for warranty and fairness of DKK 58.2 million have been recognised as at 31 May 2018 (2016/17; DKK 56.6 million) to cover expected warranty and fairness claims. The size and timing of the provisions are based on previous experience of the level and timing of repairs and returns. The principles are unchanged from last year.

3.7 Provisions (continued)

(DKK million)	Warranty and fairness	Employee anniversary benefits	Other obligations	**Total**
At 31 May 2016	60.3	2.6	5.3	68.2
Exchange rate adjustment to year-end rate	(1.5)	-	0.7	(0.7)
Provisions in the year	37.9	0.2	42.5	80.6
Provisions used in the year	(22.1)	(0.4)	-	(22.5)
Provisions reversed in the year	(18.1)	(0.1)	-	(18.2)
At 31 May 2017	56.6	2.3	48.5	107.4
Exchange rate adjustment to year-end rate	(0.2)	-	-	(0.1)
Provisions in the year	31.8	0.8	-	42.8
Provisions used in the year	(11.8)	(0.5)	(42.1)	(65.1)
Provisions reversed in the year	(18.2)	(0.2)	(0.4)	(18.3)
At 31 May 2018	**58.2**	**2.4**	**6.0**	**66.7**
Falls due 1-5 year	20.4	1.9	6.0	33.1
Falls due after 5 years	-	-	-	-
Non-current provisions	20.1	1.9	6.0	33.1
Falls due within one year	33.1	0.5	-	33.6
At 31 May 2018	**58.2**	**2.4**	**6.0**	**66.7**

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

3.8 Deferred income

Deferred income constitutes revenue related to the license agreement with HARMAN. This includes deferred revenue from the Aluminum production agreement and future license income. Deferred income also includes pre-payments from customers.

SECTION 4 CAPITAL STRUCTURE AND FINANCING COSTS

This section contains notes relating to the capital structure and financial items of the Bang & Olufsen Group.

4.1 Mortgage loans and loans from banks

Accounting policies
Fixed interest loans, such as mortgage loans or bank loans, are recognised at the date of the loan at the received proceeds less transaction costs. In subsequent periods, the loans are measured at amortised cost price. This means, that the difference between the proceeds from the raising of the loan and the amount, that must be repaid, is recognised in the income statement during the term of the loan as a financial cost using the effective interest method.

The fair value is calculated as the present value of the expected future instalments and interest payments.

Other financial liabilities comprise overdraft facilities etc. and are measured at amortised cost price, which is practically the same as the nominal value.

4.1.1 Mortgage loans

	Falls due within 1 year	Falls due 1-5 years	Falls due after 5 years	Falls due after 1 year, total
Fixed rate loans, interest rate 4.1%	2.4	10.7	7.7	18.4
Floating rate loans, interest rate level 0.5 - 1.0 %	6.8	27.2	115.3	142.5
Book value 31 May 2018	**9.2**	**37.9**	**123.0**	**160.9**
Fixed rate loans, interest rate 4.1%	2.3	10.2	10.5	20.7
Floating rate loans, interest rate level 0.5 - 1.0 %	6.8	27.3	122.2	149.5
Book value 31 May 2017	**9.1**	**37.5**	**132.7**	**170.2**

The fair value of the Group’s mortgage loans amounts to DKK 170.9 million (2016/17; DKK 180.2 million). All loans are in DKK. The mortgage loans has a due on 7.5 years and 22 years, respectively.

4.1.2 Loans from banks

The Group has no bank loans 31 May 2018 (DKK 0 million at 31 May 2017).

4.2 Financial items

Accounting policies
Financial items include interest income and cost, realised and unrealised capital gains and losses on securities, liabilities, and transactions in foreign currency as well as charges and refunds under the instalment payment tax scheme.

(DKK million)	2017/18	2016/17
Interest income from banks	2.3	0.5
Exhchange rate gains, net	7.1	-
Other financial income	3.9	1.9
Financial income	**13.3**	**2.4**
Interest costs on bank loans etc	(4.4)	(3.2)
Interest costs on mortgage loans	(6.2)	(7.9)
Exhchange rate losses, net	-	(20.6)
Other financial costs	(7.3)	(7.7)
Financial costs	**(17.9)**	**(39.4)**

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

4.3 Financial instruments

Accounting policies
Financial assets
The Group classifies its financial assets into the following categories:
- financial assets at fair value through profit or loss;
- loans and receivables; or
- derivative instruments designated as hedges.

The classification is dependent on the purpose for which the financial asset is acquired. Management determines the classification of its financial assets at the time of the initial recognition.

Financial assets are recognised when the company becomes a party to the contractual provisions of the instrument or secures other access to economic benefits. Such assets consist of cash or a contractual right to receive cash or another financial asset.

Financial assets, or a portion of a financial asset, are derecognised when, and only when, the entity loses control of the contractual rights that comprise the financial asset (or a portion of the financial asset). Such control is lost if the entity realises the right to benefits specified in the contract, the rights expire, or the entity surrenders those rights.

Financial assets at fair value through profit or loss
Financial instruments are classified under this category if held for trading, or if designated at fair value through profit or loss at inception. A financial instrument is classified as held for trading if acquired or incurred principally for the purpose of selling it in the short term. Derivatives are also classified as held-for-trading unless they are designated as hedges. Financial instruments in this category are classified as current assets and liabilities. Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the statement of comprehensive income. Realised and unrealised gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in the statement of comprehensive income during the period in which they arise. Financial derivative instruments on the statement of financial position are classified in this category.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are included in current assets, except for maturities greater than 12 months from year-end, which are classified as non-current assets. Loans and receivables are initially recognised at fair value and sub-

4.3 Financial instruments (continued)

sequently measured at amortised cost, less impairments, using the effective interest rate method. Loans and receivables comprise the other noncurrent financial assets, trade and other financial receivables, amounts due by Group companies, cash restricted for use and cash and cash equivalents.

Financial liabilities
Financial liabilities are classified into the following categories:
- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

The classification is dependent on the purpose for which the financial liabilities were acquired or incurred. Management determines the classification of its financial liabilities at the time of initial recognition.

Financial liabilities are recognised when there is an obligation to transfer benefits and that obligation is a contractual liability to deliver cash or another financial asset or to exchange financial instruments with another entity on potentially unfavourable terms. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expires.

Financial liabilities at amortised cost
This category of financial liabilities comprises preference shares (liability component), borrowings, trade and other financial payables and amounts due to Group companies. These financial liabilities are initially recognised at fair value plus transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

Accounting for derivative financial instruments and hedging activities
The Group's criteria for a derivative instrument to be designated as a hedging instrument require that:
- the hedge transaction is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk;
- the effectiveness of the hedge can be reliably measured throughout the duration of the hedge;
- there is adequate documentation of the hedging relationship at the inception of the hedge; and
- for cash flow hedges, the forecast that is the subject of the hedge must be highly probable.

The Group designates certain derivatives as one of the following on the date the derivative contract is entered into:
- a hedge of the exposure to changes in fair value of a recognised asset or liability or a firm commitment (fair value hedge); or
- a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of comprehensive income as financing costs/income, along with any changes in fair value of the hedged asset or liability that is attributable to the hedged risk. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised in the statement of comprehensive income over the period to maturity.

Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The ineffective portion is recognised immediately in the statement of comprehensive income within financing costs. Where the forecast transaction or firm commitment results in the recognition of a non-financial asset or a non-financial liability, the gains or losses previously deferred in equity are transferred from equity and included in the initial cost or other carrying amount of the asset or liability. Otherwise, amounts deferred in equity are transferred to the statement of comprehensive income and classified as gains or losses in the same financial years during which the hedged firm commitment or forecast transaction affects the statement of comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is recognised in the statement of comprehensive income. When the forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of comprehensive income.

At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy

4.3 Financial instruments (continued)

for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Movements on the hedging reserves in shareholders' equity are shown under non-distributable reserves in the statement of changes in equity. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of comprehensive income within financing costs.

Fair value estimation

The fair value of publicly traded derivatives is based on quoted market prices at year-end. The fair value of interest rate swaps is calculated as the present value of estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at year-end.

Financial instruments that are measured at fair value in the statement of financial position are classified into the following levels of the fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical as sets or liabilities (level 1);
- inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly, as prices, or indirectly, derived from prices (level 2); and inputs for the assets or liabilities that are not based on observable market data, unobservable inputs (level 3).

Quoted market prices or dealer quotes for the specific or similar instruments are used for non-current debt. The fair values of non-current financial assets and deferred payables for disclosure purposes are estimated by discounting the future contractual cash flows at the interest rates available to the Group at year-end. Other techniques, such as options pricing models and estimated discounted value of future cash flows, are used to determine fair value of the remaining financial instruments.

In assessing the fair value of non-traded derivatives and other financial instruments, the Group makes assumptions that are based on market conditions existing at each year-end.

The carrying values of the following financial assets and financial liabilities approximate their fair values:

- trade and other financial receivables;
- cash and cash equivalents;
- other non-current financial receivables;
- amounts due to Group companies;
- amounts due by Group companies;
- trade and other financial payables;
- current borrowings; and
- non-current borrowings.

4.3 Financial instruments (continued)

Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments)

Categories of financial assets and liabilities

Carrying amount of financial instruments by measurement category under IAS 39.

	2017/18		2016/17	
(DKK million)	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	50.4	50.4	52.5	52.5
Trade receivables	510.0	510.0	410.3	410.3
Other receivables	66.6	66.6	71.7	71.7
Cash	1,154.7	1,154.7	1,079.2	1,079.2
Loans and receivables	**1,781.7**	**1,781.7**	**1,613.7**	**1,613.7**
Mortgage loans	170.1	170.9	179.3	180.2
Trade payables	516.7	516.7	463.2	463.2
Financial liabilities measured at amortised cost	**686.8**	**687.6**	**642.5**	**643.4**
Derivative financial instruments relating to hedging of forecast-ed future transactions included in Other receivables	36.2	36.2	(16.7)	(16.7)
Derivatives for hedging purposes	**36.2**	**36.2**	**(16.7)**	**(16.7)**

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

Foreign exchange derivatives are measured at fair value in the balance sheet. The fair value is based on observable market data and is part of level 2 in the fair value hierarchy and in the category financial assets and liabilites used as hedging instruments. The fair value is DKK 36.2 million (2016/17; negative DKK 16.7 million).

Foreign exchange rate risk

In 2017/18 88 per cent of the Group's turnover was in foreign currency (2016/17; 88 per cent). Since part of the Group's purchasing policy is to match purchasing and sales currencies to the greatest possible extent, the figure does not express the Group's foreign exchange rate risk.

The Group has significant net in-flows in EUR, GBP, CNY, and CHF, and the most significant exposure is presently related to these. The most significant exposure on the outflow is USD. The company thus only has a limited natural hedging of the currency risk.

The Group's foreign exchange rate risks are managed centrally by the parent company's finance department based on a foreign exchange rate policy approved by the Board of Directors, under which up to 80 per cent of the expected net cash flows in selected currencies are covered. Forward contracts are continually used for this hedging.

The forward contracts are classified as hedging and fulfil the accounting requirements for hedging of future cash flow. Forward contracts are used for commercial transactions only, and hedging is made for a horizon of up to 18 months.

Besides the foreign exchange rate risk relating to current transactions, the Group's equity is affected by foreign exchange rate risks relating to the translation of the Group's foreign subsidiaries from local currencies to DKK.

Foreign exchange contracts

As at 31 May 2018, the Group has entered into foreign exchange forward contracts at a repurchase value of net negative DKK 81.3 million (2016/17; negative DKK 325.2 million), with a fair value of DKK 36.2 million (2016/17; negative DKK 16.7 million).

Foreign exchange contracts, net sale (purchase)

	31 May 2018		31 May 2017	
(DKK million)	Contractual value	Fair value	Contractual value	Fair value
USD	(746.8)	43.9	(707.0)	(22.7)
GBP	214.4	(0.9)	236.3	4.8
CHF	97.1	(1.9)	103.2	0.6
CNY	354.1	(4.9)	-	-
Other	-	-	42.4	0.5

4.3 Financial instruments (continued)

Sensitivity analysis
Effect on Group EBIT and equity based on 5 per cent change in the selected currencies compared to average annual rates estimated on unhedged basis.

	EBIT		Equity	
	2017/18	2016/17	**2017/18**	2016/17
USD	(47.6)	(47.5)	(36.6)	(36.6)
GBP	10.2	11.0	7.9	8.5
CNY	30.2	15.8	23.2	12.2
CHF	5.5	6.3	4.2	4.8
Other	(2.4)	(0.7)	(0.9)	0.4
Total	**(3.9)**	**(15.1)**	**(2.1)**	**(10.7)**

Interest rate risk
The Group interest rate risk relates to interest-bearing assets and debt.

The Group interest-bearing assets mainly consist of liquid funds, which at the end of the financial year totaled DKK 1,154.7 million (2016/17; DKK 1,079.2 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 5.8 million in 2017/18 (2016/17; DKK 5.4 million).

At the end of the financial year, the Group's interest-bearing dept totaled DKK 170.1 million (2016/17; DKK 179.3 million) corresponding to 5.5 per cent of the balance sheet total (2016/17; 6.3 per cent).

Of the interest-bearing dept DKK 123 million falls due after five years (2016/17; DKK 132.7 million). Further information is provided in note 4.1.

Due to the low debt level and the fact that the borrowings are in fixed rate loans or loans with a fixed rate of minimum three years, the Group's interest rate risks are insignificant and are not expected to significantly impact the Group's earnings.

Credit risk
The Group's balance sheet items that are subject to credit risk are primarily trade receivables and bank deposits. The amounts at which these balance sheet items are recognised correspond to the maximum credit risk.

At the end of the financial year, the Group sold its products through 565 dealers worldwide. The Group is, therefore, exposed to a risk of losses on trade receivables.

The individual dealers, including their geographical location, are subject to ongoing evaluation. When deemed necessary, the Group employs bank guarantees or or debtor insurance against outstanding debts, and in some situations other forms of securities are attained, e.g. in the form of security in inventories or other assets.

In the 2017/18 financial year, DKK 18.8 million was realised as losses on trade receivables (2016/17; DKK 43.9 million).

Liquid funds are placed with financial institutions with high credit ratings. Derivatives, including foreign exchange forward contracts, are entered into with such institutions only. Therefore, it is deemed that the credit risk relating to liquid funds is of no significance to Bang & Olufsen's annual report.

Liquidity risk
The financial reserve is continually assessed and managed by the parent company's finance department. It is ensured that there at any given time, is sufficient, flexible and unused credit available provided by major, reputable financial institutions. On the basis of the Group's financial reserve arrangements, and the expectations to the Groups future cash flows, management believes that there are sufficient capital resources.

Contractual maturity analysis for financial liabilities

	Less than one year	Between one and five years	More than five years	Total
2017/18				
Long-term mortgage loans	-	57.9	154.0	211.9
Short-term mortgage loans	15.2	-	-	15.2
Trade payables	516.7	-	-	516.7
Total non-derivative financial liabilities	531.9	57.9	154.0	743.8
Total financial liabilities	**531.9**	**57.9**	**154.0**	**743.8**

4.3 Financial instruments (continued)

	Less than one year	Between one and five years	More than five years	Total
2016/17				
Long-term mortgage loans	-	59.0	167.2	226.2
Short-term mortgage loans	15.5	-	-	15.5
Trade payables	463.2	-	-	463.2
Total non-derivative financial liabilities	478.7	59.0	167.2	704.8
Total financial liabilities	**478.7**	**59.0**	**167.2**	**704.8**

Specification of net interest-bearing deposits

	2017/18	2016/17
Cash and cash equivalents	1,154.7	1,079.2
Mortage loans, non-current liabilities	(160.8)	(170.2)
Mortage loans, current liabilities	(9.2)	(9.1)
Total	**984.7**	**899.9**

Defaults or breaches on loans

No loan agreements have been defaulted or breached in 2017/18 or 2016/17.

4.4 Capital structure

Bang & Olufsen has undergone a significant transformation in recent years and the strategy is beginning to deliver positive earnings and a positive free cash flow. The Board of Directors believes it would be prudent to reduce the net cash position to reflect that the company is well underway to establish a more sustainable and profitable business model. Being fully aware that the company operates in a market sensitive to economic trends and fast-moving technology change, the Board of Directors assesses that a current suitable level for Bang & Olufsen's net cash position is a minimum of DKK 500 million.

The Board of Directors recommends that the net cash position be reduced by distributing excess capital to the shareholders. Based on the target net cash position and the financial results for 2017/18, the Board of Directors propose to initiate a share buyback programme of DKK 485 million, which will be carried out subject to approval by the shareholders at the Annual General Meeting.

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

4.5 Share capital

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

Treasury shares
Acquisition and sales prices for 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 Bang & Olufsen a/s' presentation currency.

On disposal of net investments the exchange rate differences on the individual investment are recognised in the profit and loss account. The reserve is a distributable reserve.

Reserve for cash flow hedges
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 profit and loss account, when the hedged positions are realised.

	Issued shares			
	Number		Nominal value (DKK mio)	
	2017/18	2016/17	**2017/18**	2016/17
1 June	43,197,478	43,197,478	432.0	432.0
31 May	**43,197,478**	**43,197,478**	**432.0**	**432.0**

The share capital consists of 43,197,478 shares with a nominal value of 10 DKK each. Each share gives one vote. No shares have special rights. There are no limitations to transfera-bility and no voting restrictions.

(DKK million)	**2017/18**	2016/17	2015/16	2014/15	2013/14
Specification of movements in the share capital:					
Share capital	432.0	432.0	432.0	392.7	392.7
Capital increase	-	-		39.3	-
Share capital	**432.0**	**432.0**	**432.0**	**432.0**	**392.7**

Own shares

	Number		Nominal value (DKKm)		% of share capital	
	2017/18	2016/17	**2017/18**	2016/17	**2017/18**	2016/17
1 June	22,999	22,999	0.2	0.2	0.1	0.1
Used in connection with employee share option and matching shares programmes	-	-	-	-	-	-
31 May	**22,999**	**22,999**	**0.2**	**0.2**	**0.1**	**0.1**

All own shares are owned by Bang & Olufsen a/s.

4.6 Share-based payment and matching shares

Accounting policies
Share-based incentive programmes
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 where the employees become entitled to buy the shares.

Matching shares
The Remuneration Committee of the Board of Directors implement a matching share programme (MSP) as a variable component in compensation offered to the Executive Management Board and key employees.

The participating employees are offered 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 MSP 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 totals 22,999 shares as at 31 May 2018 (22,999 shares as at 31 May 2017).

	2017/18		2016/17	
	Number of matching shares	Avg. exercise price (DKK)	Number of options and matching shares	Avg. exercise price (DKK)
Outstanding at 1 June	703,468	-	1,527,147	39
Granted	161,880	-	248,816	-
Exercised	-	-	(483,048)	58
Expired	(234,248)	-	(533,964)	58
Forfeited	(145,004)	-	(55,484)	-
Outstanding 31 May	**486,096**	**-**	**703,468**	**-**

4.6 Share-based payment and matching shares (continued)

Further information about the outstanding matching shares:

	2017/18		2016/17	
	Number of matching shares	Remaining term to maturity (months)	Number of matching shares	Remaining term to maturity (months)
Matching shares 2014/15	-	-	234,248	5
Matching shares 2015/16	183,080	5	220,404	17
Matching shares 2016/17	162,556	17	248,816	29
Matching shares 2017/18	140,460	29	-	
Outstanding 31 May	**486,096**		**703,468**	

The matching share agreements entitle Bang & Olufsen to demand cash settlement. No settlements were made in 2017/18 (in 2016/17: 483,048 share options were settled with cash settlement and total payment amounted to DKK 6 million, which according to IFRS 2 was recognised directly in equity).

Matching shares
The fair value of Matching shares is DKK 141 per share based on the share price at the time of grant (2016/17; DKK 75).
Staff cost recognised in the income statement in relation to share-based payments were DKK 1.8 million which all relates to matching shares programme (2016/17; DKK 1.1 million of which DKK 0.8 million relates to matching shares).

SECTION 5 OTHER NOTES

This section contains other statutory notes and notes of secondary importance for understanding the financial performance of the Bang & Olufsen Group.

5.1 Non-cash items

Accounting policies

Cash flow statement

The presentation of the cash flow statement follows the indirect method, based on earnings for the year.

The cash flow statement shows the cash flows for the year, the year's change in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities

Cash flow from operating activities are stated as earnings for the year adjusted for non-cash income statement items and changes to working capital. The working capital is made up of current assets less current liabilities, excluding items, which are recognised as cash and cash equivalents.

Cash flow from investing activities

Cash flow from investing activities comprise the acquisition and sale of intangible, tangible and financial non-current assets and investment property.

Free cash flow

Cash produced from operations less the costs of expanding the asset base.

Cash flow from financing activities

Cash flow from financing activities comprise borrowings and instalments on non-current liabilities, dividends paid and proceeds from increases in the share capital as well as sales and repurchase of own shares.

Cash and cash equivalents

Cash and cash equivalents comprise cash less overdraft facilities, which forms part of the Group's ongoing cash flow management. Cash flows in foreign currency, including cash flows in foreign subsidiaries, are translated at average monthly exchange rates, which do not deviate materially from the exchange rates prevailing on the date of payment.

(DKK million)	**2017/18**	2016/17
Change in other liabilities	(88.9)	26.4
Financial income	(13.3)	(2.4)
Financial costs	17.9	39.4
Gain/loss on sale of non-current assets	0.5	(2.5)
Gain/loss on sale of business	-	(30.9)
Tax on earnings for the year	36.0	(49.4)
Other adjustments	64.8	(28.9)
Total non-cash adjustments	**17.0**	**(48.4)**

5.2 Contingent liabilities and other financial 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 big diversity in the length of the agreements. The longest agreement has a term 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)	**2017/18**	2016/17
Leasing commitments:		
Plant and machinery etc.	13.3	14.8
Shops	75.5	98.9
Office and factory property	24.9	28.3
Total	**113.7**	**141.9**
Maturity:		
Due within 1 year	50.8	62.3
Due 1 - 5 years	60.0	67.7
Due after 5 years	2.9	12.0
Total	**113.7**	**141.9**
Rental and lease payments, net for the year	81.6	99.4
Minimum rental and lease payments	81.6	99.4

No contingent rental or lease payments have been recognised in the income statement in 2017/18 or 2016/17.

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

Guarantees

(DKK million)	2017/18	2016/17
Total guarantees as at 31 May	105.9	108.6

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

VAT and other taxes

The Danish companies in the Group are jointly registrated and are jointly and severally liable for VAT and other taxes of a total receivable of DKK 2.4 million (2016/17; Liabilities DKK 9.3 million)

Mortgages and securities

Land and buildings and investment property have been mortgaged in the amount of DKK 170.1 million (2016/17; DKK 179.3 million) as security for DKK 169.7 million of the Group's mortgage and bank debt (2016/17; DKK 178.9)

Other tangible non-current assets relating to the 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 131.2 million (2016/17; DKK 91.2 million). No intangible assets, financial assets or inventories are pledged as security for liabilities.

Lawsuits

The companies in the Group are parties to a few pending lawsuits. The management assesses that the outcome of the lawsuits will not materially influence the Group's financial position. In accordance with the exemption clause in IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', no further information is given regarding the lawsuits, as further information might harm the Group.

5.3 Related parties

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

The related parties that have significant influence in the Bang & Olufsen Group, are 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 share in subsidiaries and associates is outlined in note 5.6

Board of Directors, Board of Management and other key management personnel
Except from what follows from the employment and shareholdings, if any, there have been no transactions with the Board of Directors, Executive Management and other key management personnel. Remuneration and matching shares programmes are shown in notes 2.2 and 4.6.

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

Other transactions
No other transactions have taken place with related parties.

5.4 Material events after the balance sheet date

No material events have occured after the balance sheet date.

5.5 Approval of the Annual Report for publication

At the Board meeting held on 11 July 2018 the Board of Directors have approved the publication of this Annual Report.

The Annual Report will be presented for adoption at the ordinary Annual General Meeting of Bang & Olufsen a/s on 23 August 2018.

5.6 Companies in the Bang & Olufsen Group

Company name	Domicile	Currency	Share capital local currency	Bang & Olufsen Group's share	Number of undisclosed subsidiaries
Bang & Olufsen a/s	Struer, DK	DKK	431,974,780		
Bang & Olufsen Operations a/s	Struer, DK	DKK	156,000,000	100 %	
Scandinavia					
Bang & Olufsen Danmark a/s	Struer, DK	DKK	3,000,000	100 %	
Bang & Olufsen AS	Oslo, N	NOK	3,000,000	100 %	
Bang & Olufsen Svenska AB	Stockholm, S	SEK	4,150,000	100 %	
Central Europe					
Bang & Olufsen Deutschland G.m.b.H.	München, D	EUR	1,022,584	100 %	
Bang & Olufsen AG	Bassersdorf, CH	CHF	200,000	100 %	
Bang & Olufsen Ges. m.b.H	Tulln, A	EUR	1,744,148	100 %	
United Kingdom/Benelux					
Bang & Olufsen United Kingdom Ltd.	Berkshire, GB	GBP	2,600,000	100 %	2
S.A. Bang & Olufsen Belgium N.V.	Dilbeek, B	EUR	942,000	100 %	
Bang & Olufsen b.v.	Naarden, NL	EUR	18,000	100 %	
Rest of Europe					
Bang & Olufsen France S.A.	Levallois-Perret, F	EUR	3,585,000	100 %	1
Bang & Olufsen España S.A.	Madrid, E	EUR	1,803,036	100 %	2
Bang & Olufsen Italia S.p.A.	Milano, I	EUR	774,000	100 %	
North America					
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 Trading (Shanghai) Ltd	Shanghai, CN	RMB	67,000,000	100 %	
Middle East					
Bang & Olufsen Middle East FZ-LLC	Dubai, UAE	EUR	113,116	100 %	
Other					
Bang & Olufsen Expansion a/s	Struer, DK	DKK	7,000,000	100 %	
B&O PLAY a/s	Struer, DK	DKK	7,500,000	100 %	

Dormant companies have not been included

5.7 Key figure definitions

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

EBITDAC
Earnings before interest, tax, depreciation, amortisation, impairment losses, capitalisation and result of investments in associates after tax

EBITDA
Earnings before interest, tax, depreciation, amortisation, impairment losses and result of investments in associates after tax

Free cash flow
Sum of cash flow from operating and investing activities

EBITDA-margin, %
EBITDA x 100/Revenue

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

NIBD/EBITDA, %
Sum of mortgage loans, loans from banks, credit facilities and cash x 100/EBITDA

Return on assets, %
Operating profit/(loss) x 100/Average operational assets

Return on invested capital excl. goodwill, %
EBITA x 100 /Average invested capital, excl. goodwill

Return on equity, %
Earnings for the year excl. minority interests x 100/Average equity excl. minority interest

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

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

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

Key figures are calculated in accordance with “Recommendations and Ratios 2015” issued by the Danish Society of Finacial Analysts.

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BANG & OLUFSEN A/S – MANAGEMENT REPORT

Main activities
Bang & Olufsen a/s handles brand ownership and group staff functions as well as the development of Bang & Olufsen's products.

Revenue
Bang & Olufsen a/s generated revenue of DKK 595 million which is an increase of DKK 291 million compared to the 2016/17 financial year due to higher royalty income. The revenue mainly constitutes royalty income from the 100 per cent owned subsidiary Bang & Olufsen Operations a/s and from brand license agreements.

Gross margin
The gross margin in Bang & Olufsen a/s in the financial year 2017/18 was 78.3 per cent compared to 59.1 per cent last year.

Capacity costs
Bang & Olufsen a/s's capacity costs increased by DKK 9 million from DKK 510 million last year to DKK 519 million, which was caused by an increase in development costs and distribution and marketing costs. Administrative expenses amounted to DKK 85 million compared to DKK 92 million last year. Development costs recognised as an expense, incl. amortisation, were DKK 345 million against DKK 331 million last year.

Earnings before interest and tax for the 2017/18 financial year were negative DKK 53 million against negative DKK 330 million last year.

Earnings before tax were negative DKK 106 million against negative DKK 310 million last year. Financial items has been affected by exchange rates, while last year was affected by the sale of Czech subsidiary.

Development in balance sheet items and cash flow
Free cash flow in the financial year 2017/18 was positive DKK 89 million against positive DKK 195 million in the 2016/17 financial year. Compared to last year we are aligned without the sale of subsidiaries in 2016/17.

At the end of the 2017/18 financial year Bang & Olufsen's net working capital was negative DKK 760 million compared to negative DKK 667 million at the end of the 2016/17 financial year, mainly due to changes in accounts with subsidaries.

Net interest-bearing deposit increased to DKK 804 million against DKK 715 million at the end of the 2016/17 financial year.

Equity at 31 May 2017 was DKK 1,109 million compared to DKK 1,193 million last year.

Research and development
For information about Bang & Olufsen a/s's research and development activities, please refer to the section in Products, partnerships and collaborations as described on pages 24-30 in the Group Report.

CSR and Corporate Governance
For information on Bang & Olufsen a/s' work with CSR and Corporate Governance, please refer to pages 31-35 and pages 43-46 respectively in the Group Report.

Expectations to the future
Bang & Olufsen a/s is an integral part of the Group's overall operations and the expectations to the future are closely linked to the Outlook for the Group, as described on page 15 of the Group Report.

Subsequent events
No material events have occured after the balance sheet date

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME

1 June – 31 May

(DKK million)	Notes	2017/18	2016/17
Revenue	3	**595.4**	**304.2**
Production costs	4	(129.0)	(124.4)
Gross profit		**466.4**	**179.8**
Development costs	4.5	(344.7)	(331.2)
Distribution and marketing costs	4	(89.8)	(86.2)
Administration costs	4	(84.8)	(92.3)
Operating profit (EBIT)		**(52.9)**	**(329.9)**
Dividend from subsidiaries		-	-
Financial income	6	2.9	92.3
Financial expenses	6	(55.9)	(72.5)
Financial items, net		(53.0)	19.7
Earnings before tax (EBT)		**(105.9)**	**(310.2)**
Income tax	7	20.5	86.4
Earnings for the year		**(85.3)**	**(223.8)**
Total comprehensive income for the year		**(85.3)**	**(223.8)**

BALANCE SHEET

1 June – 31 May

(DKK million)	Notes	31/5/18	31/5/17
Acquired rights		0.8	1.4
Completed development projects		181.3	196.9
Development projects in progress		40.8	137.9
Intangible assets	8	**222.9**	**336.2**
Land and buildings		87.6	36.7
Plant and machinery		0.5	0.7
Other equipment		5.1	2.2
Leasehold improvements		0.2	0.3
Tangible assets in course of construction and prepayments of tangible assets		5.7	18.4
Tangible assets	9	**99.1**	**58.3**
Investment property	10	**43.6**	**54.5**
Investments in subsidiaries	12	607.1	607.1
Other financial receivables		10.5	14.6
Financial assets		**617.6**	**621.7**
Deferred tax assets		**135.4**	**131.2**
Total non-current assets		**1,118.6**	**1,202.0**

(DKK million)	Notes	31/5/18	31/5/17
Trade receivables		3.5	16.2
Other financial receivables		11.1	8.5
Receivables from subsidiaries	19	-	3.0
Corporation tax receivable		49.4	34.6
Other receivables		5.4	17.3
Prepayments		6.0	3.3
Total receivables		**75.4**	**82.9**
Cash		**973.8**	**894.1**
Total current assets		**1,049.2**	**977.0**
Total assets		**2,167.8**	**2,179.1**

BALANCE SHEET

1 June – 31 May

(DKK million)	Notes	31/5/18	31/5/17
Share capital	13	432.0	432.0
Reserve for development costs	13	222.1	135.4
Retained earnings	13	455.1	625.4
Total equity		**1,109.1**	**1,192.7**
Provisions		0.8	0.7
Mortgage loans	14	160.8	170.2
Other non-current liabilities		76.4	99.7
Total non-current liabilities		**238.0**	**270.7**
Mortgage loans	14	9.2	9.1
Provisions		-	0.2
Trade payables		59.2	78.6
Debt to subsidiaries	19	613.9	494.5
Other liabilities		138.4	133.4
Total current liabilities		**820.7**	**715.8**
Total liabilities		**1,058.7**	**986.4**
Total equity and liabilities		**2,167.8**	**2,179.1**

CASH FLOW STATEMENT

1 June – 31 May

(DKK million)	Notes	2017/18	2016/17
Earnings for the year - continued operations		(85.3)	(223.8)
Amortisation, depreciation and impairment losses		231.5	243.8
Adjustments for non-cash items	16	8.4	(239.0)
Change in receivables		22.4	82.4
Change in trade payables etc.		104.8	309.1
Cash flow from operations before interest and tax		**281.8**	**172.6**
Interest received		2.9	92.3
Interest paid		(55.9)	(72.5)
Income tax paid		5.6	(4.9)
Cash flow from operating activities		**234.4**	**187.4**
Purchase of intangible non-current assets		(106.0)	(173.6)
Purchase of tangible non-current assets		(42.4)	(19.3)
Purchase of investment property		(0.4)	(1.3)
Sales of tangible non-current assets		1.8	-
Sale of subsidiary		-	122.9
Change in financial receivables		1.5	79.1
Cash flow from investing activities		**(145.5)**	**7.8**
Free cash flow		**88.9**	**195.2**

(DKK million)	Notes	2017/18	2016/17
Repayment of long-term loans		(9.2)	(10.3)
Settlement of share options		-	(6.1)
Cash flow from financing activities		**(9.2)**	**(16.4)**
Change in cash		**79.7**	**178.8**
Cash, 1 June		894.1	715.3
Cash, 31 May		**973.8**	**894.1**

STATEMENT OF CHANGES IN EQUITY

1 June – 31 May

(DKK million)	Shareholders of the parent company Share capital	 Reserve for development costs	 Retained earnings	Total
Equity 1 June 2017	**432.0**	**135.4**	**625.4**	**1,192.7**
Earnings for the year	-	86.7	(172.0)	(85.3)
Other comprehensive income, net of tax	-	-	-	-
Other comprehensive income, net of tax	-	86.7	(172.0)	(85.3)
Share-based payment			1.9	1.9
Equity 31 May 2018	**432.0**	**222.1**	**455.2**	**1,109.2**
Equity 1 June 2016	**432.0**	**-**	**989.6**	**1,421.6**
Earnings for the year	-	135.4	(359.2)	(223.8)
Other comprehensive income, net of tax	-	-	-	-
Other comprehensive income, net of tax	-	135.4	(359.2)	(223.8)
Share-based payment	-	-	1.1	1.1
Settlement of share options	-	-	(6.1)	(6.1)
Equity 31 May 2017	**432.0**	**135.4**	**625.4**	**1,192.7**

NOTES

1 Accounting principles

The financial statements for 2017/18 for Bang & Olufsen a/s has been prepared in accordance with the International Financial Reporting Standards (IFRS) endorsed by the European Union and further Danish disclosure requirements for the presentation of financial statements for listed companies (class D entities).

Accounting policies for the parent company are unchanged from the last financial and are identical to accounting policies in the Bang & Olufsen Group financial statements, except for the items below. For a description of the accounting policies of the Group please refer to the consolidated financial statements under the relevant notes.

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

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

Investment property
Investment property is held to earn rental income or for capital appreciation. Investment property consist of a number of properties which are owned with the purpose of renting them to other Group companies, and the property that is partly used by Medicom Innovate Park A/S. Investment property is measured at cost price with deduction of accumulated depreciation and impairment losses. Investment property is depreciated on a straight-line basis over 40 years.

2 Critical accounting estimates and judgements

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 provisions, development projects, trade receivables, inventories 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 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 product is to be determined. Management has assessed that the amortisation period is usually 3-6 years.The development projects amount to DKK 222.1 million as at 31 May 2018 (DKK 334.8 million as at 31 May 2017).

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. The deferred tax assets amount to DKK 135.4 million as at 31 May 2018 (DKK 131.2 million as at 31 May 2017).

3 Revenue

(DKK million)	**2017/18**	2016/17
Geographical split:		
Rest of the world	404.8	140.5
Denmark	190.6	163.7
Total	**595.4**	**304.2**
Functional split:		
Sale of goods	0.0	0.0
Sale of services	12.4	12.9
Royalty	518.5	225.1
Rental income	64.5	66.2
Total	**595.4**	**304.2**

4 Staff costs

(DKK million)	**2017/18**	2016/17
Wages and salaries etc.	211.9	221.8
Share-based payment	1.3	0.6
Pensions	16.0	16.8
Other social security costs	2.7	1.8
Total	**231.9**	**241.0**
Expensed as follows:		
Production costs	36.3	37.8
Development costs	91.5	95.0
Distribution and marketing costs	39.2	40.7
Administration costs	65.0	67.6
Total	**231.9**	**241.0**
Average number of full-time employees	363	409

4 Staff costs (continued)

The pension costs all relate to pension contributions under defined contribution plans. The parent company recognises the pension contributions, which can either be a fixed amount of a fixed percentage of the monthly salary, in the income statement as they are paid to independent pension insurance companies. Any unpaid contributions are recognised in the balance sheet as a liability. 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.

Refer to note 2.2 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)	**2017/18**	2016/17
Incurred development costs before capitalisation	232.2	283.2
Herof capitalised	(105.6)	(173.6)
Incurred development costs after capitalisation	126.6	109.6
Capitalisation (%)	*45.5%*	*61.3%*
Total amortisation charges and impairment losses on development projects	218.1	221.6
Total	**344.7**	**331.2**

6 Financial items

(DKK million)	**2017/18**	2016/17
Interest income from banks	2.1	0.4
Interest income from subsidiaries	0.3	1.6
Gain from sale of subsidiaries	-	90.3
Exchange rate gains, net	0.5	-
Financial income	**2.9**	**92.3**
Interest costs to banks	4.4	3.1
Interest costs on mortgage loans	6.2	7.9
Interest costs to subsidiaries	15.1	9.1
Exhchange rate losses, net	27.8	50.5
Other financial costs	2.4	1.9
Financial costs	**55.9**	**72.5**

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

7 Taxation

(DKK million)	2017/18	2016/17
Income statement and other comprehensive income		
Tax recognised in:		
Income statement	(20.5)	(86.4)
Current tax charge/credit	(16.4)	(24.9)
Adjustment to prior periods, current tax	0.1	(0.3)
	(16.3)	(25.2)
Change in deferred tax	(4.2)	(61.2)
	(4.2)	(61.2)
Total taxation charge in the income statement	**(20.5)**	**(86.4)**

The taxation charge that would arise at the standard rate of DK corporation tax is reconciled to the actual tax charge as follows:

	2017/18		2016/17	
	%	DKKm	%	DKKm
Tax calculated on earnings before tax	22.0	(23.3)	22.0	(68.0)
Non-deductible costs and non-taxable income	(1.0)	1.1	6.0	(18.7)
Adjustments to prior periods	(0.1)	0.1	0.1	(0.3)
Non-taxable dividends / profit from subsidiaries and associates	0.0	(0.0)	0.0	-
Other	(1.5)	1.6	(0.2)	0.5
Annual effective tax rate/taxation charge in income statement	**19.4**	**(20.5)**	**27.9**	**(86.4)**

Income tax paid including on-account payments for the jointly-taxed Danish companies amounts to negative DKK 5.6 million (2016/17 negative DKK 4.9 million).

7 Taxation (continued)

Balance sheet

Critical accounting estimates and judgements
Deferred tax assets are recognised in the balance sheet at the value that 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. The deferred tax assets amount to DKK 135.4 million as at 31 May 2018 (DKK 131.2 million as at 31 May 2017).

Deferred tax assets

(DKK million)	Non-current assets	Receivables	Provisions	Tax loss carry-forwards	Other	**Total**
Deferred tax assets 31 May 2016	7.3	-	0.2	32.0	30.5	70.1
Recognised in the income statement	5.9		(0.1)	58.6	(3.2)	61.2
Deferred tax assets 31 May 2017	13.2	-	0.1	90.6	27.3	131.2
Recognised in the income statement	(18.5)		0.1	25.4	(2.8)	4.2
Deferred tax assets 31 May 2018	**(5.3)**	**-**	**0.2**	**116.0**	**24.5**	**135.4**

In 2017/18 a deferred tax assets of DKK 116.0 million has been recognised in the jointly-taxed Danish companies based on tax loss carry-forwards, which can be indefinitely carried forward (2016/17; DKK 90.6 million). This deferred tax asset has been recognised on the basis of management's expectations of the parent company's and the Danish subsidiaries earnings up to 5 years.

8 Intangible assets

Critical accounting estimates and judgements
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 product is to be determined. Management has assessed that the amortisation period is usually 3-6 years. The development projects amount to DKK 222.1 million as at 31 May 2018 (DKK 334.8 million as at 31 May 2017).

(DKK million)	Acquired rights	Completed development projects	Development projects in progress	**Total**
Cost				
At 1 June 2016	154.8	771.3	151.6	1,077.7
Additions in the year	-	41.2	132.4	173.6
Disposals in the year	(0.3)	(60.4)	-	(60.7)
Completed development projects	-	146.1	(146.1)	-
At 31 May 2017	154.5	898.2	137.9	1,190.6
Additions in the year	0.4	68.2	37.4	106.0
Disposals in the year	-	(369.7)	-	(369.7)
Completed development projects	-	134.5	(134.5)	-
At 31 May 2018	**154.9**	**731.2**	**40.8**	**926.9**
Amortisation and impairment				
At 1 June 2016	(149.5)	(540.1)	-	(689.6)
Amortisation during the year	(3.9)	(221.6)	-	(225.5)
Reversed amortisation on disposals	0.3	60.4	-	60.7
At 31 May 2017	(153.1)	(701.3)	-	(854.4)
Amortisation during the year	(1.0)	(218.1)	-	(219.1)
Reversed amortisation on disposals	-	369.5	-	369.5
At 31 May 2018	**(154.1)**	**(549.9)**	**-**	**(704.0)**
Net book value				
At 31 May 2018	**0.8**	**181.3**	**40.8**	**222.9**
At 31 May 2017	1.4	196.9	137.9	336.2

(DKK million)	**2017/18**	2016/17
Amortisation and impairment losses		
Production costs	3.1	3.2
Development costs	216.0	222.3
Total	**219.1**	**225.5**

No impairment losses have been recognised in 2017/18 (2016/17 DKK 0 million).

9 Tangible assets

(DKK million)	Land and buildings	Plant and machinery	Other equipment	Leasehold improvements	Tangible assets in course of construction	**Total**
Cost						
At 1 June 2016	183.1	22.4	123.7	2.7	1.0	332.9
Additions in the year	0.5	-	0.8	-	18.0	19.3
Completed assets	-	-	-	-	(0.6)	(0.6)
Disposals in the year	(3.9)	-	(0.5)	-	-	(4.4)
At 31 May 2017	179.7	22.4	124.0	2.7	18.4	347.2
Reclassification of asset from investment property to tangible assets	55.3	-	-	-	-	55.3
Additions in the year	34.3	-	2.2	0.2	5.7	42.4
Completed assets	15.9	-	2.5	-	(18.4)	0.0
Disposals in the year	(67.3)	(1.0)	(51.4)	-	-	(119.7)
At 31 May 2018	**217.9**	**21.4**	**77.3**	**2.9**	**5.7**	**325.2**
Amortisation and impairment						
At 1 June 2016	(135.3)	(21.5)	(121.7)	(2.0)	-	(280.5)
Depreciation during the year	(3.9)	(0.2)	(0.8)	(0.4)	-	(5.3)
Reversed depreciation on disposals	3.7	-	0.8	-	-	4.5
Impairment losses during the year	(7.5)	-	-	-	-	(7.5)
At 31 May 2017	(143.0)	(21.7)	(121.7)	(2.4)	-	(288.8)
Reclassification of asset from investment property to tangible assets	(46.4)	-	-	-	-	(46.4)
Depreciation during the year	(7.2)	(0.2)	(1.8)	(0.3)	-	(9.5)
Reversed depreciation on disposals	66.8	1.0	51.3	-	-	118.7
At 31 May 2018	**(130.3)**	**(20.4)**	**(72.2)**	**(2.7)**	**-**	**(267.6)**
Net book value						
At 31 May 2018	**87.6**	**0.5**	**5.1**	**0.2**	**5.7**	**99.1**
At 31 May 2017	36.7	0.7	2.3	0.3	18.4	58.4

There are no contratual obligations regarding purchase of tangible assets.

(DKK million)	**2017/18**	2016/17
Depreciation and impairment losses		
Production costs	3.1	4.2
Development costs	6.4	8.6
Administration costs etc.	0.0	0.0
Total	**9.5**	**12.8**

No impairment losses of have been recognised in 2017/18 (2016/17 DKK 7.5 million).

10 Investment property

(DKK million)	
Cost	
At 1 June 2016	271.4
Completed assets	0.6
Additions	1.3
At 31 May 2017	273.3
Reclassification of asset from investment property to tangible assets	(55.3)
Additions	0.4
At 31 May 2018	**218.4**
Depreciation and impairment	
At 1 June 2016	(213.3)
Depreciation during the year	(5.5)
At 31 May 2017	(218.8)
Reclassification of asset from investment property to tangible assets	46.9
Depreciation during the year	(2.9)
At 31 May 2018	**(174.8)**
Net book value	
At 31 May 2018	**43.6**
At 31 May 2017	54.5

Investment property 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 property is located in Struer and is used for production, warehousing and offices. Due to the size and type of the buildings and due to the location of the investment property, where there is 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. Furthermore it is not possible to establish a range of estimates within which the fair value of the investment properties are most likely to be. Independent valuers have not been used.

There are no contractual obligations to purchase, construct or develop investment property, nor are there any contractual obligations regarding repairs, maintenance or enhancements of the investment property.

Rental income of DKK 65.0 million has been received from the investment property in 2017/18 (2016/17; DKK 48.2 million), and directly attributed operating expenses were DKK 45.1 million (2016/17; DKK 22.8 million).

Investment properties are let to the subsidiaries on operating leases with a lease term of 3-34 months. According to the existing operating leases rental income of DKK 13.1 million will be received in the 3 months which are included in the lease term of the operating leases.

Investment property reclassified to Land and Buildings is related to the new Innovation Lab where a previous production facility has been rebuild to house office space and research and development facilities.

11 Impairment of non-current assets

Intangible assets excl. goodwill – impairment losses during the year
No impairment losses have been recognised in 2017/18 and 2016/17.

The assessment of the recoverable amount of the intangible assets excl. goodwill is 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 9.0% (7.0% after tax) (2016/17; 9.0%/7.0%).

Financial assets – impairment losses during the year
No impairment losses have been recognised on non-current financial assets in the parent company in 2017/18 or 2016/17.

12 Investments in subsidiaries

(DKK million)	
Cost	
At 1 June 2017	607.1
At 31 May 2018	**607.1**

Refer to note 5.6 in the consolidated accounts for an overview of the group companies.

13 Share capital

For further information about share capital etc. refer to note 4.5 in the consolidated financial statements.

For further information about costs incurred in connection with the capital increase, refer to note 4.6 in the consolidated financial statements.

14 Mortgage loans and loans from banks

Mortgage loans

(DKK million)	Falls due within 1 year	Falls due 1-5 years	Falls due after 5 years	Falls due after 1 year total
Fixed rate loans, interest rate 4.1%	2.4	10.7	7.7	18.4
Floating rate loans, interest rate level 0.5 - 1.0%	6.8	27.2	115.3	142.5
At 31 May 2018	**9.2**	**37.9**	**123.0**	**160.8**
Fixed rate loans, interest rate 4.1%	2.3	10.2	10.5	20.7
Floating rate loans, interest rate level 0.5 - 1.08%	6.8	27.3	122.2	149.5
At 31 May 2017	**9.1**	**37.5**	**132.7**	**170.2**

The fair value of the Group's mortgage loans amounts to DKK 170.9 million (2016/17; DKK 180.2 million). All loans are in DKK. The mortgage loans has a due of 7.5 yeans and 22 years, respectively.

Loans from banks
The Group has no loans in 2017/18 (2016/17; DKK 0.million).

15 Share-based payment

The matching shares programmes described in note 4.7 to the consolidated financial statements are issued by Bang & Olufsen a/s. The value of the matching shares granted to employees in the parent company's subsidiaries is recognised in investments in subsidiaries. DKK 1.3 million of the total expense of DKK 1.8 million relates to subsidiaries (2016/17; DKK 0.5 million of DKK 1.1 million).

16 Non-cash items

(DKK million)	**2017/18**	2016/17
Financial income	(2.9)	(92.3)
Financial costs	55.9	72.5
Tax on earnings for the year	(20.5)	(86.4)
Other adjustments	(24.1)	(132.8)
Total adjustments	**8.4**	**(239.0)**

17 Financial instruments

Additional balance sheet disclosures in accordance with IFRS 7 (Financial Instruments):

Carrying amount of financial instruments by measurement category under IAS 39

	2017/18		2016/17	
(DKK million)	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	21.6	21.6	14.6	14.6
Receivables from subsidiaries	-	-	3	3
Other receivables	5.4	5.4	17.3	17.3
Cash	973.8	973.8	894.1	894.1
Loans receivable and other receivables	**1,000.8**	**1,000.8**	**929.0**	**929.0**
Mortgage loans	170.0	170.9	179.3	180.2
Payables to subsidiaries	613.9	613.9	494.5	494.5
Trade payables	59.2	59.2	78.6	78.6
Financial liabilities valued at amortised cost	**843.1**	**844.0**	**752.4**	**753.3**

No receivables in the parent company are overdue at 31 May 2018 (2016/17; DKK 0 million).

Refer to Note 4.3 Financial instruments in the consolidated financial statements for a description of the Group's management of financial risks.

Defaults or breaches on loans
No loan agreements have been defaulted or breached in 2017/18 or 2016/17.

18 Contingent liabilities and other financial commitments

Rental and leasing commitments for operating leases
The parent company has entered into a number of operating leases and rental agreements regarding plant and machinery, shops and other property. There is a big diversity in the length of the agreements. The longest agreement has a term of 10 years. All agreements contain conditions regarding renewal. The parent company is entitled to determine, whether or not the agreements are renewed. None of the agreements impose restrictions in the parent company's right of disposal.

(DKK million)	**2017/18**	2016/17
Leasing commitments:		
Plant and machinery etc.	4.2	4.6
Office and factory property	4.2	7.0
Total	**8.4**	**11.6**
Maturity:		
Due within 1 year	6.1	5.6
Due 1 - 5 years	2.3	6.0
Due after 5 years	-	-
Total	**8.4**	**11.6**
Rental and lease payments, net for the year	25.2	24.7
Minimum rental and lease payments	25.2	24.7

No contingent rental or lease payments have been recognised in the income statement in 2017/18 or 2016/17.

(DKK million)	**2017/18**	2016/17
Guarantees		
Total guarantees as at 31 May	105.9	114.2

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 5.3 in the consolidated financial statements.

Mortgages and securities
Mortgages and securities are identical in the parent company and in the Group. For further details refer to note 5.3 in the consolidated financial statements.

19 Related parties

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

The related parties that have significant influence in the Bang & Olufsen Group, are 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.

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

Bang & Olufsen's share in subsidiaries and associates is shown in note 5.6 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 have been no transactions with the Board of Directors, Executive Management and other key management personnel. Remuneration and matching shares programmes are shown in notes 2.2 and 4.7 in the consolidated financial statements.

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

Associates & subsidiaries
Transactions with subsidiaries and associates have included the following:

(DKK million)	**2017/18**	2016/17
Purchase of services - subsidiaries	28.3	27.0
Rental income - subsidiaries	62.4	65.6
Royalty income - subsidiaries	356.0	80.0

The parent company has a net payable to subsidiaries of DKK 613.9 million at 31 May (2016/17; net payable DKK 491.5 million). All receivables and payables with subsidiaries fall due within 1 year.

The fair value of the intercompany payables are DKK 613.9 million (2016/17; DKK 3 million and DKK 494.5 million). The book value is expected to be a reasonable approximation of the fair value.

There has been no need for write-down of receivables from subsidiaries and no actual losses have been incurred in 2016/17 and 2017/18.

Other transactions
Bang & Olufsen a/s has received DKK 0 million in dividend from its subsidiaries (2016/17; DKK 0). No dividend has been received from its associates in 2017/18 or 2016/17.

Bang & Olufsen a/s has issued guarantees for the related parties, cf. note 18. None of the guarantees are expected to result in any losses.

No other transactions have taken place with related parties.

20 Events after the balance sheet date

No events have occured after the balance sheet date

MANAGEMENT'S STATEMENT

The Board of Directors and the Executive Management Board have today considered and approved the annual report of Bang & Olufsen a/s for the financial year 1 June 2017 – 31 May 2018.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in 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 Group's and the parent company's financial position at 31 May 2018 as well as of their financial performance and their cash flow for the financial year 1 June 2017 – 31 May 2018.

We believe that the management commentary contains a true and fair review of the development and performance of the Group's and the parent company's business activities and financial situation, the earnings for the year and the financial position of the parent company and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the parent company face.

We recommend the annual report for adoption at the Annual General Meeting.

Struer, 12 July 2018

Executive Management Board:

Henrik Clausen President & CEO	Anders Aakær Jensen Executive Vice President & CFO	Stefan Persson Executive Vice President	John Mollanger Executive Vice President Brand & Products

Board of Directors:

Ole Andersen Chairman	Juha Christensen Deputy Chairman	Albert Bensoussan	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 2017 – 31 May 2018, which comprise income statement, statement of comprehensive income, balance sheet, cash flow statement, 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 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 June 2017 – 31 May 2018 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 6 years up until the financial year 2017/18.

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 2017/18. 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.

Measurement of deferred tax assets
The group has recognised a deferred tax asset of DKK 249 million as at 31 May 2018 of which DKK 149 million relate to tax loss carry forwards and DKK 100 million relate to temporary differences. The group has recognised the 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 2.5 of the consolidated financial statements. This area was important to our audit due to the amount of the recognised tax asset as well as the Management's estimates involved in forecasting future taxable profits, including expectations for future sales and margin developments.

Our audit procedures include evaluating Management's assumptions, methodologies, consistency with assumptions used in the impairment test and the long-term forecast and strategy plans and adequacy of the disclosures in Note 2.5 to the consolidated financial statements.

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, 12 July 2018

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Steen Skorstengaard
State Authorised Public Accountant
MNE no.: mne19709

Morten Friis
State Authorised Public Accountant
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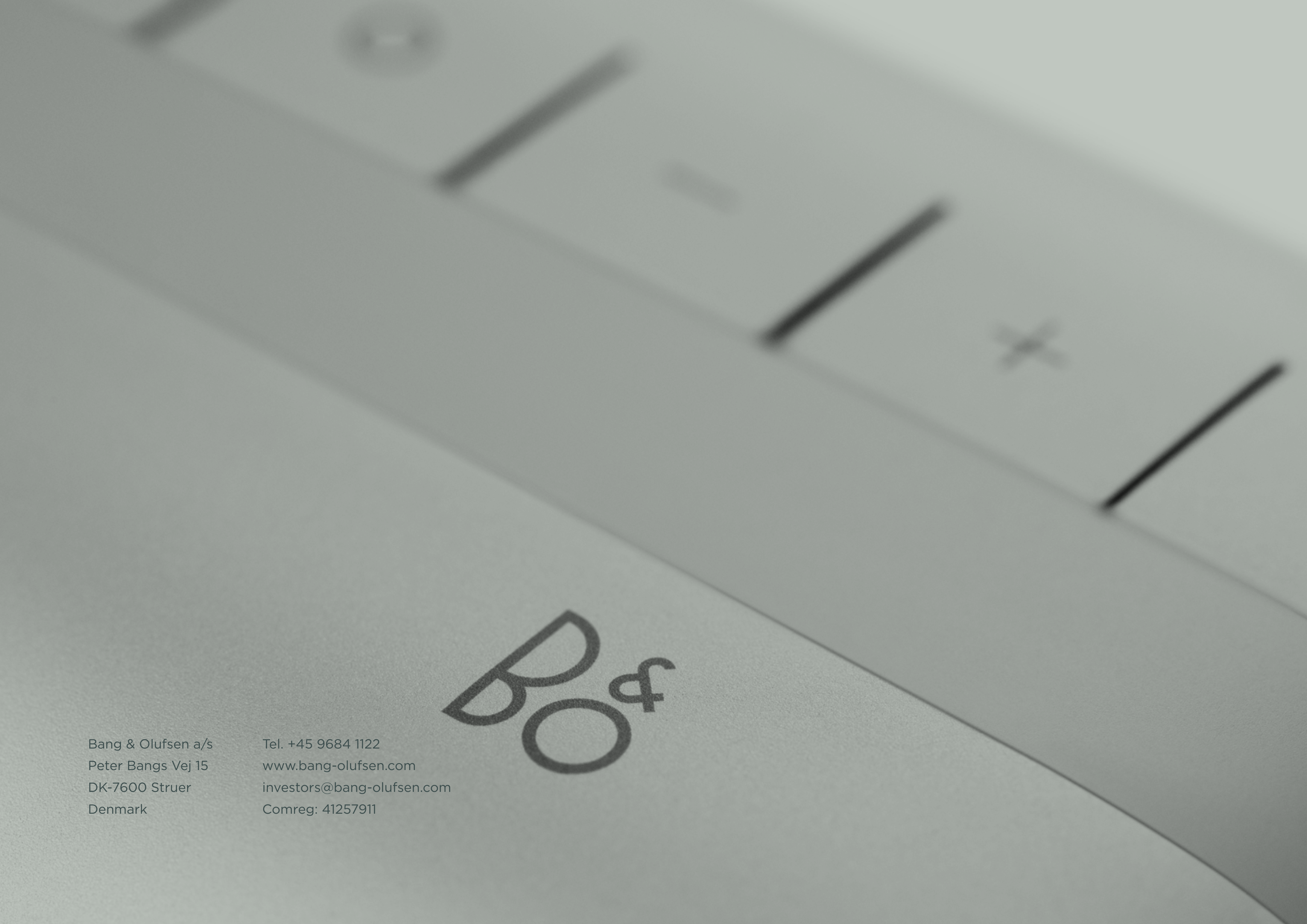

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