BANG & OLUFSEN A/S

ANNUAL REPORT 2016/17

01 JUNE 2016 – 31 MAY 2017

BANG & OLUFSEN

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ABOUT BANG & OLUFSEN

Bang & Olufsen develops iconic, innovative audio and video products for consumers and for more than 90 years the brand has been globally-renowned for its design, acoustics, and craftsmanship.

Bang & Olufsen was founded in Struer, Denmark, in 1925 by Peter Bang and Svend Olufsen, two innovative, young engineers devoted to developing functional and beautiful high-quality audio products.

This remains the foundation for the company and over the last 90 years, Bang & Olufsen has developed its expertise through practice and cooperation with external partners. The long-standing craftsmanship tradition and the strong commitment to product innovation and development have made the brand globally-renowned for its core capabilities within acoustics, design and craftsmanship.

Today, Bang & Olufsen's product portfolio epitomises seamless media experiences in the home and on the move, for the family and for the individual.

Business units
Bang & Olufsen operates within two business units; Bang & Olufsen and B&O PLAY.

The Bang & Olufsen business unit comprises audio and video products and is sold in more than 600 Bang & Olufsen branded stores around the world.

The B&O PLAY business unit comprises headphones and portable audio systems distributed through Bang & Olufsen branded stores and third-party retailers as well as online.

The business units are complemented by brand licensing partnerships with some of the largest and most innovative companies in the world. These partnerships represent an important platform for exposing potential customers to the brand and the core capabilities of the company.

Listed company
At the end of the financial year, Bang & Olufsen employed more than 1,100 people and the company's products are currently sold in more than 70 countries across the world. Bang & Olufsen's shares are listed on NASDAQ Copenhagen A/S.

LETTER TO OUR SHAREHOLDERS

In 2016/17, the Group continued the double-digit growth, improved profitability and generated a positive free cash flow. The result was driven by the launch of new and innovative products, new brand partnerships and the continued implementation of a stronger, more agile operating model.

Improved financial result with satisfactory growth
The Group showed healthy revenue growth for the third year in a row. In line with guidance, revenue increased by a satisfactory 12 per cent driven by a strong momentum in the B&O PLAY business unit (27 per cent growth), and moderate growth in the Bang & Olufsen business unit (3 per cent).

Earnings before interest, tax, depreciation, amortisation and capitalisation (EBITDAC) were DKK 25 million compared to negative DKK 106 million last year. EBITDAC for the underlying business was DKK 81 million or 2.7 per cent of the Group's total revenue compared to DKK 14 million last year, corresponding to an improvement of DKK 67 million. This was in line with expectations and shows that the initiatives to adapt the operating model combined with the growth of B&O PLAY and the brand partnering business are on track.

Free cash flow for the year improved significantly from negative DKK 187 million last year to DKK 307 million and to DKK 98 million adjusted for the sale of the Czech subsidiary and the escrow payment from HARMAN. This improvement is an important milestone in transforming the company to positive cash generation.

Focus on the core capabilities
In March 2017, the Group announced the divestiture of the assembly facility in the Czech Republic to Tymphany Acoustics Technology. The divestiture allows the Group to further concentrate on its core capabilities - design, acoustics, and craftsmanship, and is in line with the strategy of transitioning the company to an agile and asset-light model and leveraging technology partners in areas which are not core to the company.

The Group and Tymphany has had a successful partnership for several years and as part of the transaction, a long-term agreement has been made to ensure stability in the supply of high-quality products. Thereby, the Group will maintain access to the very strong competencies and end-to-end processes built at the Czech site during the last 12 years.

Launch of innovative products
2016/17 saw the launch of several products that were well-received in the market.

The TV portfolio was expanded with two TVs. BeoVision 14 reflects the design, and craftsmanship tradition of Bang & Olufsen with oak wood lamellas that cover the custom-built speakers. Constructed in black aluminium and with a unique design, BeoVision Horizon can adapt to the different domestic settings with its versatile stand programmes.

Bang & Olufsen also introduced two wireless multiroom speaker systems. BeoSound 1 and BeoSound 2 are both ultra-flexible in terms of usability, connectivity and placement options.

In April, Bang & Olufsen unveiled the BeoSound Shape. The wall-mounted wireless multiroom speaker system is designed as a modular combination of hexagonal shapes that are combined in a customisable wall decoration that blends in with the home interior. The result is a ground-breaking concept and a completely new product category; Sound as Interior. The system will be available in Bang & Olufsen stores in August 2017, and the new concept is expected to be an important driver of revenue and brand awareness in the coming years.

The B&O PLAY portfolio was expanded with seven new products during the year, and several new features and colours for the existing products were also introduced. Key launches included the very popular Beoplay H5 wireless earphones, the top-of-the-line Beoplay H9 wireless over-ear headphone, the powerful and wireless Beoplay M5 multiroom speaker and Beoplay P2, which is the smallest and most intelligent member of the B&O PLAY range of wireless Bluetooth speakers.

Optimising retail network

During the year, the company continued the work of creating a retail network of fewer but stronger retail partners. New partners were attracted to key markets, while the overall number of B1 and shop-in-shop stores was reduced by 31.

Strengthening the customer experience in the Bang & Olufsen branded distribution has been a priority and the company has worked with the network of retailers on training, best practice sharing and improving the sales process, among other things.

The global expansion of the B&O PLAY retail network continues. New distribution agreements with large and well-reputed distributors across the world were signed, and especially the North American and Greater China regions saw a significant increase in revenue from B&O PLAY due to the expansion of the retail network.

At the end of May 2017, B&O PLAY had increased the number of third-party retail stores to 6,424 from 5,692 stores at the end of last year. Furthermore, sales per store continued to increase, driven by higher brand awareness, stronger in-store merchandising and a high launch pace of innovative products.

Leaner organisation

The Group's focus on core activities and creating a more agile and asset-light model resulted in a decrease in the number of full-time employees. At the end of the financial year, Bang & Olufsen had 1,169 full time employees worldwide compared to 1,734 at the end of the previous financial year. This was mainly impacted by the divestiture of the assembly facility in the Czech Republic in May 2017.

Engaged employees represent an essential part of driving growth and improved profitability going forward, and the work to improve competencies and processes continued along with the strengthening of general management capabilities.

New members of the Board and new CEO of B&O PLAY

Changes were made to the Board of Directors and Executive Management Board during the year. At the Annual General Meeting in September, Juha Christensen and Ivan Tong Kai Lap joined the Board as new additional members.

In Spring 2017, John Mollanger joined the company as Executive Vice President and CEO of B&O PLAY. John Mollanger has worked across the US, Europe and Asia for leading global sport, lifestyle, and fashion companies where he gained strong experience in building brands and driving revenue growth.

Dividend policy and capital structure

Due to the negative earnings for the year, historical earnings volatility, and the fact that the key strategic initiatives taken over the past years still have to take full effect, the Board of Directors intends to recommend to the General Meeting that no dividend is paid to the shareholders this year.

The Group has undergone a significant transformation in recent years. As the strategy shows sustainable traction and delivers positive earnings, the Board of Directors will define and implement a long-term capital structure, which will lead to a re-consideration of distributing capital and/or dividends to the shareholders.

Continued growth and profitability

In 2017/18, the Group aims to maintain the growth momentum and to capitalise on the foundation provided by the asset-light model with increased focus on technology partnerships.

The use of technology partners will allow the Group to further focus on the core capabilities of acoustics, design and craftsmanship and thereby create an even stronger proposition for customers, while improving the profitability of the company. This will be supported by the brand partnerships that are progressing well and driving significant value through licensing fees and increased brand awareness as well as strengthening the channel and distribution setup.

The Board expects that the strategic initiatives and partnerships launched over the recent years will lead to a growth of more than 10 per cent on average per year, and eventually reaching a profitability level of more than 12 per cent EBIT for the underlying business during the coming three-year strategy period. This will further contribute to the continued strengthening of the company and support the ambition of being the leading global audio lifestyle brand.

Best regards,

Ole Andersen	Henrik Clausen
Chairman	President & CEO

BeoVision 14

BeoVision 14 is a 4K Ultra HD LED TV featuring a world of connectivity options, integrated access to apps and a bigger and more immersive sound than most standalone speaker systems. The oak wood lamellas on the front of the TV create a warm organic contrast to the cool antireflection glass panel.

KEY FIGURES

Bang & Olufsen a/s – Group (DKK million)	2016/17	2015/16	2014/15	2013/14	2012/13
Income statement:					
Revenue	2,954	2,633	2,356	2,162	2,814
Gross margin, %	38.1	36.1	24.6	38.4	38.9
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	25	(106)	(535)	(95)	(107)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	199	46	(376)	81	144
Earnings before interest and tax (EBIT)	(129)	(202)	(807)	(261)	(187)
Financial items, net	(37)	(39)	(6)	(29)	(25)
Earnings before tax (EBT)	(166)	(242)	(803)	(286)	(210)
Earnings, continuing operations	(117)	(198)	(607)	(228)	(210)
Earnings, discontinued operations	-	(10)	664	199	-
Earnings after tax	(117)	(208)	57	(29)	(159)
Financial position:					
Total Assets	2,847	2,832	3,449	2,892	2,757
Share capital	432	432	432	393	393
Equity	1,586	1,725	1,921	1,604	1,640
Net interest-bearing deposit/(debt)	900	599	788	(374)	(273)
Net working capital	27	319	261	657	557
Cash flow:					
– from operating activities	352	(5)	55	184	127
– from investment activities	(45)	(182)	858	(285)	(328)
– acqusition of tangible assets	(64)	(46)	(83)	(82)	(84)
– free cash flow	307	(187)	913	(101)	(202)
– from financing activities	(17)	(223)	233	64	171
Cash flow for the period	291	(409)	1,146	(37)	(30)
Key figures:					
EBITDA-margin, %	6.7	1.8	(16.0)	3.8	5.1
EBIT-margin, %	(4.4)	(8.4)	(34.3)	(12.1)	(6.6)
NIBD/EBITDA ratio	-	-	-	4.6	1.9
Return on assets, %	(6.9)	(10.2)	(36.1)	(10.6)	(7.6)
Return on invested capital, excl. Goodwill, %	20.1	(4.1)	(41.5)	(0.9)	2.4
Return on equity, %	(7.0)	(11.4)	3.2	(1.8)	(9.7)
Full time employees at the end of the period	1,169	1,734	2,015	2,180	2,036
Stock related key figures:					
Earnings per share (EPS), DKK	(3)	(5)	1	(1)	(4)
Earnings per share from continuing operations (EPS), DKK	(3)	(5)	(14)	(6)	(4)
Earnings per share, diluted (EPS-D), DKK	(3)	(5)	1	(1)	(4)
Earnings per share from continuing operations, diluted (EPS-D), DKK	(3)	(5)	(14)	(6)	(4)
Price/Earnings	(38)	(13)	44	(84)	(13)

For definitions refer to section 5.9.

BeoSound 1 + 2

BeoSound 1 and BeoSound 2 are wireless speaker systems with impressive 360-degree sound performance, aluminium exterior, integrated access to music streaming services – and featuring the Multiroom Technology that enables easy connection with other Bang & Olufsen products.

FINANCIAL REVIEW

For the third consecutive year, the Group showed strong growth with a revenue of DKK 2,954 million, corresponding to an increase of 12 per cent compared to last year. Profitability improved significantly and resulted in an EBITDAC margin of 2.7 per cent in the underlying business and a positive free cash flow of DKK 307 million for the year.

Revenue

Group revenue was DKK 2,954 million in 2016/17 against DKK 2,633 million last year. This was an increase of 12 per cent (14 per cent in local currency), which was in line with guidance for the year. The B&O PLAY business unit showed a strong growth of 27 per cent in the financial year (28 per cent in local currency), and the Bang & Olufsen business unit showed a moderate growth of 3 per cent (5 per cent in local currency).

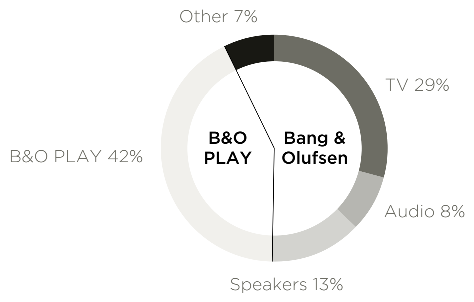
The Bang & Olufsen business unit generated revenue of DKK 1,718 million against DKK 1,663 million last year. Revenue in the first three quarters of the financial

Key financial highlights 2016/17

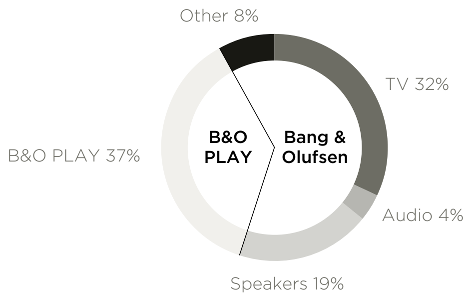
(DKK million)	2016/17	2015/16	Change %
Revenue	2,954	2,633	12
Bang & Olufsen	1,718	1,663	3
B&O PLAY	1,236	970	27
Gross Margin, %	38.1	36.1	2.0
Bang & Olufsen, %	39.9	38.8	1.1
B&O PLAY, %	35.7	31.6	4.1
Gross Margin, underlying business %	39.7	37.7	2.0
Bang & Olufsen, %	42.4	40.9	1.5
B&O PLAY, %	35.7	32.2	3.5
Capacity Costs	1,295	1,159	11.7
Capacity Costs, underlying business	1,208	1,066	13.4
EBITDAC	25	(106)	
EBITDAC, underlying business	81	14	
EBIT	(129)	(202)	
EBIT, underlying business	(32)	(69)	
Free cash flow	307	(187)	

Underlying business has been adjusted for non-recurring and aperiodic items and costs and license fees previously allocated to the Automotive business.

Share of revenue 2016/17 (%)



Share of revenue 2015/16 (%)



year was almost on-par with last year, while moderate growth in the fourth quarter resulted in a full-year growth of 3 per cent, which was in line with the guidance of low single-digit growth for the full year.

Revenue generated in the TV category increased moderately compared to last year due to the launch of new TVs in the first half of the year. 29 per cent of the revenue was generated from the TV category compared to 32 per cent in 2015/16.

Revenue in the Audio category accounted for 8 per cent of the revenue compared to 4 per cent in 2015/16. 2016/17 was positively impacted by the launch of the BeoSound 1 and BeoSound 2 wireless speaker systems, which have been very well-received in the market.

The share of revenue from speaker sales was 13 per cent against 19 per cent last year, which was positively impacted by the launch of the BeoLab 90.

The B&O PLAY business unit generated revenue of DKK 1,236 million against DKK 970 million last year corresponding to a growth of 27 per cent. The growth was mainly driven by new and innovative products, especially Beoplay H5, Beoplay H9, Beoplay M5 and Beoplay P2 performed well.

Non-recurring and aperiodic income and costs
2016/17 was impacted by several non-recurring and aperiodic items. The financial year included costs related to the continued adaption of the company's operating model and was therefore impacted by DKK 97 million in non-recurring and aperiodic items.

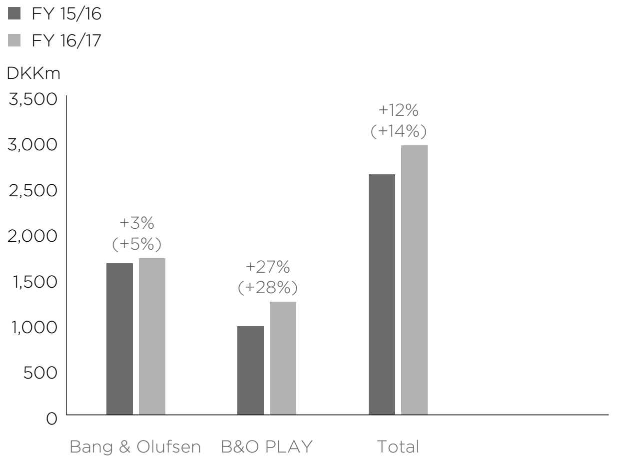
The impact on gross profit totaled DKK 42 million and were related to write-down of inventories including service stock and retail inventory. This was due to changes in the end-to-end operating model, affecting the company's inventories and service model.

The company's capacity costs were adversely impacted by DKK 86 million, which were mainly related to:

- Restructuring of the Bang & Olufsen business unit done in May 2017 corresponding to DKK 30 million
- In addition, the Group will continue the journey towards fewer company owned and operated stores in all regions. The optimised distribution has resulted in additional costs, impairments of goodwill, and write-down of tangible assets corresponding to a total of DKK 56 million

The DKK 86 million impacted development costs by DKK 23 million, distribution and marketing costs by DKK 53 million and administration costs by DKK 10 million.

Revenue by business unit
(growth in local currency in parentheses)



In addition, the company had an accounting gain of DKK 31 million related to the sales of the shares in Bang & Olufsen's Czech subsidiary. In total, the non-recurring and aperiodic items amounted to DKK 97 million net in the financial year, compared to DKK 133 million in 2015/16.

Gross margin

(All gross margins are underlying business)
The Group gross margin was 39.7 per cent against 37.7 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 42.4 per cent against 40.9 per cent in the previous financial year. The margin was positively impacted by income from brand partnerships, while exchange rates and a change in product mix with a higher share of turnover from the connected audio category adversely impacted the margin.

The gross margin for the B&O PLAY business unit was 35.7 per cent against 32.2 per cent last year. The significant improvement in gross margin was driven by higher volumes, positive scalability impacts on the supply chain, and improved product margins.

Capacity costs

(All capacity costs are underlying business)
The capacity costs were DKK 1,208 million, compared to DKK 1,066 million last year, which was an increase of 13 per cent. The increase was due to higher depreciation of development projects including the impact from accelerated depreciation of the TV portfolio and higher distribution and marketing costs.

Distribution and marketing costs were DKK 725 million compared to DKK 717 million last year. This corresponds to an increase of DKK 8 million that was a result of reclassification of cost to administration costs, continued investment in marketing and distribution in B&O PLAY and lower costs in Bang & Olufsen.

Administration costs amounted to DKK 98 million against DKK 79 million last year. The increase is primarily due to reclassification of costs from distribution and marketing to administration.

Development costs recognised as an expense (incl. amortisation and impairment losses) were DKK 386 million against DKK 315 million last year. The increase was mainly due to higher depreciation of the current TV product portfolio.

The capitalised development costs were DKK 174 million compared to DKK 152 million last year, corresponding to a capitalisation rate of 48.1 per cent compared to 50.3 per cent last year.

Total amortisation charges and impairment losses on development projects were DKK 222 million compared to DKK 165 million last year. The net effect on earnings before interest and tax (EBIT) from amortisation and capitalisation was negative DKK 48 million compared to negative DKK 13 million last year.

Capitalised development costs and carrying amount
(DKK million)

2016/17	
Capitalised, net	174
Carrying amount, net	335
2015/16	
Capitalised, net	152
Carrying amount, net	383

Earnings
EBITDAC was DKK 25 million compared to negative DKK 106 million last year. EBITDAC in the underlying business was DKK 81 million compared to DKK 14 million in the underlying business last year, corresponding to an improvement of DKK 67 million. This corresponds to an EBITDAC margin of 2.7 per cent, and was in line with the guidance of an EBITDAC margin of 2-3 per cent.

Financial items, net for the year was negative DKK 37 million against negative DKK 39 million last year. The development mainly relates to non-cash exchange rate losses.

Tax on earnings for the year was positive DKK 49 million compared to DKK 44 million last year.

The net earnings for the Group were negative DKK 117 million against negative DKK 208 million last year.

Development in balance sheet items and cash flow
The investment in intangible assets was DKK 178 million, which mainly relates to development projects, corresponding to 6 per cent of revenue, which was in line with last year. The investment in tangible assets was DKK 64 million compared to DKK 46 million last year.

At the end of 2016/17, the net working capital was DKK 27 million against DKK 319 million at the end of 2015/16. The net working capital was reduced DKK 112 million due to the sale of the Czech subsidiary and reduced DKK 98 million due to the development in trade payables. In addition, net working capital was impacted by write-down of service and retail stock.

Free cash flow in 2016/17 was DKK 307 million against negative DKK 187 million last year. The development was impacted by the release of the final escrow payment from HARMAN of DKK 93 million and DKK 123 million from the sale of the Czech subsidiary. Adjusted for this, free cash flow in 2016/17 was positive DKK 91 million in 2016/17.

At the end of the financial year, the Group had a net interest bearing deposit of DKK 900 million, compared to a net interest bearing deposit of DKK 599 million at the end of 2015/16.

The Group equity decreased to DKK 1,586 million from DKK 1,725 million last year due to negative earnings. The Group equity ratio was 56 per cent at the end of 2016/17 against 61 per cent at the end of the 2015/16.

Subsequent events
No significant subsequent events have occured after 31 May 2017.

MARKET DEVELOPMENT

In 2016/17, the Greater China and North American regions were the main revenue growth drivers. The growth was primarily driven by B&O PLAY products, which performed well through existing and new retailers.

Distribution development
During 2016/17, the Group continued the work to attract new, high potential retail partners to create a stronger and more profitable network of stores. In total, 50 new B1-stores and shop-in-shops were opened or upgraded, while 81 low performing stores primarily in Europe and Rest of World were closed or changed to shop-in-shops. This was in line with the Group's ambition of improving the overall quality and financial health of the retail network. Thus, the number of B1 stores and shop-in-shops was 626 at the end of 2016/17 compared to 657 last year.

Strengthening the customer experience in the Bang & Olufsen branded distribution remained a focus area. Initiatives included working with the current network of retailers on increased training, best practice sharing, improving the sales process and in-store demonstrations, retail standards and visual merchandising.

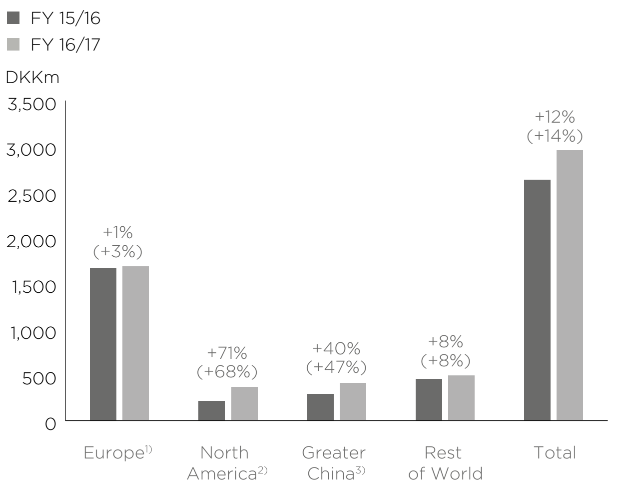
Global expansion of the B&O PLAY retail network was another key focus area. The interest from third-party retailers to market B&O PLAY products continued, and during the year new distribution agreements were signed with large distributors across the world. Concurrently with the expansion of the retail network, B&O PLAY focused on improving the sales per store and like-for-like growth, driven by increased brand awareness, stronger in-store merchandising and high launch pace of new innovative products, while continuously adapting the distribution to reflect the performance of the stores.

At the end of May 2017, B&O PLAY had increased the number of third-party retail stores to 6,424 from 5,692 stores last year. The increase was mainly realised in Europe and in the Greater China region, while distribution through a few low performing telecom operator retail chains were closed.

Furthermore, the development of the B&O PLAY e-commerce platform continued, thereby making it easier and more convenient for new and existing customers to shop B&O PLAY products online.

Revenue development by region
Revenue in the European region increased from DKK 1,669 million to DKK 1,681 million, corresponding to a growth of 1 per cent (3 per cent in local currency). B&O PLAY revenue showed growth, while Bang & Olufsen revenue showed a moderate decline.

Revenue by region
(growth in local currency in parentheses)



1) Europe covers Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and the United Kingdom.
2) North America covers USA, Canada and Mexico.
3) Greater China covers China, Hong Kong and Taiwan.

Revenue in North America increased by DKK 153 million to DKK 367 million, corresponding to an increase of 71 per cent (68 per cent in local currency) compared to last year. Revenue in North America was positively impacted by B&O PLAY gaining traction in the US market. Revenue was also positively impacted by increased income from brand partnerships.

Revenue in the Greater China region increased by DKK 118 million from DKK 294 million to DKK 412 million, corresponding to an increase of 40 per cent (47 per cent in local currency). The growth was driven by continued growth in B&O PLAY.

Revenue for the Rest of World increased by DKK 38 million from DKK 457 million to DKK 495 million, corresponding to an increase of 8 per cent (8 per cent in local currency) compared to last year. The increase was primarily driven by growth in B&O PLAY and increased income from brand partnerships.

Revenue development by channel
Total revenue through the B1 and shop-in-shop channel increased 4 per cent in 2016/17, positively impacted by an increase in the sale of B&O PLAY products.

Revenue through third-party retail and e-commerce increased by DKK 234 million from DKK 578 million to DKK 812 million, corresponding to an increase of 40 per cent compared to last year. The growth was mainly driven by sales through the existing stores. However, the revenue through third-party retailers was also positively affected by the increase in the number of third-party retail stores.

Distribution development (number of stores) from 2015/2016 to 2016/2017

	B1		Shop-in-shop		Third party retail	
	31/5/2017	31/5/2016	31/5/2017	31/5/2016	31/5/2017	31/5/2016
Europe	297	311	136	135	3,278	2,759
North America	22	24	2	1	790	824
Greater China	36	44	30	34	1,146	893
Rest of World	91	106	12	2	1,210	1,216
Total	**446**	**485**	**180**	**172**	**6,424**	**5,692**

PRODUCT LAUNCHES

During 2016/17, the Group launched a number of innovative products across the product portfolio that demonstrated the company's core capabilities within acoustics, design and craftsmanship.

During the year, the company launched a number of products that set new standards across product categories.

While the products launched in 2016/17 build on the company's core capabilities within acoustics, design and craftsmanship, they are also examples of the company's increased cooperation with leading technology partners.

Several launches in the Bang & Olufsen business unit
The Bang & Olufsen business unit operates with three categories of products that caters for three main use-cases; Flexible Living, Immersive Moments and Sound as Interior.

Flexible Living
New products launched in the Flexible Living category include BeoVision Horizon, BeoSound 1 and BeoSound 2; they all cater to the increased demand for more flexible products that are adaptable to different domestic settings.

BeoVision Horizon is a 4k Ultra HD TV and is Bang & Olufsen's entry-level TV model, even though it features classic Bang & Olufsen virtues such as powerful sound and crystal clear images in a sleek, black aluminium design. It is built upon the Android TV platform.

BeoSound 1 and BeoSound 2 are wireless speaker systems that feature 360 degrees of spherical sound and are ultra-flexible in terms of usability, connectivity and placement options. BeoSound 1 and BeoSound 2 also include multiroom functionality making them part of the family of Bang & Olufsen and B&O PLAY products that can play different music in different rooms or let one tune flow throughout the home.

Immersive Moments
BeoVision 14 is an example of a new Immersive Moments product; a product that offers the ultimate immersive cinematic experience with the focus on creating the beautifully-designed sound. BeoVision 14 reflects the design and craftsmanship tradition of Bang & Olufsen with oak wood lamellas that cover the custom-built speaker. Technologically BeoVision 14 is

powered by the Android TV platform, and comes with integrated Google Cast technology.

Sound as Interior
Today, there is a growing expectation that technology does not always have to look like technology and that it should integrate seamlessly into modern life. With the unveiling of the new BeoSound Shape in April, Bang & Olufsen redefined the future of sound and introduced a new product category; Sound as Interior.

Blending in with the home interior, this new wireless speaker system is designed as a modular combination of hexagonal shapes that are combined in a wall decoration, which can be placed on the wall in every imaginable size and pattern. It consists of a combination of speakers, amplifiers and sound absorbing tiles that contributes to the improvement of the indoor acoustic even when switched off.

Hidden behind a hexagonal tile, the BeoSound Core connectivity hub of course enables wireless streaming of high quality music from mobile devices via streaming technologies such as AirPlay, Chromecast or Bluetooth. In addition, it easily connects with other Bang & Olufsen and B&O PLAY products through BeoLink Multiroom.

New and innovative B&O PLAY products
The B&O PLAY business unit operates with three categories of products that caters for three main use cases; personal on-the-go, social on-the-go and flexible living.

Personal on-the-go
The headphones category was expanded with the launches of the wireless headphones Beoplay H9 and Beoplay H4. Beoplay H9 is a top-of-the-line wireless over-ear headphone that combines craftsmanship and comfort with flagship noise cancelling performance, while Beoplay H4 is a new archetype within the wireless headphone segment in a clean and contemporary design with an emphasis on pure materials, pure design and pure sound.

Beoplay H5 is the Group's first wireless earphones. It comes with a magnet built into each earpiece, so users can click them around their neck. Clicking the earpieces together, Beoplay H5 automatically powers down, saving battery life.

Social on-the-go
Beoplay P2, the smallest and most intelligent member of the range of wireless Bluetooth speakers, was launched in April. All switches and buttons have been removed for a simple and magical user experience that can be customised in the Beoplay App. With just a double tap or shake, the user can play, pause and skip track.

Flexible living
The connected audio category was extended with the launch of a new standalone speaker, Beoplay M5. The speaker top is a disc made from crafted aluminium. Pressing the disc gently downwards will play or pause the speaker, and using the same gesture with an inactive Beoplay M5 will make it join other music experiences going on in the home. This category is a key focus area expected to drive growth for B&O PLAY in the coming years.

Product launches in 2016/17

Q1

BEOPLAY H5

June B&O PLAY introduces the Group's first wireless earphones with the launch of Beoplay H5. Beoplay H5 is designed by Jakob Wagner for music lovers with an active lifestyle. Beoplay H5 comes with a magnet built into each earpiece, so users can click them around their neck. Clicking the earpieces together, Beoplay H5 automatically powers down saving battery life.

BEOVISION 14

August Bang & Olufsen introduces BeoVision 14. The 4K Ultra HD TV comes with a 40- or 55-inch LED based LCD screen with anti-reflection front glass. BeoVision 14 is powered by the Android TV platform, which provides fast and easy access to web based content and apps. The warm wooden ambience of the speaker cover reflects the same design language of the Beolab 18 loudspeaker that displays similar oak lamellas.

BEOREMOTE ONE BLUETOOTH

August Bang & Olufsen introduces a new version of BeoRemote One. The new BeoRemote One Bluetooth presents a button layout that includes four MyButtons that allow you to take a snapshot of a setting and then recall it at the touch of just one button.

BEOVISION HORIZON

August BeoVision Horizon is a 4k Ultra HD TV available in 40- and 48-inch screen sizes designed to meet the modern lifestyle demands of flexibility, connectivity and extraordinary quality. BeoVision Horizon is crafted from black aluminium, and is based on the advanced Android TV platform. The TV mounts on the wall, but it can also be placed on a set of wheels, a 360 degree rotating floor stand or leaned back on the floor on an easel stand.

BEOSOUND 1 & 2

August Bang & Olufsen introduces BeoSound 1 and BeoSound 2, two new wireless multiroom speaker systems. BeoSound 1 and BeoSound 2 are Bang & Olufsen's answer to the ever-changing everyday life; they are both ultra-flexible in terms of usability, connectivity, and placement options – and they deliver an unparalleled 360-degree sound experience. BeoSound 1 is a portable lightweight wireless speaker with a battery-driven option crafted for mobility. BeoSound 2 is its slightly bigger and more powerful sibling.

Q2

BEOPLAY AUTUMN/WINTER 2016 COLLECTION

September B&O PLAY launches the Beoplay Autumn/Winter Collection 2016, which is a limited edition range of premium speakers, headphones and the latest wireless earphones inspired by the colours found in the Nordic nature. The collection includes updates of Beoplay A1, Beoplay H5, Beoplay H7, Beoplay H8, and Beoplay A6.

BEOAMP 2

September Bang & Olufsen announces a 300-watt two-channel amplifier for passive speaker installations. The BeoAmp 2 is a highly compact and light-weight solution with audiophile sound quality. The amplifier has very low heat dissipation and is therefore perfectly suitable for installation in a rack system.

CELESTIAL AND PALATIAL

September Bang & Olufsen announces a range of in-ceiling and in-wall speakers, Celestial and Palatial, developed together with Origin Acoustics. Celestial and Palatial are complementary to the existing Bang & Olufsen speaker portfolio and support projects where the customer requires discrete speaker solutions.

BEOPLAY A2 ACTIVE

November B&O PLAY introduces an updated version of the Beoplay A2 Bluetooth speaker. The new Beoplay A2 Active is dust and splash resistant, comes with a USB-C charging cable for faster charging and seamless portability and two stylish NATO-inspired straps made of woven polyamide.

COOL MODERN COLLECTION

November Bang & Olufsen presents a new permanent collection of brass-toned products. The Cool Modern Collection includes a range of the most popular sound systems, speakers and televisions draped in warm colours, rarely seen in electronic products. The new collection includes BeoVision 14, BeoSound 35, BeoLab 18, BeoSound 1 , BeoSound 2, BeoRemote One Bluetooth, BeoLab 5, BeoLab 17, BeoLab 19 and BeoLab 90.

Product launches in 2016/17

Q3

BEOPLAY H9

December December B&O PLAY launches the Beoplay H9 wireless over-ear headphone with Active Noise Cancellation crafted from materials like aluminium, cowhide leather and lambskin. Beoplay H9 comes with up to 14 hours of music performance with just a three-hour charge, and is compatible with Beoplay App for Android, iPhone and Apple Watch.

BEOPLAY M5

January Beoplay M5 is a powerful, wireless speaker with True360 omnidirectional sound, crafted aluminium top and exchangeable wool blend fabric cover. With Beoplay M5 it is easy to connect to any Chromecast-enabled speaker to create a multiroom experience. Beoplay M5 also supports Beolink Multiroom, Spotify Connect and QPlay 2.02 and at the same time embraces Bluetooth and Apple AirPlay.

BEOPLAY H4

February Beoplay H4 is a new wireless headphone. With an emphasis on pure materials, pure design and pure sound, Beoplay H4 comes with up to 19 hours of wireless music, and the new headphone is compatible with Beoplay App for Android, iPhone and Apple Watch.

BEOLAB 5 AND BEOLAB 3 FINAL EDITIONS

February Bang & Olufsen launches the classic BeoLab 5 and BeoLab 3 speakers in Final Editions with high-gloss polished discs and black acoustic lenses with high-gloss aluminium top and bottom plates.

Q4

BEOLIT 17

March Beolit 17 is designed by Cecilie Manz and the details speak the same design language as Beolit 12 and Beolit 15. It is the most powerful Beolit speaker to date due to a redesign of the speaker grill, which eliminates the cable compartment. This makes room for an enhanced sound performance delivering 240 watts of peak power. Beolit 17 comes with a new intelligent one-touch connect button that can be customised via the Beoplay App.

BEOSOUND SHAPE

April Bang & Olufsen unveils BeoSound Shape; 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.

BEOPLAY P2

April Beoplay P2 is the smallest and most intelligent member of the B&O PLAY range of wireless Bluetooth speakers, and it is designed by Cecilie Manz for a spontaneous and spirited approach to life. It has no switches or buttons – just double tap or shake Beoplay P2 to play, pause, or skip track. Beoplay P2 comes in premium materials such as pearl-blasted aluminium and real leather, with customisable and intuitive control features via Beoplay App.

CORPORATE SOCIAL RESPONSIBILITY

Achieving results in a sustainable way is fundamental for Bang & Olufsen. As Bang & Olufsen expands to new corners of the world, and thereby creating new partnerships, CSR becomes even more important.

Bang & Olufsen works systematically to integrate CSR into the business and strives to continually improve transparency into the company's performance and practices. Bang & Olufsen values CSR as a fundamental element and a key driver for achieving results in a sustainable way. As the company expands the global footprint and create new partnerships, CSR becomes increasingly important.

A detailed description of Bang & Olufsen's CSR effort and results in 2016/17, as well as the activities and objectives for 2017/18, are available in Bang & Olufsen's Corporate Social Responsibility report 2017/18. The report is in accordance with section 99a of the Financial Statements Act, and it is available in its entirety on the website at www.bang-olufsen.com/csr2017.

The Bang & Olufsen CSR policy covers the common policy areas according to international standards. The policy is supported by the Code of Business Conduct as well as the Anti-Corruption Policy, describing Bang & Olufsen's CSR requirements to suppliers and guideline to our employees.

Bang & Olufsen recognises the UN and ILO declarations regarding human rights, labour rights, environment and anti-corruption. Consequently, the CSR effort and the CSR policy are structured in accordance with the UN Global Compact guidelines.

Bang & Olufsen's CSR policy

Bang & Olufsen's CSR policy states the guidelines for the 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 our 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 being a tolerant workplace where each employee thrives and has the possibility to develop and create a good work-life balance.

Anti-corruption

Bang & Olufsen strongly disassociates 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.

Bang & Olufsen is liable to serious criminal and civil penalties for breaches of applicable anti-corruption laws. Consequently, any Bang & Olufsen personnel and third-party associate 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 Bang & Olufsen personnel who breaches the policy may be subject to disciplinary action by Bang & Olufsen, up to and including termination of their contract of employment.

Environment and Climate

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.

The CSR effort, objectives and results

In 2017/18, Bang & Olufsen will continue the work of improving the working environment and reducing the environmental impact of the Group’s activities. Independent supplier audits will continue with re-audits of the suppliers with discovered deviations in relation to the Code of Conduct. Bang & Olufsen’s CSR activities and targets for 2016/17 year are summarised in the table below.

CSR activities, objectives and results for 2016/17 (refer to full report published on web for comments on deviations)

Policy area	Topic	Objective	Actual results
Human rights & 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.	The objective was met as 25 self-assessments out of 25 were received. The number of suppliers were selected based on supplier Top40. The remaining 15 suppliers have already been evaluated in the previous years. In addition, one supplier was randomly selected for audit to be carried out this Summer.
	Employee health & life balance	Reduce number of long-term sickness cases (full and part time) caused by psychological work environment.	The objective was met as the number was reduced from 19 to 2 and the target was 10. Act: 19 (15/16; All employees in DK) Target: 10 (16/17) Achievement: 2
Environment and climate	Zero accidents	Accident frequency must not exceed 2.5 (number of accidents per 1 million working hours) which is a 5% reduction compared to 2015/16 (Target <2.5).	The objective was not met as the result was 4.2 in accident frequency due to an increase in the number of accidents. 3 accidents caused by black ice. Bang & Olufsen wants to secure the well-being of the employees, and consequently, the long-term objective is zero accidents.
		Accident severity must not exceed 0.203 (the number of hours of absence per 1,000 working hours), which is a 5% reduction compared to 2015/16 (Target <0.203).	The objective was not met as the result was 1.351 compared to 0.203. The accidents, caused by sudden black ice have resulted in long-term absence.
	Energy savings in facilities	Energy optimisation projects with 59 tonnes CO_2 reduction equivalent to 204,684 kWh. Measured on project level (improvement).	This objective was met as the reduction was 251.247 kWh equivalent to 76 tonnes CO_2. The increased reduction was a result of 6 energy saving projects both in Denmark and the Czech Republic.
Anti-corruption	Set up compliance programme for retail partners and other agents	The overall objective is that retail partners and other agents certify compliance with the newly established Anti-Corruption policy. By the end of 2016/17, the target is to have 70% of the retail partners and other agents certified.	The objective for 2016/17 has been met as 74% of agents and commercial partners acting on Bang & Olufsen's behalf has certified compliance with the company's anti-corruption policy. The long-term objective is to ensure that 100% of agents and commercial partners acting on Bang & Olufsen's behalf certifies compliance in relation of the Anti-coruption policy.
	Anti-corruption training	Establish on-line training programme for all employees with commercial responsibility. Ensure and track that all such employees conduct the training as planned.	The objective for 2016/17 has been met as mandatory on-line training has been established and rolled out to all 500 employees with commercial responsibilities.

Planned CSR activities and objectives in 2017/18

In 2017/18, Bang & Olufsen will continue the CSR effort to improve the working environment and reduce the environmental impact of activities through these newly-established objectives.

CSR activities and objectives for 2017/18

Policy area	Topic	Objective
Human rights & 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.
	Employee health & life balance	Reduce number of long-term sickness cases (full and part time) caused by psychological work environment.
	Zero accidents	Accident frequency: 5% reduction compared to 2016/17. Accident severity: 5% reduction compared to 2016/17.
Environment	Energy savings in facilities	Energy optimisation project with 591,4 tonnes CO_2 reduction equivalent to 2.517.057 kWh. Measured on project level (Improvement). Impact 2017/18: 259 tonnes CO_2 reduction equivalent to 1.088.349 kWh.
Business integrity	Affirm commitment on business integrity and maintain and reinforce a strong compliance culture within anticompetitive practices	All employees within the sales organisation to complete antitrust training.
	Supplier audit on compliance with anti-corruption laws	Receive certification from top 20 suppliers of compliance with the anti-corruption policy.

To read more about the CSR effort in Bang & Olufsen, please see the CSR report 2016/17, which can be found at http://www.bang-olufsen.com/da/corporate/responsibility/corporate-social-responsibility

THE BANG & OLUFSEN SHARE

Bang & Olufsen focuses continuously on creating long-term growth and securing a competitive return on the shareholders' investment. It is expected that the ongoing implementation of the corporate strategy will achieve this.

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 in Denmark as well as abroad and give investors structured, continuous and relevant information that meets the requirements for information when deciding on investments in Bang & Olufsen shares.

The information given 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.

For further details regarding the Investor Relations Policy more information can be found on www.bang-olufsen.com/investors.

Investor meetings

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

The Bang & Olufsen share

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

	2016/17	2015/16
Closing price 31 May	103.0	64.0
Market Value 31 May (DKK million)	4,446	2,765
Nominal share value (DKK)	431,974,780	431,974,780
Nominal Value (DKK)	10	10
Issued shares	43,197,478	43,197,478
Own shares	29,999	29,999
Shares in circulation	43,167,479	43,167,479
Registered shareholders (approx.)	21,500	25,000
Hereof in Denmark (approx.)	21,000	24,100
Listed capital placed in Denmark*	47%	55%

** Percentage of owner registered capital*

The telephone conferences are subsequently available 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.

The share and share capital
At the end of the financial year, Bang & Olufsen had a share capital of DKK 431,974,780, which was made up of a single share class (43,197,478 shares of a nominal value of DKK 10 per share). Each share entitles the holder to one vote, and all shares carry the same rights. Bang & Olufsen a/s holds 22,999 own shares to cover the company's share option programme. The Bang & Olufsen share price was DKK 103.0 per share on 31 May 2017, corresponding to an increase of 61 per cent for the financial year. The OMXC Mid Cap index increased 16 per cent in the same period. The average daily turnover of the Bang & Olufsen share was DKK 6,638,823 in the 2016/17 financial year compared to DKK 10,932,637 in 2015/16. The decline in traded volume was mainly related to large shareholder transactions in 2015/16.

Analyst coverage
The following brokers covered the Bang & Olufsen share at the end of the financial year:

- Danske Markets Equities
- Nordea Markets
- SEB
- Sydbank

Dividend
The positive cash flow in 2016/17 as well as the significant proceeds from the Automotive transaction in 2015 means that the company has a positive cash position. During 2016/17, the company's financial performance has improved, but continues to be vulnerable, and key strategic initiatives taken over the past years, such as the Automotive partnership with HARMAN International Industries Limited and the technology partnership with LG Electronics, still have to take full effect. Therefore, the Board of Directors intends to recommend to the Annual General Meeting that no dividend is paid to the shareholders.

The chart below shows the development in share price from 1 June 2013 to 31 May 2017:

As of July 2017, the following individuals or legal entities hold 5 per cent or more of the company's capital or share capital's voting rights:

	Number of shares	Capital/ votes %
Sparkle Roll Tech. Investments Limited	-	*19.95%
Arbejdsmarkedets Tillægspension,	5.455.420	12.6%
Nordea Investment Funds SA	2,490,766	5.8%

As of announcement no. 16.20, 28 March 2017

The company is currently undergoing a significant transformation. As the strategy shows sustainable traction, the Board of Directors will define and implement a long-term capital structure, which will lead to a reconsideration of distributing capital to the shareholders.

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 the investors is available, e.g. announcements, annual reports, interim reports, the financial calendar and the company's history and a presentation of its products.

Contact

The company's Investor Relations representative handles the daily dialogue with analysts as well as current and potential shareholders.

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

Annual General Meeting

Bang & Olufsen a/s' Annual General Meeting will be held on Wednesday 13 September 2017 at Struer Statsgymnasium, Jyllandsgade 2, DK-7600 Struer.

Financial calendar

Annual General Meetings	
13 September 2017	Annual General Meeting 2017
23 August 2018	Annual General Meeting 2018

Financial statements	
4 October 2017	Interim report (1st quarter 2017/18)
11 January 2018	Interim report (2nd quarter 2017/18)
6 April 2018	Interim report (3nd quarter 2017/18)
12 July 2018	Annual report 2017/18
4 October 2018	Interim report (1st quarter 2018/19)

STRATEGY & OUTLOOK

BeoSound Shape

BeoSound Shape is a unique wireless speaker system that combines superb sound with customisable design. The wall-mounted system is based on hexagonal tiles that can be placed creatively on the wall in every imaginable size and pattern.

STRATEGY

Bang & Olufsen wants to become the leading global audio lifestyle brand by delivering new, innovative products for clearly-defined consumer segments. Based on an agile business model with focus on the company's core capabilities and a customer-centric approach, Bang & Olufsen will continue its transformation to maintain the growth momentum, increase profitability and lower the risk over the next three years.

Becoming the leading global audio lifestyle brand
In recent years, Bang & Olufsen has taken significant steps to create a solid foundation for the future. The business has been focused on key consumer segments through the Bang & Olufsen and B&O PLAY business units, and non-core activities have been divested. The operating model has been transformed to leverage technology partnerships in areas that are not core to the company.

This approach has had a positive impact and the company has delivered double-digit growth and a substantial improvement of profitability, primarily driven by the B&O PLAY business unit as well as through brand partnerships.

Over the next three years the company will further utilise the opportunities that the new foundation provides and maintain the growth momentum. This will be done by developing the brand and the brand partnership business, focusing on the company's core capabilities, improving the channel and distribution setup and increase market penetration especially in China and the US. All with the goal of realising the ambition to become the leading global audio lifestyle brand.

The continued growth, improved earnings and adapted business model, will result in a significant strengthening of cash flow generation as well as lower the general risk profile of the company.

A more agile business model
In the last couple of years, substantial changes have been instigated to adapt the company's operating model towards an agile and asset-light model to reduce complexity, increase flexibility and to scale the business.

Today, the company is in a strong position to cater to the rapidly changing technological environment, where emerging platform ecosystems are re-defining the industry and shaping products. This provides a unique opportunity for the company to focus on the core capabilities of acoustics, design and craftsmanship.

These capabilities will be increasingly relevant as the key differentiating factors towards the company's target groups. Moreover, demands for individualisation and customisation as well as a desire to live progressive lives will dominate their choice of buying, rather than choices between technologies.

In this strategy period, the company will continue its transformation, while materialising benefits of the initiatives that have already been implemented, such as the technology partnership related to TV as well as the sale of the assembly facilities.

Developing the brand and brand partnerships

The Bang & Olufsen brand remains very strong but it is important that the brand equity is further developed and strengthened to realise its full potential.

Over the past five years, the company has successfully grown the sales of products in the B&O PLAY business unit, building on the company's core capabilities of acoustics, design and craftsmanship. Bang & Olufsen and B&O PLAY operate as separate business units, but support one common brand equity.

This diversified business model will also be key going forward, however the company will develop a closer and more consistent connection between the two units. A unified execution will ensure a more impactful marketing approach and facilitate a more consistent customer experience.

In recent years the company has entered brand partnerships with some of the largest and most innovative companies in the world. Brand partnering has become a key part of the business and a platform for exposing potential customers to the brand and the key capabilities of Bang & Olufsen. Going forward, brand partnering will be an even more integrated part of the company's strategy to drive revenue, profitability, and increase brand awareness.

Innovation based on core capabilities

The company's future innovation will be focused on the core capabilities of acoustics, design and craftsmanship, supplemented by collaborations with technology partners, who are leading in their field of expertise.

This will enable Bang & Olufsen to further develop the core capabilities, while having the freedom and flexibility to adapt to the rapidly changing technology trends and customer demands across business units.

The B&O PLAY business unit will continue its strong growth by creating and selling products for the premium mass market. The target group is interested in design and acoustics, and are willing to pay a premium price. B&O PLAY will continue to leverage on the strong heritage of the company and develop within the product categories and segments that are already established in the market and are showing strong growth.

The products in the B&O PLAY business unit will be developed to cater for three main use-cases:

- **Personal on-the-go:** The music experience is personal and part of the consumers everyday life on-the-go, while travelling or when commuting.
- **Social on-the-go:** The consumer who shares music with others to bring people together and shape memories. The music experience is a social happening.
- **Flexible Living:** Consumers who expect more flexible products that can adapt to the rhythm of everyday life and different domestic settings. All in a consistent and connected portfolio of products.

B&O PLAY will continue to strive to be among the leading players in the above-mentioned categories in terms of design and performance and will build on industry standard platforms. With the fast-evolving categories and continuously changing technology, B&O PLAY will remain agile and flexible, and continue to monitor and explore adjacent categories, where the core competences can support a relevant customer proposition.

The Bang & Olufsen business unit will grow by bringing new innovative products to market that are relevant and appealing to the key target group. Focus will continue to be on developing progressive products with beautiful design and high-quality acoustic based on our core capabilities.

The products in the Bang & Olufsen business unit will be developed to cater for three main use-cases;

- **Flexible Living:** The consumer who wants flexible products that can adapt to their everyday life and different domestic settings. The products will be best in class in terms of design and performance, and offer freedom of placement and build on the connected audio industry standards.
- **Immersive Moments:** The consumer that gathers families and friends and commands their attention in the immersive experience. The products will deliver the ultimate cinematic experience with the focus being on creating the beautifully designed sound, based on the company's leading capabilities within audio and acoustics.
- **Sound as Interior:** The consumer that wants technology that does not look like technology – and in form and function will integrate seamlessly into their lives. The products will break industry standards and redefine and design the future of sound, while blending in with the home interior.

The product portfolio in the Bang & Olufsen business unit has been simplified, and the new products launched will generally be simpler to install and service compared to the current product portfolio. Across all product categories, open platforms will be used to ensure industry standard compatibility and fast and agile development and to cater to the demands of the consumer market.

Strengthening distribution and channels

The future distribution will maximise the sales potential for the products in the portfolio by reaching the target audience where they shop now and in the future, while ensuring an excellent customer experience. In addition, the distribution model must be attractive and sustainably profitable for the retail partners to attract and retain the right partners.

The B1 and shop-in-shop distribution is expected to continue to play an essential role in the overall sales and brand positioning of the company. However, to supplement this, the distribution will be broadened ensuring more products are distributed through other channels. These will be both online and physical channels and will complement each other.

The branded distribution caters to those who are familiar with the brand, and to new customers who will experience a prime execution of the brand. Distribution through partner-branded channels serve the purpose of reaching a greater number of potential customers and thereby drive revenue and support the amplification of the brand.

The transformation of the B1 and shop-in-shop distribution will continue; creating a distribution setup with fewer, stronger partners that can deliver a strong customer experience and have enough scale in the operations to drive a professional retail business.

The third-party retail distribution will continue to be developed. Focus will be to expand the overall presence through the number of stores, while ensuring that the sale of existing stores is developed and the channel will be broadened into lifestyle.

An important driver of brand perception is the digital engagement with customers. Therefore, Bang & Olufsen will create a stronger and more consistent digital profile across all touchpoints to ensure that the interaction supports the brand position and creates a closer relationship with customers. Increased digital interaction will also lead to a deeper understanding of customers and their needs and ensure a real-time and more contextual engagement with them.

Realising growth potential in China and the US

Despite high growth rates in recent years, the brand awareness and market penetration of Bang & Olufsen remains low in markets such as China and the US.

To materialise the potential of these key growth markets, the company will focus and strengthen the local organisations and resources will be prioritised towards the expansion of B&O PLAY.

Brand partnerships will be leveraged and will play an important role in increasing brand awareness and amplifying the core capabilities of the company. In both China and the US the operational setup will be adjusted to a more scalable model, ensuring that the future growth is profitable.

The sales potential of products for the Bang & Olufsen business unit will be materialised through retail partners that have deep understanding of the local markets and the size and scale to run a profitable business and deliver an excellent customer experience.

Financial targets
The company aims to deliver a growth of above 10 per cent in average per year over the next three years.

The continued growth momentum, combined with the initiatives taken to change the operating model and the increased income from the brand partnering business will ensure a profitability level of more than 12 per cent EBIT margin will be achieved before the end of the current strategy period that expires in May 2020.

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 reach a level of more than 10 per cent of group revenue before May 2020.

Financial targets*

	Targets 2019/20
Revenue	
Group	> 10% CAGR
- Bang & Olufsen	Low single-digit growth
- B&O PLAY	> 20% CAGR
EBITDAC	
Group, underlying	>15% of revenue
EBIT	
Group, underlying	>12% of revenue
Free Cash Flow	
Group	>10% of revenue

** All targets exclude non-recurring and aperiodic items*

OUTLOOK FOR 2017/18

In 2017/18, the Group expects to maintain the current growth momentum, improve profitability, and to continue the transformation towards a more agile and asset-light operating model.

Revenue
Revenue growth for the Group is expected to be around 10 per cent compared to 2016/17.

The B&O PLAY business unit is expected to continue to be the main growth driver with growth of more than 20 per cent compared to 2016/17.

The Bang & Olufsen business unit, including revenue related to brand partnering, is expected to remain flat. Revenue related to brand partnering is expected to be in the range of DKK 160-200 million.

Earnings
Earnings before interest, tax, depreciation, amortisation and capitalisation (EBITDAC) for the underlying business is expected to be 8-10 per cent of revenue. 2017/18 will continue to be impacted by the changed operating model in the Bang & Olufsen business unit, which will entail a continued high-level of depreciations and amortisations, while the level of capitalisations will decline.

The EBIT margin for the underlying business is expected to be 1-3 per cent for 2017/18.

Free cash flow
The Group's free cash flow is expected to be positive in 2017/18.

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

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.

GOVERNANCE

BeoPlay H9

Beoplay H9 is a wireless over-ear headphone with up to 14 hours of noise cancelling music performance. It is crafted from exclusive materials, and the intuitive touch interface in anodised aluminium captures the latest acoustic innovations from B&O PLAY.

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 of the Board), Danske Bank A/S (Chairman of the Board), 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 (2015/16: 84,650)

Jim Hagemann Snabe (1965)

Deputy Chairman
Year of first appointment, 2011
M.Sc. (Economics and Business Administration)

Directorships and other offices:
A.P. MØLLER - MÆRSK A/S (Chairman), Siemens AG (Board Member), Allianz SE (Vice chairman), SAP SE (Board Member), World Economic Forum (Member of the Board of Trustees)

This member is considered independent Member of the Remuneration committee and Chairman of the Technolocy Committee.

Number of shares in Bang & Olufsen a/s at the end of the year:
11,740 (2015/16: 11,740)

Albert Bensoussan (1960)

Year of first appointment, 2014
Kering (Division CEO)
Master of Business Administration (MBA)

Directorships and other offices:
Sowind Group SA (Chairman), Qeelin Holding Luxembourg (Director), Pomellato S.p.A. (Board member), Boucheron Holding SAS (Member), Manufacture et fabrique de montres et chronometres ulysse nardin le locle SA (President), Boucheron Holding SAS (Board member Strategy Committee), Boucheron Joaillerie (USA), Inc. (Director), Boucheron Suisse SA (Board Member), Luxury Timepieces & Jewellery outlets Limited (Director), Boucheron Rus 000 (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:
3000 (2015/16: 0)

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 (2015/16: 432)

Geoff Martin (1969)

Year of first appointment, 2015
Employee-elected
Tonmeister & Technology Specialist in Sound Design

Number of shares in Bang & Olufsen a/s at the end of the year:
728 (2015/16: 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:
Sparkle Roll Group Limited incl. 16 100% owned subsidaries (Directror), Grand Concept Limited Hong Kong (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:
0 (2015/16: 0)

Jesper Jarlbæk (1956)

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

Directorships and other offices:
ShowMe ApS and 1 subsidiary (Chairman), Valuemaker A/S (Chairman), A-Solutions A/S (Chairman), Polaris III Invest Fonden (Board Member), Earlbrook Holdings Ltd A/S (Director and Board Member), CC Track Holding and 1 subsidiary (Board Member), Smartshare systems A/S (Board Member), Business Angels Fond - London II A/S Board Member), Bookboon Corporate A/S, (Chairman), Materiel Udlejning Holding A/S and 3 subsidaries (Chairman), Falcon Management A/S (Chairman).

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

Number of shares in Bang & Olufsen a/s at the end of the year:
6,500 (2015/16: 6,500)

Jesper Olesen (1978)

Year of first appointment, 2007
Employee-elected
Engineering Worker

Number of shares in Bang & Olufsen a/s at the end of the year:
1,578 (2015/16: 1,578)

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 (Board Member)

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 (2015/16: 5,770)

Juha Christensen (1964)

Year of first appointment, 2016

Directorships and other offices:
Cogniance, Inc. (Chairman of the Board), CloudMade Ltd. (Chairman of the Board), Netcompany A/S, The Pad, Inc. (Chairman of the Board), Brandworkz Ltd. (Chairman of the Board), Lumigon A/S.

This member is considered independent.
Member of Technolofy Committee
Number of shares in Bang & Olufsen a/s at the end of the year:
0 (2015/16: 0)

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 (2015/16: 5,300)

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:
36,800 (2015/16: 0)

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 (2015/16: 7,200)

Stefan Persson (1967)

Excecutive Vice President for HOME
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 (2015/16: 3,000)

John Mollanger (1970)

Excecutive Vice President & CEO of PLAY
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:
0 (2015/16: 0)

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

CORPORATE GOVERNANCE

Bang & Olufsen follows all recommendations that are part of the Corporate Governance disclosure requirements applicable to companies listed on NASDAQ Copenhagen.

Bang & Olufsen'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.

As a company listed on NASDAQ Copenhagen A/S, and in accordance with Section 107b of the Danish Financial Statements Act, Bang & Olufsen is covered by the recommendations for corporate governance implemented by NASDAQ Copenhagen A/S in "rules for issuers of shares".

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. Bang & Olufsen a/s complies with all of these recommendations.

The Board of Directors of Bang & Olufsen a/s has prepared a report on corporate governance for 2016/17. This report is available for review and download at www.bang-olufsen.com/investor/corporate-governance/uk. The report contains a description of Bang & Olufsen's approach to the "Recommendations for Corporate Governance" and a description of the management structure and the main elements of our internal control and risk management systems.

Management structure
Bang & Olufsen a/s'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 early 2017/18, a new evaluation will be conducted by the individual directors and executives anonymously completing a comprehensive online questionnaire which will then be summarised by an external consultant.

The results of the assessment will be presented to the Board of Directors in Fall 2017 by the Chairman and action will be taken where relevant.

The Board of Directors consists of the following members with the following functions:

	CHAIRMAN	DEPUTY CHAIRMAN	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	TECHNOLOGY COMMITTEE	EMPLOYEE-ELECTED
Albert Bensoussan			•				
Brian Bjørn Hansen							•
Geoff Martin							•
Ivan Tong Kai Lap			•				
Jesper Jarlbæk			•		•		
Jesper Olesen							•
Jim Hagemann Snabe		•		•		•	
Juha Christensen						•	
Mads Nipper					•		
Majken Schultz				•			
Ole Andersen	•			•	•		

For further information about the Board of Directors refer to the section 'Board of Directors' on pages 34-35.

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. 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 women have been elected to the Board of Directors since the new target was set.

In 2017, the company reached its goal of having not less than 15 per cent female members at senior management level. The share of women in senior management in the Bang & Olufsen Group increased from 10 per cent on 31 May 2016 to 15.7 per cent on 31 May 2017. 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 38 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

As the goal for 2017 was reached, a new target for the share of women in senior management in the Bang & Olufsen Group has been 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 2017, a total of 26.3 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 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.

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.

At the Annual General Meeting in September 2016, the Board of Directors were authorised in the period until 30 September 2017, 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.

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 age limit for members of the Board of Directors is 70.

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.

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.

Bang & Olufsen'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 Bang & Olufsen and to promote value creation for the benefit of the shareholders of Bang & Olufsen. 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 receive 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 Programme.

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

Board fee structure 2016/17

	Board fee	Committee fee
Board member base fee	275,000	
Chairman of the Board base fee	825,000	
Deputy Chairman base fee	550,000	
Chairman of the Audit Committee		100,000
Chairman of other Committees		50,000
Ordinary Committee members		50,000

RISK MANAGEMENT

The high-end consumer electronics industry is an industry characterised by factors such as disruptive innovation, ever-changing consumer demands and intense competition. To navigate and be successful in such an industry, Bang & Olufsen considers it an important factor to have a strong risk management setup allowing the company to identify and mitigate key risks in a systematic and proactive way.

INTRODUCTION

Today, Bang & Olufsen faces intense competition in an ever-changing and intricate global market, where technological trends and potentially disruptive innovation might entail a risk to the company's product offering and portfolio. In this setting, remaining top of mind in consumers' preferences is key to ensure brand awareness and a clear position in the midst of the myriad of competing brands in the market.

With this backdrop, ensuring strong and holistic risk management is an essential pillar in navigating within the complex business context and in understanding the company's risk exposure and impact across the global value chain. Bang & Olufsen started in 2015/16 to further strengthen the risk management setup and internal capabilities and in 2016/17, it still remains a high priority within the organisation enabled by an ongoing focus on implementing and promoting a risk management approach encompassing all business operations. The approach to risk management provides the company with a methodology, a framework and a system for identifying, assessing and mitigating significant financial and non-financial risks in a proactive and value-creating manner. The objective of risk management therefore is to build on the company's existing practices in order to further embed risk-informed decision-making across the Bang & Olufsen organisation.

At Bang & Olufsen, a risk is defined as an event or a development that can prevent the achievement of the company's financial targets, the execution of the company's strategy or the maintenance of the company's license to operate and the brand reputation. The identified risks are divided into three main categories: strategic risks, operational risks and financial risks. The risk management system in Bang & Olufsen is designed to balance risk and reward throughout the company's operations in alignment with the established risk appetite to generate the most value for shareholders and other stakeholders alike.

Key developments and performed activities in 2016/17
In addition to the ongoing risk management within Bang & Olufsen's daily business operations, a number of targeted risk management activities has been performed in the last year to meet the company's ambition and the established objectives for risk management. This entails that Bang & Olufsen in 2016/17 has focused on further development of the risk management capabilities, including the development of a formalised risk

management framework, policy and employee guideline to be upheld in all day-to-day business operations.

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

OVERVIEW OF THE RISK MANAGEMENT PROCESS 2016/17

A risk identification and assessment is conducted on an annual basis to identify and assess risks across Bang & Olufsen's two business units; 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 Group Management and other key stakeholders, 3) further analysis and consolidation of the identified risks based on their potential impact and probability, and 4) a validation with Group Management, where the identified risks 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 Group Management, who will hereafter be responsible for managing the risk in the day-to-day business operations. For the risks categorised as operational or financial, the risk ownership is assigned to the appropriate owner within the organisation, who through his/her function will be accountable for managing the risk as part of daily operations.

On a quarterly basis or more frequently if required, Group Management is updated on the development of the risk profile and the progress and effect of the mitigating activities.

IDENTIFIED KEY RISKS

Strategic risks

Outsourcing and dependency on suppliers
Both the Bang & Olufsen business unit and the PLAY business unit depend on external suppliers for timely delivery of critical materials, components and assembled products, which have to meet the company's high quality standards. To ensure strong partnerships with these suppliers, Bang & Olufsen has a thorough supplier selection process to ensure that the selected suppliers fulfil the requirements from Bang & Olufsen to be a long-term partner. Following the thorough supplier selection processes, the focus is to build long-term partnerships with the selected suppliers. In addition, Bang & Olufsen has a thorough monitoring system in place that verifies the performance of the supplier and provides early warnings of deviations.

To further mitigate this risk, Bang & Olufsen and B&O PLAY, where possible, pursues a dual sourcing strategy aimed at ensuring that the company is able to source the same type of component 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.

Success in strategic partnerships and alliances
Meeting customer demands for innovative solutions and foreseeing future technological choices is a risk present for all companies in the electronic consumer industry. However, for Bang & Olufsen, a small volume producer in a market dominated by a few major corporations, the challenge of maintaining its market

position as well as competences in all areas is a constant risk. Bang & Olufsen therefore manages this risk via strategic partnership alliances. However, the use of strategic partners also poses a risk to Bang & Olufsen, as the company is dependent on third-party organisations, e.g. to gain access to product components or as distribution channels. If the strategic partner alliance is discontinued, this could have a significant impact on Bang & Olufsen's ability to supply the market. To manage and mitigate this risk, Bang & Olufsen has ensured that all partnerships and alliances are built on the insurance of strong contractual protection and strong management, which will foster sound corporation as well as clear accountability in the relationship between Bang & Olufsen and the respective third-party organisations.

Distribution channels

In selected countries and cities, Bang & Olufsen is currently distributing its products through a network of exclusive Bang & Olufsen franchise stores (i.e. the so-called B1 stores). The performance and success of these franchise takers are important to Bang & Olufsen. Furthermore, the continuous success of this distribution channel relies on the company's ability to attract a sufficient volume of new and suitable franchise takers to sustain expected growth and attract the target customer segment. As such, the risk is related to the franchise takers' ability to invest in the development and maintenance of an attractive and appealing store interior and inventory as well as their ability to set up stores within the right geographical location and their ability to sell Bang & Olufsen's products to the target customers. To manage and mitigate this risk Bang & Olufsen will through a three-year plan continue its focus on building a strong network of franchise stores that can provide customers with the unique in-store Bang & Olufsen customer experiences. Furthermore, the company will continue to focus on launching products in a frequency and of a quality sufficient to attract and maintain the customers' awareness of and pull towards the Bang & Olufsen brand.

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 within the US and the Chinese market there is substantial growth potential and an attractive opportunity to further expand the brand awareness among its target customers. However both markets are subject to intense competition. Therefor to ensure growth in these markets, 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 to this, the company constantly monitors the market developments and customer preferences to best meet product expectations.

Innovation and disruptions of the TV segment

The electronics consumer industry is in a constant flux with the launch of new technologies every month and new consumer trends winning market shares at a staggering speed. As a result, Bang & Olufsen needs to stay on-par with the latest tendencies and developments in order to timely react to possible future industry or product disruptions, especially within the company's TV segment. Thus, the risk entails that the company might be unable to transform its TV segment and product offering to meet increased competition from alternative product offerings, shorter product life cycles, changing market demands and future consumption patterns. To mitigate this risk, Bang & Olufsen has partnered with LG to ensure the ability to maintain and further expand its unique position in TV design and functionality with the purpose of continuing to develop innovative and distinct solutions based on key insights into new consumer preferences and expectations, technological developments and other key trends shaping future customer demands.

Operational risks

Inability to safeguard the company and its products against cyberattacks
Bang & Olufsen operates in a business environment, where information technology is becoming increasingly vital to the daily operations and to business decisions. Security breaches in key systems, databases or via phishing emails could potentially lead to business interruption or disclosure of business-critical, confidential data, affecting Bang & Olufsen's competitive position or damaging the company's reputation. With the launch of the new EU data protection regulation, which is to be fully implemented by May 2018, this is an ever more present risk both in terms of 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, to hereby reduce the risk. In addition to this, the company has initiated a targeted effort within this area to further develop the processes in place and to establish a systematic road map for the work to be conducted in the coming year to ensure increased maturity in the daily management of cyber risks.

Intellectual property rights
Within the fast-changing area of consumer electronics, securing and maintaining the company's intellectual property rights is key to sustain the company's brand, its unique design components and its value proposition. With this point of departure, the risk entails that Bang & Olufsen might face intellectual property infringements by competing brands, suppliers or professional counterfeiters. Another potential risk scenario could be that a competitor claims that Bang & Olufsen infringes their intellectual property rights. Both of these risks could lead to a loss of revenue and brand value for Bang & Olufsen. To mitigate this risk, Bang & Olufsen continuously work to uphold strong freedom to operate analysis management as well as robust intellectual property execution.

Ethics and Compliance
Operating in a global context, Bang & Olufsen is faced with various challenges related to ensuring high quality products while maintaining good and ethical business practices. This entails a particular focus on countries where the risk of fraud or corruption might be high.
To mitigate this, Bang & Olufsen operates with internal control systems to minimise the risk of staff being involved in illegal or unethical activities. This also entails that employees are encouraged 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 rate 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 a number of macro-economic and financial risks at any given time.

The main risks are:
- Foreign exchange rate risk and
- Credit risk related to distribution network

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

Bang & Olufsen mainly sources products in US Dollars but sells in a variety of different currencies. Furthermore, the Group has significant administrative costs in Danish Kroner related to the headquarter functions.

It is the Group's practice to hedge a substantial amount of the net cash flow in foreign currency over a 12-18 month horizon against the 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 as well as loans to partners in our distribution network. Our customer base and distribution network is well diversified with no material concentration risk on any single party or geography. In addition, the Group as a general matter of policy requires business partners to provide security in their business in exchange for granting credit facilities. The Group continuously monitors the framework for credit risk assessment in order to mitigate potential credit risk. In addition, the Group monitors the risk in relation to the specific parties and if required, takes necessary action to minimise the risk of credit losses.

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

FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT 1 JUNE – 31 MAY

(DKK million)	Notes	2016/17	2015/16
Revenue	2.1	**2,954.0**	**2,633.4**
Production costs	2.2	(1,827.9)	(1,681.5)
Gross profit		**1,126.1**	**951.9**
Development costs	2.2, 2.3	(408.9)	(314.8)
Distribution and marketing costs	2.2	(778.2)	(740.3)
Administration costs	2.2, 2.4	(107.7)	(104.3)
Other operating income	2.7	39.7	42.0
Other operating expenses	2.7	-	(36.8)
Operating profit (EBIT)		**(129.0)**	**(202.2)**
Share of result after tax in associated companies		-	(0.4)
Financial income	4.2	2.4	1.6
Financial expenses	4.2	(39.4)	(40.5)
Financial items, net		(37.0)	(38.9)
Earnings before tax (EBT)		**(166.0)**	**(241.6)**
Corporation tax	2.5	49.4	43.8
Earnings for the year - continuing operations		(116.5)	(197.8)
Earnings for the year - discontinued operations	5.2	-	(9.9)
Earnings for the year		**(116.5)**	**(207.7)**
Earnings per share			
Earnings per share (EPS) DKK		(2.7)	(4.8)
Diluted earnings per share (EPS-D) DKK		(2.7)	(4.8)
Earnings per share from continuing operations, DKK		(2.7)	(4.6)
Diluted earnings per share (EPS-D) from continuing operations, DKK	2.6	(2.7)	(4.6)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JUNE – 31 MAY

(DKK million)	Notes	2016/17	2015/16
Earnings for the year		**(116.5)**	**(207.7)**
Items that will be reclassified subsequently to the income statement:			
Exchange rate adjustment of investment in foreign subsidiaries		(2.3)	(3.5)
Change in fair value of derivative financial instruments used as cash flow hedges		(28.9)	1.9
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	6.3
Transfer to production costs		6.3	(0.5)
Income tax on items that will be reclassified to the income statement:	2.5	4.4	(1.7)
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit plans		0.7	0.8
Income tax on items that will not be reclassified to the income statement:	2.5	(0.2)	(0.2)
Other comprehensive income for the year, net of tax		**(17.1)**	**3.1**
Total comprehensive income for the year		**(133.6)**	**(204.6)**

CONSOLIDATED BALANCE SHEET AT 31 MAY

(DKK million)	Notes	31/5/17	31/5/16
Goodwill		47.0	66.4
Acquired rights		4.2	6.1
Completed development projects		196.9	231.2
Development projects in progress		137.9	151.6
Intangible assets	3.1	**386.0**	**455.2**
Land and buildings		75.2	97.8
Plant and machinery		48.6	63.5
Other equipment		5.2	18.9
Leasehold improvements		4.6	21.8
Tangible assets in course of construction and prepayments for tangible assets		45.0	7.7
Tangible assets	3.2	**178.6**	**209.7**
Investment property	3.3	**16.0**	**16.5**
Other financial receivables	3.4	41.2	30.6
Financial assets		**41.2**	**30.6**
Deferred tax assets	2.5	**279.2**	**209.0**
Total non-current assets		**901.0**	**921.0**
Inventories	3.5	**347.3**	**498.0**
Trade receivables	3.5	410.3	430.5
Other financial receivables	3.4	11.3	93.1
Corporation tax receivable		13.0	32.0
Other receivables		71.7	48.9
Prepayments		13.7	17.0
Total receivables		**520.0**	**621.4**
Cash		**1,079.2**	**788.5**
Assets held for sale	5.2	**-**	**2.9**
Total current assets		**1,946.5**	**1,910.8**
Total assets		**2,847.4**	**2,831.8**

CONSOLIDATED BALANCE SHEET AT 31 MAY

(DKK million)	Notes	31/5/17	31/5/16
Share capital	4.5	432.0	432.0
Translation reserve		18.7	21.1
Reserve for cash flow hedges		(12.8)	2.5
Retained earnings		1,148.2	1,269.3
Total equity		**1,586.2**	**1,724.9**
Pensions	3.6	14.5	14.8
Deferred tax	2.5	10.7	11.5
Provisions	3.7	28.0	43.4
Mortgage loans	4.1	170.2	181.1
Other non-current liabilities		1.6	1.1
Deferred income	3.8	123.7	136.7
Total non-current liabilities		**348.7**	**388.6**
Mortgage loans	4.1	9.1	8.5
Provisions	3.7	79.4	24.8
Trade payables	3.5	463.2	365.4
Corporation tax payable		8.2	9.3
Other liabilities		327.7	270.5
Deferred income		25.0	39.8
Other current liabilities		**912.5**	**718.3**
Total liabilities		**1,261.2**	**1,106.9**
Total equity and liabilities		**2,847.4**	**2,831.8**

CONSOLIDATED CASH FLOW STATEMENT 1 JUNE – 31 MAY

(DKK million)	Notes	2016/17	2015/16
Earnings for the year - continuing operations		(116.5)	(197.8)
Earnings for the year - discontinued operations		-	(9.9)
Amortisation, depreciation and impairment losses		327.9	248.4
Adjustments for non-cash items	5.1	(48.4)	(9.1)
Change in receivables		(5.9)	64.9
Change in inventories		59.6	30.2
Change in trade payables etc		154.4	(127.6)
Cash flow from operations		**371.1**	**(0.8)**
Interest received and paid, net		(9.3)	(9.3)
Income tax paid		(9.5)	5.1
Cash flow from operating activities		**352.3**	**(5.1)**
Purchase of intangible non-current assets		(177.5)	(165.8)
Purchase of tangible non-current assets		(64.3)	(46.0)
Sales of tangible non-current assets		2.6	1.7
Proceeds from sale of associated companies		-	5.5
Proceeds from sale of businesses	5.3	122.9	23.0
Change in financial receivables		71.3	-
Cash flow from investing activities		**(45.0)**	**(181.6)**
Free cash flow		**307.2**	**(186.7)**
Repayment of long-term loans		(10.4)	(219.8)
Settlement of share options		(6.1)	(3.0)
Cash flow from financing activities		**(16.5)**	**(222.8)**
Change in cash and cash equivalents		**290.7**	**(409.5)**
Cash and cash equivalents, 1 June		788.5	1,198.0
Cash and cash equivalents, 31 May		**1,079.2**	**788.5**
Cash and cash equivalents:			
Cash		1,079.2	788.5
Cash and cash equivalents 31 May		**1,079.2**	**788.5**

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 31 May 2016	**432.0**	**21.0**	**2.5**	**1,269.3**	**1,724.9**
Earnings for the year	-	-	-	(116.5)	(116.5)
Other comprehensive income	-	(2.3)	(19.7)	0.7	(21.3)
Other comprehensive income, tax	-	-	4.4	(0.2)	4.2
Comprehensive income for the year	-	(2.3)	(15.3)	(116.0)	(133.6)
Grant of share options	-	-	-	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**
Equity 1 June 2015	**432.0**	**24.6**	**(3.5)**	**1,468.3**	**1,921.4**
Earnings for the year	-	-	-	(207.7)	(207.7)
Other comprehensive income	-	(3.5)	7.7	0.8	5.0
Other comprehensive income, tax	-	-	(1.7)	(0.2)	(1.9)
Comprehensive income for the year	-	(3.5)	6.0	(207.1)	(204.6)
Grant of share options	-	-	-	11.1	11.1
Settlement of share options	-	-	-	(3.0)	(3.0)
Equity 31 May 2016	**432.0**	**21.0**	**2.5**	**1,269.3**	**1,724.9**

SECTION 1

BASIS 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 2015/16 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) cf. the Statutory Order on Adoption of IFRS (the Danish announcement on Adoption of IFRS) issued in accordance with the Danish Financial Statements Act.

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.

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

SECTION 1

BASIS OF REPORTING

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 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.

Investments in associates
Investments in associates are recognised and measured according to the equity method in the consolidated financial statements, i.e. at the proportional share of the accounting net asset value of the companies, in accordance with the Group's accounting principles with the deduction or addition of proportional intra-group gains and losses and with the addition of a carrying amount of goodwill.

The proportional share of the companies result after tax with the reduction of any impairment losses on goodwill is recognised in the income statement.

Investments in associates with a negative net asset value are measured at DKK 0. Receivables and other non-current financial assets that are regarded as being part of the total investment in the associate are written down by the remaining negative net asset value. Trade receivables and other receivables are written down to the extent they are assessed to be irrecoverable.

A provision to cover the remaining negative net asset value is recognised only to the extent that the Group has a legal or constructive obligation to cover the obligations of the company in question.

New investments in associates are accounted for by using the acquisition method.

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.

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BASIS OF REPORTING

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 2016 - 31 May 2017.

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 2016, it has been assessed that the application of these new IFRS has not had a material impact on the consolidated financial statements in 2017, and management does not anticipate any significant impact on future periods from the adoption of these new IFRS.

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 date 1 January 2018. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification of financial assets and measurement of financial instruments and hedging requirements. The standard is not expected to have any significant impact on recognition and measurement.
- IASB has is sued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2018. IFRS 15 is part of the convergence project with FASB to replace IAS 18. The new standard will establish a single, comprehensive framework for revenue recognition. Based on a preliminary assessment, the new standard on revenue recognition is not expected to have a significant effect on recognition and measurement.
- IASB has issued IFRS 16 "Leasing", with effective date 1 January 2019. The change in lease accounting requires capitalisation of the majority of the Group's operational lease contracts. Management has not made a thorough analysis of the effect of the implementation of IFRS 16 "Leases". Based on the operational lease commitment as of 31 May 2017, Bang & Olufsen has a minimum lease obligation of DKK 250 million, corresponding to 9 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.

SECTION 1

BASIS OF REPORTING

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. In 2016/17, new assumption used to determine the value of service stock has been applied cf. note 3.5.1.

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 10-15.

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 top operational management to evaluate results and resource allocation.

The Group's reportable segments are:

- Bang & Olufsen
- B&O PLAY

The segments are split based on differences in products. Bang & Olufsen is made of the 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.

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RESULTS FOR THE YEAR

2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

The Group's geographical areas are:

- Europe
- North America
- 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 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.

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

	2016/17			
	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**

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

	2015/16			
	Bang & Olufsen	B&O PLAY	Unallocated	Total
Revenue, Group	**1,663.2**	**970.2**	**-**	**2,633.4**
Gross profit, Group	**645.5**	**306.4**	**-**	**951.9**
Gross margin-%	**38.8**	**31.6**	**-**	**36.1**
Amortisation, depreciation and impairment losses	(203.0)	(28.3)	-	(231.3)
Other non-allocated capacity costs	-	-	(922.6)	(922.6)
Share of result after tax in associated companies	-	-	(0.4)	(0.4)
Financial income	-	-	1.6	1.6
Financial expenses	-	-	(40.5)	(40.5)
Earnings before tax	**-**	**-**	**(962.2)**	**(241.6)**
Completed development projects	212.8	18.4	-	231.2
Development projects in progress	148.6	3.0	-	151.6
Total segment assets	361.4	21.4	-	382.8
Unallocated assets	-	-	2,449.0	2,449.0
Total assets, Group	**361.4**	**21.4**	**2,449.0**	**2,831.8**
Denmark	876	49	-	925
Rest of world	889	33	-	922
Average number of full-time employees, Group	**1,765**	**82**	**-**	**1,847**

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

	Total non-current assets		Total revenue	
	2016/17	2015/16	2016/17	2015/16
Geographical information				
Europe	571.4	621.2	1,680.5	1,668.7
North America	1.4	4.6	366.7	214.1
Greater China	6.8	57.1	412.0	293.5
Rest of world	1.0	0.8	494.8	457.1
Total	**580.6**	**683.7**	**2,954.0**	**2,633.4**
Denmark	526.6	570.2	359.4	354.2
Rest of world	54.0	113.5	2,594.6	2,279.2
Total	**580.6**	**683.7**	**2,954.0**	**2,633.4**

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 2,813.5 million and license income of DKK 140.5 million (in 2015/16 DKK 2,632.9 million from sale of goods and DKK 30.5 million from license income).

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RESULTS FOR THE YEAR

(DKK million)	2016/17	2015/16

2.2 STAFF COSTS

Wages and salaries etc.	642.0	622.6
Share-based payment	1.1	11.1
Pensions	42.3	36.6
Other social security costs	31.9	41.8
Total	**717.3**	**712.1**
Expensed as follows:		
Production costs	304.4	352.5
Development costs	124.5	91.0
Distribution- and marketing costs	211.7	186.0
Administration costs	76.7	82.7
Total	**717.3**	**712.1**
Average number of full-time employees	**1,643**	**1,847**

	2016/17			2015/16		
Whereof to:	Board of Directors	Executive Mgt. Board	Other key employees	Board of Directors	Executive Mgt. Board	Other key employees
Wages, salaries and fees	4.1	11.4	7.0	4.2	19.7	8.6
Pensions	-	0.7	0.8	-	0.6	0.9
Bonus	-	0.8	1.0	-	0.4	0.9
Total	4.1	12.9	8.8	4.2	20.7	10.2
Share-based payment	-	(0.7)	0.5	-	8.7	1.3
Total remuneration	**4.1**	**12.2**	**9.3**	**4.2**	**29.4**	**11.5**

In 2016/17, there were 7 members of staff in the group 'Other key employees' (2015/16; 8 members).

Specified as follows:	2016/17	2015/16
Remuneration of Executive Management Board:		
Henrik Clausen (appointed 01.07.2016)	6.6	-
Tue Mantoni (resigned 30.09.2016)	(2.3)	23.0
Anders Aakær Jensen	3.9	3.4
Stefan K Persson	3.3	3.0
John Mollanger (appointed 08.04.2017)	0.7	-
Total	**12.2**	**29.4**

The value of the share-based payment expresses the group income statement effect of allocated share options. Please see note 4.7 for further information.

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RESULTS FOR THE YEAR

2.2 STAFF COSTS (CONTINUED)

(DKK million)	2016/17	2015/16
Remuneration of the Board:		
Ole Andersen (chairman)	0.9	1.2
Jim Hagemann Snabe (deputy chairman)	0.6	0.8
Jesper Jarlbæk	0.4	0.4
Majken Schultz	0.3	0.3
Albert Bensoussan	0.3	0.3
Mads Nipper	0.3	0.3
Ivan Tong Kai Lap (appointed 14.09.2016)	0.2	-
Juha Christensen (appointed 14.09.2016)	0.2	-
Jesper Olesen	0.3	0.3
Brian Bjørn Hansen	0.3	0.2
Geoff Martin	0.3	0.2
Per Østergaard Frederiksen (resigned 10.09.2015)	-	0.1
Knud Olesen (resigned 10.09.2015)	-	0.1
Total	**4.1**	**4.2**

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)	2016/17	2015/16
Incurred development costs before capitalisation	360.9	302.1
Herof capitalised	(173.7)	(152.0)
Incurred development costs after capitalisation	187.2	150.1
Capitalisation (%)	*48.1*	*50.3*
Total amortisation charges and impairment losses on development projects	221.6	164.7
Total	**408.9**	**314.8**

2.4 FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

(DKK million)	2016/17	2015/16
Statutory audit	3.0	2.3
Tax services	1.2	1.1
Other services	1.3	2.2
Total	**5.5**	**5.6**

EY were re-appointed as auditors at the Annual General Meeting on 14 September 2016.

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

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. This assessment is based on the details specified in the Strategy section on page 30 in the management review. The deferred tax assets amount to DKK 279.2 million as at 31 May 2017 (DKK 209.0 million as at 31 May 2016).

SECTION 2

RESULTS FOR THE YEAR

(DKK million)	2016/17	2015/16

2.5 TAXATION (CONTINUED)

Income statement and other comprehensive income

Tax recognised in Income statement		
Corporation tax, continuing operations	(49.4)	(43.8)
Corporation tax, discontinued operations	-	7.4
	(49.4)	(36.4)
Current tax charge/credit	14.9	(8.0)
Adjustment for prior periods, current tax	2.3	(6.0)
	17.2	(14.0)
Change in deferred tax	(72.3)	(23.1)
Adjustment of deferred tax prior years	-	0.8
Adjustments from change in tax rate	1.3	1.6
	(71.0)	(20.7)
Total taxation charge in the income statement	**(53.8)**	**(34.7)**
Tax recognised in:		
Income statement	(49.4)	(36.4)
Other comprehensive income	(4.4)	1.7
Total	**(53.8)**	**(34.7)**

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.

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:

	2016/17		2015/16	
	%	DKKm	%	DKKm
Tax calculated on earnings before tax	22.0	(36.5)	22.0	(53.7)
Non-deductible costs and non-taxable income	2.2	(3.7)	-0.7	1.6
Deviating tax rates in foreign subsidiaries	0.6	(0.9)	2.4	(5.8)
Changes in tax rates	-0.8	1.3	-0.7	1.6
Adjustments to prior periods	-1.4	2.3	2.1	(5.2)
Re-capitalised tax loss carry-forwards	6.9	(11.4)	-8.0	19.6
Foreign withholding tax	-0.3	0.5	-0.1	0.2
Non-taxable dividends / profit from subsidiaries and associates	-0.0	0.0	-2.8	6.9
Other	0.6	(1.0)	0.6	(1.6)
Annual effective tax rate/taxation charge in income statement	**29.8**	**(49.4)**	**14.9**	**(36.4)**

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.5 TAXATION (CONTINUED)

Balance sheet

Deferred tax assets	Non-current assets	Inventories	Receiv-ables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax assets 1 June 2015	73.7	(0.4)	9.0	18.0	44.3	42.9	187.5
Changes in tax rates	-	-	0.1	-	1.5	-	1.6
Recognised in the income statement	(11.5)	3.8	(0.6)	(2.4)	28.0	2.6	19.9
Deferred tax assets 31 May 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**

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

“Other” in deferred tax assets includes a tax asset of DKK 27.3 million from deferred income.

In 2016/17, a deferred tax asset of DKK 101.7 million has been recognised in the jointly-taxed Danish companies based on tax loss 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 2016/17, Bang & Olufsen US tax assets of DKK 17.7 million have been capitalised regarding tax losses carried forward. The recognition is based on the expectations to future earnings in Bang & Olufsen US. Unrecognised deferred tax assets amount to DKK 42.3 million. The basis for the unrecnognised deferred tax assets includes tax losses of DKK 120.9 million. The tax losses can be carried forward for a period of 1-20 years.

Deferred tax liabilities	Non-current assets	Inventories	Receiv-ables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax liabilities 1 June 2015	13.1	(0.2)	(1.0)	(0.2)	(0.8)	(0.3)	10.6
Recognised in the income statement	(1.0)	0.1	1.5	0.2	0.8	(0.8)	0.8
Deferred tax liabilities 31 May 2016	12.1	(0.1)	0.5	0.0	-	(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**	**0.0**	**-**	**(0.1)**	**10.7**

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

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

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.6 EARNINGS PER SHARE

2016/17	Basic	Diluted
Earnings for the year - continued operations	(116.5)	(116.5)
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	-	-
Total weighted average number of ordinary shares in issue - million	43.2	43.2
Earnings per ordinary share - continued operations	(2.7)	(2.7)
Earnings per ordinary share	(2.7)	(2.7)

2015/16	Basic	Diluted
Earnings for the year - continued operations	(197.8)	(197.8)
Earnings for the year	(207.7)	(207.7)
Weighted average number of shares in issue - million	43.2	43.2
Dilution due to share options	-	-
Total weighted average number of ordinary shares in issue - million	43.2	43.2
Earnings per ordinary share - continued operations	(4.6)	(4.6)
Earnings per ordinary share	(4.8)	(4.8)

2.7 OTHER OPERATING INCOME AND EXPENSES

Other operating income in 2016/17 included the gain from the sale of the Czech subsidiary cf. note 5.3. In 2015/16 other operating income and expenses related to payments and incur costs related to services provided during the transition of the support functions to Harman.

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.

SECTION 3

OPERATING ASSETS AND LIABILITIES

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 2015/16 financial year. Development projects amount to DKK 334.8 million as at 31 May 2017 (DKK 382.8 million as at 31 May 2016). The main additions in the 2016/17 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 cash-generating 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.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.1 INTANGIBLE ASSETS (CONTINUED)

	Goodwill	Acquired rights	Completed development projects	Development projects in progress	Total
Cost					
At 31 May 2015	71.2	159.9	894.0	80.3	1,205.4
Exchange rate adjustments	(0.5)	-	-	-	(0.5)
Additions	-	2.9	47.7	104.2	154.8
Disposals	(4.3)	-	(203.4)	-	(207.7)
Completed development projects	-	-	32.9	(32.9)	-
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)	0.0
At 31 May 2017	**66.2**	**165.3**	**898.1**	**137.9**	**1,267.5**
Amortisation and impairment					
At 31 May 2015	(1.0)	(151.9)	(581.9)	-	(734.8)
Exchange rate adjustments	(0.1)	-	3.2	-	3.1
Amortisation	-	(4.8)	(164.7)	-	(169.5)
Reversed amortisation on disposals	1.1	-	203.4	-	204.5
At 31 May 2016	(0.0)	(156.7)	(540.0)	-	(696.8)
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)**
Net book value					
At 31 May 2017	**47.0**	**4.2**	**196.9**	**137.9**	**386.0**
At 31 May 2016	66.4	6.1	231.2	151.6	455.2

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

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 2016/17 impairment losses of DKK 19.2 million have been recognised related to restructure and optimisation of the distribution as described in the management report (2015/16 DKK 0 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 page 28. The terminal value is determined on the assumption of a growth of 2.0 per cent (2015/16; 2.0 per cent). The growth rate is not expected to exceed the long-term growth rate. A discount rate before tax of 11.4 per cent is used (9.0 per cent after tax) (2015/16; 11.4 per cent/9.0 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 (2015/16; 10.0 per cent).

	2016/17	2015/16
Amortisation and impairment losses		
Production costs	3.4	2.6
Development costs	222.2	165.3
Distribution- and marketing costs	20.5	1.4
Administration costs etc.	0.1	0.2
Total	**246.2**	**169.5**

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK 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 andthe 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

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.2 TANGIBLE ASSETS (CONTINUED)

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, the recoverable amount of the asset is determined to assess the need for recognition of any impairment loss.

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 page 28.

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.

Impairment losses of DKK 22.7 million have been recognised in relation to specific tangible assets during 2016/17 as part of termination of leases and restructure described in the management report (2015/16 DKK 13.6 million).

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.2 TANGIBLE ASSETS (CONTINUED)

	Land and buildings	Plant and machinery	Other equipment	Leasehold improve-ments	Tangible assets in course of construction	Total
Cost						
At 31 May 2015	386.8	1,144.1	194.5	89.0	9.1	1,823.5
Exchange rate adjustments	(0.1)	-	(2.5)	(4.3)	-	(6.9)
Additions	1.2	23.5	6.8	11.2	7.3	50.0
Completed assets	1.6	5.1	0.6	1.4	(8.7)	-
Disposals	-	(51.2)	(18.0)	(11.7)	-	(80.9)
Transfer asset held for sale	-	-	(2.9)	-	-	(2.9)
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**
Amortisation and impairment						
At 31 May 2015	(282.2)	(1,075.2)	(167.7)	(44.1)	-	(1,569.2)
Exchange rate adjustments	0.1	(3.5)	1.0	1.7	-	(0.7)
Depreciation	(9.6)	(27.3)	(8.6)	(14.5)	-	(60.0)
Impairment losses	-	-	-	(13.6)	-	(13.6)
Reversed depreciation on disposals	-	48.0	15.7	6.7	-	70.4
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)**
Net book value						
At 31 May 2017	**75.2**	**48.6**	**5.2**	**4.6**	**45.0**	**178.6**
At 31 May 2016	97.8	63.5	18.9	21.8	7.7	209.7

There are no contractual obligations regarding purchase of tangible assets.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)	2016/17	2015/16

3.2 TANGIBLE ASSETS (CONTINUED)

Depreciation and impairment losses		
Production costs	44.6	47.3
Development costs	4.3	4.7
Distribution- and marketing costs	29.2	21.3
Administration costs etc.	7.8	0.3
Total	**85.9**	**73.6**

Impairment losses of DKK 22.7 million have been recognised in relation to tangible assets during 2016/17 (2015/16 DKK 13.6 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 2016/17 (2015/16 DKK 0 million).

Cost	
At 1 June 2015	79.9
Disposals	(1.3)
At 31 May 2016	78.6
At 31 May 2017	**78.6**
Depreciation and impairment	
At 1 June 2015	(62.8)
Depreciation	(0.5)
Impairment losses	1.1
At 31 May 2016	(62.1)
Depreciation	(0.5)
At 31 May 2017	**(62.6)**
Net book value	
At 31 May 2017	**16.0**
At 31 May 2016	16.5

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

External rental income of DKK 2.4 million has been received from the investment property in 2016/17 (2015/16; DKK 2.4 million), and directly attributed operating expenses were DKK 0.6 million (2015/16; DKK 1.0 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 2017/18.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.4 OTHER FINANCIAL RECEIVABLES

Cost	
At 1 June 2015	146.7
Exchange rate adjustments	(0.4)
Changes	(16.9)
At 31 May 2016	129.5
Exchange rate adjustments	(2.9)
Changes	(73.2)
At 31 May 2017	**53.4**
Impairment	
At 1 June 2015	(23.4)
Exchange rate adjustments	0.2
Impairment reversals/losses	17.2
At 31 May 2016	(6.1)
Exchange rate adjustments	2.0
Impairment reversals/losses	3.2
At 31 May 2017	**(0.9)**
Net book value	
At 31 May 2017	**52.5**
At 31 May 2016	123.4

The fair value of other financial receivables in the Group amounts to DKK 52.5 million (DKK 123.4 million in 2015/16) of which DKK 41.2 million in non-current. The fair value is calculated as the present value of the future expected cash flows from the receivables.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

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.

Critical accounting estimates and judgements
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 trade receivables amount to DKK 410.3 million as at 31 May 2017 (DKK 430.5 million as at 31 May 2016).

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. In 2016/17, the accounting estimate related to service stock has changed, which has resulted in an additional impairment of DKK 22.5 million. Due to the change in accounting estimate and changes in the end-to-end operating model, a total write-down of DKK 41.8 million has been recognised in 2016/17 in relation to service stock and retail inventory. Inventories amount to DKK 347.3 million as at 31 May 2017 (DKK 498.0 million as at 31 May 2016).

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)	2016/17	2015/16

3.5 WORKING CAPITAL (CONTINUED)

3.5.1 Inventories

Raw materials	27.6	128.7
Work in progress	24.1	28.5
Spare parts	52.5	69.7
Finished goods	243.1	271.1
Total 31 May	**347.3**	**498.0**

It is Group policy that spare parts should be available for a number of years after sale of the product. Accordingly, DKK 27.3 million (2015/16; DKK 35.2 million) is expected to be realised after more than 12 months.

Other disclosures:

Inventory movement recognised in production costs	1,524.7	1,389.0
Impairment of inventories recognised in production costs	49.3	37.4
Reversal of impairment of inventories recognised in production costs	-	-

3.5.2 Trade receivables

Trade receivables at 31 May (gross)	448.0	509.8
Impairment 1 June	(79.3)	(120.7)
Exchange rate adjustment to year-end rate	(4.6)	2.3
Change in impairment during the year	2.3	(26.4)
Actual losses during the year	43.9	65.5
Impairment 31 May	(37.7)	(79.3)
Trade receivables at 31 May (net)	**410.3**	**430.5**

All trade receivables fall due within one year.

Financial income of DKK 1.7 million (2015/16; DKK 0.2 million) has been recognised in the Group relating to impaired trade receivables.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.5 WORKING CAPITAL (CONTINUED)

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.

	2016/17	2015/16
Maturity analysis:		
Amounts not due	386.9	378.7
Overdue up to 30 days	1.4	2.0
Overdue between 30 and 60 days	5.5	7.2
Overdue between 60 and 90 days	2.7	7.4
Overdue between 90 and 120 days	0.1	5.9
Overdue more than 120 days	13.7	29.2
Trade receivables at 31 May (net)	**410.3**	**430.5**

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

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

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, the sum of unrecognised actuarial losses, 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.

SECTION 3

OPERATING ASSETS AND LIABILITIES

3.6 PENSIONS (CONTINUED)

(DKK million)	2016/17	2015/16
Amounts recognised in the income statement:		
Defined contribution plans	41.5	35.9
Defined benefit plans	0.8	0.7
Total pension amount charged to the income statement	42.3	36.6
Amounts recognised in the balance sheet:		
Wholly unfunded defined benefit plans	1.9	3.3
Wholly or partly funded defined benefit plans	25.2	25.8
Present value of defined benefit obligation 31 May	27.1	29.1
Fair value of plan assets	(12.7)	(12.8)
Unrecognised actuarial (gains) and losses	-	-
Defined benefit plans obligation 31 May	14.4	16.3
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	
	2016/17	2015/16	2016/17	2015/16
Actuarial assumptions:				
Calculation rate p.a.	1.6%	1.6%	2.3%	2.3%
Expected salary increase p.a.	1.5%	1.5%	2.5%	2.5%
Expected rate of return p.a.	1.6%	1.6%	2.3%	2.3%

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.6 PENSIONS (CONTINUED)

	2016/17	2015/16
Germany:		
Present value of future payments	19.8	20.3
Fair value of plan assets	(8.2)	(8.3)
Actuarially calculated net obligation	11.6	12.0
Norway:		
Present value of future payments	5.3	5.6
Fair value of plan assets	(4.5)	(4.5)
Actuarially calculated net receivable	0.8	1.1
Net obligation	12.5	13.0
Wholly unfunded defined benefit plans	1.9	3.3
Defined benefit plans 31 May, net	**14.5**	**16.3**

5 year overview:	2016/17	2015/16	2014/15	2013/14	2012/13
Present value of defined benefit obligation	27.1	29.1	31.5	28.2	27.2
Fair value of plan assets	(12.7)	(12.8)	(13.8)	(14.8)	(14.6)
Deficit, defined benefit plans	14.4	16.3	17.7	13.4	12.6
Experience-based adjustments of defined benefit obligation	-	-	4.2	1.2	1.4
Experience-based adjustments of plan assets for defined benefit plans	0.2	0.3	(0.6)	0.6	(0.0)

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.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.7 PROVISIONS (CONTINUED)

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 56.6 million have been recognised as at 31 May 2017 (2015/16; DKK 60.3 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 the 2014/15 financial year. The decrease in the provision is due to a reduction in repair costs and a changed product mix within the warranty period. No reimbursements will be received from third parties to cover the provisions.

	Warranty and fairness	Employee anniversary benefits	Other obligations*	Total
At 31 May 2015	58.8	2.9	8.6	70.3
Exchange rate adjustment to year-end rate	(1.1)	-	-	(1.1)
Provisions in the year	49.6	0.5	-	50.1
Provisions used in the year	(32.1)	(0.8)	(0.1)	(33.0)
Provisions reversed in the year	(14.8)	-	(3.2)	(18.0)
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**
Falls due 1-5 year	20.3	1.8	6.0	28.0
Falls due after 5 years	-	-	-	-
Non-current provisions	20.3	1.8	6.0	28.0
Falls due within one year	36.4	0.5	42.5	79.4
At 31 May 2017	**56.6**	**2.3**	**48.5**	**107.4**

*Other obligations includes provision for restructuring in the Bang & Olufsen segment of DKK 30 million.

3.8 DEFERRED INCOME

Deferred income classified as non-current liabilities constitute revenue related to the license agreement with Harman. This includes deferred revenue from the Aluminum production agreement and future license income.

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%	2.3	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**
Fixed rate loans, interest rate 4.1%	2.2	9.8	13.1	23.0
Floating rate loans, interest rate level 0.5 - 1.0 %	6.3	27.4	130.6	158.0
Book value 31 May 2016	**8.5**	**37.2**	**143.7**	**181.0**

The fair value of the Group's mortgage loans amounts to DKK 179.3 million (2015/16; DKK 189.5 million).
All loans are in DKK.

4.1.2 Loans from banks

The Group has no loans in 2016/17 (2015/16; DKK 0 million).

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

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.

	2016/17	2015/16
Interest income from banks	0.5	0.9
Other financial income	1.9	0.7
Financial income	**2.4**	**1.6**
Interest costs on bank loans etc	(3.2)	(3.3)
Interest costs on mortgage loans	(7.9)	(7.6)
Exhchange rate losses, net	(20.6)	(11.3)
Other financial costs	(7.7)	(18.2)
Financial costs	**(39.4)**	**(40.5)**

All financial income and costs are related to financial assets and liabilities, which are not measured at amortised cost.

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.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

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 subsequently 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.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

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 as set 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 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.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

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.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

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

	2016/17		2015/16	
	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	52.5	52.5	123.7	123.7
Trade receivables	410.3	410.3	430.5	430.5
Other receivables	71.7	71.7	48.9	48.9
Loans and receivables	**534.5**	**534.5**	**603.1**	**603.1**
Mortgage loans	179.3	180.2	189.7	190.5
Trade payables	463.2	463.2	365.4	365.4
Overdraft facilities	335.4	335.4	273.4	273.4
Financial liabilities measured at amortised cost	**977.9**	**978.8**	**828.5**	**829.3**
Derivative financial instruments relating to hedging of forecasted future transactions included in other payables	(16.7)	(16.7)	(4.1)	(4.1)
Derivatives for hedging purposes	**(16.7)**	**(16.7)**	**(4.1)**	**(4.1)**

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 negative DKK 16.7 million (2015/16; negative DKK 4.1 million).

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange rate risk
In 2016/17 92 per cent of the Group's turnover was in foreign currency (2015/16; 91 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 2017, the Group has entered into foreign exchange forward contracts at a repurchase value of negative net DKK 325.2 million (2015/16; negative DKK 32.8 million), with a fair value of negative DKK 16.7 million (2015/16; negative DKK 4.1 million).

Foreign exchange derivatives, net

	31 May 2017		31 May 2016	
	Contractual value	Fair value	Contractual value	Fair value
USD	(707.0)	(22.7)	(227.5)	1.5
GBP	236.3	4.8	109.8	(7.3)
CHF	103.2	0.6	89.4	1.8
CZK	-	-	(23.7)	(0.1)
Other	42.4	0.5	19.2	0.0
Total	**(325.2)**	**(16.7)**	**(32.8)**	**(4.1)**

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

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	
	2016/17	2015/16	2016/17	2015/16
USD	(47.5)	(25.9)	(36.6)	(19.9)
GBP	11.0	10.0	8.5	7.7
CNY	15.8	8.1	12.2	6.2
CHF	6.3	7.0	4.8	5.4
Other	(0.7)	(1.2)	0.4	(0.0)
Total	**(15.1)**	**(2.0)**	**(10.7)**	**(0.7)**

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 1,079.2 million (2015/16; DKK 788.5 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 5.4 million in 2016/17 (2015/16; DKK 3.9 million).

At the end of the financial year, the Group's interest-bearing debt totaled DKK 179.3 million (2015/16; DKK 189.6 million) corresponding to 6.3 per cent of the balance sheet total (2015/16; 6.7 per cent).

Of the interest-bearing debt DKK 132.7 million falls due after five years (2015/16; DKK 143.7 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 626 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 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 2016/17 financial year, DKK 43.9 million was expensed as impairments on trade receivables (2015/16; DKK 65.5 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.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

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
2016/17				
Long-term bank loans	-	59.0	167.2	226.2
Short-term bank 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**

	Less than one year	Between one and five years	More than five years	Total
2015/16				
Long-term bank loans	-	60.7	186.0	246.7
Short-term bank loans	16.4	-	-	16.4
Trade payables	365.4	-	-	365.4
Total non-derivative financial liabilities	381.8	60.7	186.0	628.5
Total financial liabilities	**381.8**	**60.7**	**186.0**	**628.5**

Specification of net interest-bearing debt

	2016/17	2015/16
Cash and cash equivalents	1,079.2	788.5
Bank loans, non-current liabilities	(170.2)	(181.1)
Bank loans, current liabilities	(9.1)	(8.5)
Total	**899.9**	**598.9**

Defaults or breaches on loans
No loan agreements have been defaulted or breached in 2016/17 or 2015/16.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.4 CAPITAL STRUCTURE

The strategy requires substantial investments in R&D and other strategic inititiaves, driving the company towards a profitable growth and positive cash flow. Therefore, based on the company's result and to have sufficient funds to support the strategic initiatives, the Board of Directors proposes to the Annual General Meeting that no dividend be paid out for the 2016/17 financial year. It is the intention of the Board of Directors to resume dividend payments as soon as the financial results can justify it.

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.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.5 SHARE CAPITAL (CONTINUED)

	Issued shares			
	Number		Nominal value (DKK mio)	
	2016/17	2015/16	2016/17	2015/16
1 June	43,197,478	43,197,478	432.0	432.0
Capital increase	-		-	-
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 transferability and no voting restrictions.

	2016/17	2015/16	2014/15	2013/14	2012/13
Specification of movements in the share capital:					
Share capital	432.0	432.0	392.7	392.7	362.4
Capital increase	-	-	39.3	-	30.3
Share capital	432.0	432.0	432.0	392.7	392.7

Treasury shares

	Number		Nominal value (DKKm)		% of share capital	
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
1 June	22,999	22,999	0.2	0.2	0.1	0.1
Used in connection with employee share option programmes	-	-	-	-	-	-
31 May	**22,999**	**22,999**	**0.2**	**0.2**	**0.1**	**0.1**

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

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

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 or buy 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.

Share options have not been granted in the financial year 2016/17.

Matching shares
The Remuneration Committee of the Board of Directors decided in 2014/15 to implement a matching share programme (MSP) to replace the stock option programmes previously used 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 options. The shares are recognised directly in the equity. The holding of treasury shares totals 22,999 shares as at 31 May 2017 (22,999 shares as at 31 May 2016).

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.6 SHARE-BASED PAYMENT (CONTINUED)

	2016/17		2015/16	
	Number of options/ matching shares	Avg. exercise price (DKK)	Number of options/ matching shares	Avg. exercise price (DKK)
Outstanding at 1 June	1,527,147	39	2,127,790	58
Granted	248,816	-	239,032	-
Exercised	(483,048)	58	(96,759)	47
Expired	(533,964)	58	(736,916)	82
Forfeited	(55,484)	-	(6,000)	-
Outstanding 31 May	**703,468**	**-**	**1,527,147**	**39**

Further information about the outstanding stock options and matching shares:

	2016/17			2015/16		
	Number of options/ matching shares	Avg. exercise price (DKK)	Remaining term to maturity (months)	Number of options/ matching shares	Avg. exercise price (DKK)	Remaining term to maturity (months)
Outstanding programme 2010/11	0	-	0	75,605	47	2
Outstanding programme 2013/14	0	-	0	665,000	60	3
Outstanding programme 2013/14	0	-	0	282,405	55	3
Matching shares 2014/15	234,248	-	5	265,104	-	17
Matching shares 2015/16	220,404	-	17	239,032	-	29
Matching shares 2016/17	248,816	-	29	-	-	
Outstanding 31 May	**703,468**	**-**		**1,527,147**	**-**	

The share option and matching share agreements entitle Bang & Olufsen to demand cash settlement. 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 75 per share based on the share price at the time of grant (2015/16; DKK 46)

Staff cost recognised in the income statement in relation to share-based payments were DKK 1.1 million of which DKK 0.8 million relates to matching shares programme (2015/16; DKK 11.1 million of which DKK 8.2 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)	2016/17	2015/16
Change in other liabilities	26.4	(18.7)
Financial income	(2.4)	(1.6)
Financial costs	39.4	40.5
Result of investments in associates after tax	-	0.4
Gain/loss on sale of non-current assets	(2.5)	(4.1)
Gain/loss on sale of business	(30.9)	39.0
Tax on earnings for the year	(49.4)	(36.4)
Other adjustments	(28.9)	(28.3)
Total non-cash adjustments	**(48.4)**	**(9.1)**

SECTION 5

OTHER NOTES

(DKK million)

5.2 DISCONTINUED OPERATIONS

Accounting policies
Discontinued operations represent a separate major line of business disposed of or in preparation for sale. The results of discontinued operations are presented separately in the income statement and comparative figures are restated. Assets and related liabilities from discontinued operations are presented as separate items in the balance sheet, and the cash flows from discontinued operations are presented separately in the cash flow statement.

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 and liabilities from discontinued operations and assets held for sale except financial assets, etc. are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

Discontinued operations includes the former business area Automotive sold at end of 2014/15 and ICEpower sold at the end of April 2016.

	2016/17	2015/16
Revenue	-	94.0
Expenses	-	(57.5)
Earnings before tax	**-**	**36.5**
Tax	-	(7.4)
Earnings for the year discontinued operations	**-**	**29.1**
Gains/losses on sale of assets and businesses	-	(39.0)
Gains/losses on sale of assets and businesses after tax	-	(39.0)
Total earnings from discontinued operations		**(9.9)**
Earnings per share of discontinued operations	-	(0.2)
Diluted earnings per share of discontinued operations	-	(0.2)
Cash flow from operating activities	-	52.6
Cash flow used for investing activities	-	13.4
Net cash flow from discontinued operations	**-**	**66.0**
Balance sheet items comprise:		
Plant & machinery	-	2.9
Assets held for sale	**-**	**2.9**
Liabilities associated with assets held for sale	**-**	**-**

SECTION 5

OTHER NOTES

(DKK million)

5.3 DISPOSALS OF BUSINESSES

Accounting policies
Newly acquired or newly established companies are recognised in the consolidated financial statements as from the date of acquisition or the date of establishment, respectively. The acquisition date is the date, where control of the company is actually obtained. Companies sold or liquidated are included in the profit and loss account until the date of sale or liquidation. The date of sale is the date, where control of the company is actually transferred to a third-party. When acquiring new companies, where the Group obtains a controlling influence in the acquired company, the acquisition method is applied, by which the newly acquired companies' identifiable assets, the liabilities and the contingent liabilities are measured at fair value at the acquisition date.

The consideration paid for a company is the fair value of the consideration paid for the acquired company. Acquisition-related costs are recognised in profit or loss in the periods in which the costs are incurred.

Positive differences (goodwill) between, on the one hand, the consideration paid for 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 are recognised as an asset under intangible assets, and are tested for impairment at least once a year. If the carrying amount of the asset exceeds the recoverable amount, the carrying amount of the asset is reduced to the lower recoverable amount.

Bang & Olufsen s.r.o.
As of 31 May 2017 Bang & Olufsen sold 100% of the shares in the Czech assembly subsidiary Bang & Olufsen s.r.o. to Tymphany Acoustic Technology HK Limited (Tymphany). All of Bang & Olufsen's 322 Czech employees have been transferred to Tymphany.

	2016/17
The net value of sold assets and liabilities is as follows:	
Land and buildings	5.8
Other equipment	2.9
Total non-current assets	**8.7**
Inventories	90.1
Trade receivables	-
Other receivables	104.6
Cash at bank and in hand	0.1
Total current assets	**194.8**
Total non-current liabilities	
Trade payables	65.2
Other liabilities	36.7
Total current liabilities	**101.9**
Sold net assets	**101.6**
The purchase price is as follows:	
Cash	122.9
Escrow	11.2
Transaction costs	(1.6)
Total sales price	**132.5**
Gain from sale	**30.9**

The gain is recognised as other operating income in the income statement.

SECTION 5

OTHER NOTES

(DKK million)

5.4 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.

	2016/17	2015/16
Leasing commitments:		
Plant and machinery etc.	14.8	16.4
Shops	98.9	166.3
Office and factory property	136.9	129.5
Total	**250.5**	**312.1**
Maturity:		
Due within 1 year	70.1	79.9
Due 1 - 5 years	99.3	131.7
Due after 5 years	81.1	100.5
Total	**250.5**	**312.1**
Rental and lease payments, net for the year	99.4	117.5
Minimum rental and lease payments	99.4	117.5

No contingent rental or lease payments have been recognised in the income statement in 2016/17 or 2015/16.

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.

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OTHER NOTES

(DKK million)

5.4 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

	2016/17	2015/16
Guarantees		
Total guarantees as at 31 May	0.4	2.4

None of the guarantees are expected to result in any losses.

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 of DKK 9.3 million (2015/16; DKK 22.6 million)

Mortgages and securities
Land and buildings and investment property have been mortgaged in the amount of DKK 179.3 million (2015/16; DKK 189.6 million) as security for DKK 178.9 million of the Group's mortgage and bank debt (2015/16; DKK 189.5).

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 91.2 million (2015/16; DKK 105.9 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.

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OTHER NOTES

(DKK million)

5.5 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 Board 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 5.8.

Board of Directors, Executive Management Board 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 Board and other key management personnel. Remuneration and share option programmes are shown in notes 2.2 and 4.6.

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

Associates
The transactions with associates in 2015/16 is related to John Bjerrum Nielsen A/S sold as of May 2016.

	2016/17	2015/16
Purchase of raw materials	-	(22.6)

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

5.6 MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

No material events have occured after the balance sheet date.

5.7 APPROVAL OF THE ANNUAL REPORT FOR PUBLICATION

At the Board meeting held on 11 Juli 2017 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 13 September 2017.

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OTHER NOTES

(DKK million)

5.8 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 %	
Bang & Olufsen s.r.o*	Koprivnice, CZ	CZK	187,800,000	100 %	
B&O PLAY a/s	Struer, DK	DKK	7,500,000	100 %	

Dormant companies have not been included

*Sold as of 31 May 2017

SECTION 5

OTHER NOTES

(DKK million)

5.9 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.

CONTENTS – BANG & OLUFSEN A/S

Notes

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 304 million which is a decrease of DKK 6 million compared to the 2015/16 financial year. 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 2016/17 was positive 59.1 per cent compared to 64.1 per cent last year.

Capacity costs
Bang & Olufsen a/s's capacity costs increased by DKK 36 million from DKK 474 million last year to DKK 510 million, which was caused by an increase in development costs. Administrative expenses amounted to DKK 92 million compared to DKK 93 million last year. Development costs recognised as an expense, incl. amortisation, were DKK 331 million against DKK 303 million last year.

Earnings before interest and tax for the 2016/17 financial year were negative DKK 330 million against negative DKK 275 million last year.

Earnings before tax were negative DKK 330 million against negative DKK 138 million last year. Bang & Olufsen a/s incurred financial items of net positive DKK 20 million mainly due to the sale of shares in the Czech subsidiary.

Development in balance sheet items and cash flow
Free cash flow in the financial year 2016/17 was positive DKK 195 million against negative DKK 192 million in the 2015/16 financial year. The significant change is due positive cash flow from operating activities and due to sales of shares in the Czech subsidiary.

At the end of the 2016/17 financial year Bang & Olufsen's net working capital was negative DKK 667 million compared to negative DKK 360 million at the end of the 2015/16 financial year, mainly due to changes in accounts with subsidaries.

Net interest-bearing deposit increased to DKK 715 million against DKK 625 million at the end of the 2015/16 financial year.

Equity at 31 May 2017 was DKK 1,193 million compared to DKK 1,422 last year.

Research and development
For information about Bang & Olufsen a/s's research and development activities, please refer to the section in Product Launches as described on pages 16-19 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 20-23 and pages 37-41 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 32 of the Group Report.

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

INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME FOR BANG & OLUFSEN A/S 1 JUNE – 31 MAY

(DKK million)	Notes	2016/17	2015/16
Revenue	3	**304.2**	**310.2**
Production costs	4	(124.4)	(111.2)
Gross profit		**179.8**	**199.0**
Development costs	4,5	(331.2)	(302.5)
Distribution and marketing costs	4	(86.2)	(78.8)
Administration costs	4	(92.3)	(92.9)
Operating profit (EBIT)		**(329.9)**	**(275.2)**
Dividend from subsidiaries		-	134.1
Financial income	6	92.3	24.7
Financial expenses	6	(72.5)	(21.8)
Financial items, net		19.7	2.9
Earnings before tax (EBT)		**(310.2)**	**(138.3)**
Income tax	8	86.4	60.9
Earnings for the year - continued operations		(223.8)	(77.4)
Earnings for the year - discontinued operations	18	-	(52.1)
Earnings for the year		**(223.8)**	**(129.5)**
Total comprehensive income for the year		**(223.8)**	**(129.5)**

BALANCE SHEET FOR BANG & OLUFSEN A/S AT 31 MAY

(DKK million)	Notes	31/5/17	31/5/16
Acquired rights		1.4	5.3
Completed development projects		196.9	231.2
Development projects in progress		137.9	151.6
Intangible assets	9	**336.2**	**388.1**
Land and buildings		36.7	47.8
Plant and machinery		0.7	0.9
Other equipment		2.2	2.0
Leasehold improvements		0.3	0.7
Tangible assets in course of construction and prepayments of tangible assets		18.4	1.0
Tangible assets	10	**58.3**	**52.5**
Investment property	11	**54.5**	**58.1**
Investments in subsidiaries	12	607.1	651.6
Other financial receivables		14.6	9.1
Financial assets		**621.7**	**660.6**
Deferred tax assets		**131.2**	**70.1**
Total non-current assets		**1,202.0**	**1,229.3**
Trade receivables		16.2	0.1
Other financial receivables		8.5	93.1
Receivables from subsidiaries	20	3.0	31.8
Corporation tax receivable		34.6	58.1
Other receivables		17.3	1.6
Prepayments		3.3	4.2
Total receivables		**82.9**	**188.9**
Cash		**894.1**	**715.3**
Total current assets		**977.0**	**904.2**
Total assets		**2,179.1**	**2,133.5**

BALANCE SHEET FOR BANG & OLUFSEN A/S AT 31 MAY

(DKK million)	Notes	31/5/17	31/5/16
Share capital	13	432.0	432.0
Reserve for development costs	13	135.4	-
Retained earnings	13	625.4	989.7
Total equity		**1,192.7**	**1,421.7**
Provisions		0.7	0.4
Mortgage loans	14	170.2	181.1
Other non-current liabilities		99.7	124.0
Total non-current liabilities		**270.7**	**305.4**
Mortgage loans	14	9.1	8.5
Provisions		0.2	0.6
Trade payables		78.6	62.9
Debt to subsidiaries	20	494.5	235.6
Other liabilities		133.4	98.9
Total current liabilities		**715.8**	**406.5**
Total liabilities		**986.4**	**711.9**
Total equity and liabilities		**2,179.1**	**2,133.5**

CASH FLOW STATEMENT FOR BANG & OLUFSEN A/S 1 JUNE – 31 MAY

(DKK million)	Notes	2016/17	2015/16
Earnings for the year - continued operations		(223.8)	(77.4)
Earnings for the year - discontinued operations		-	(52.1)
Amortisation, depreciation and impairment losses		243.8	178.7
Adjustments for non-cash items	16	(239.0)	(22.8)
Change in receivables		82.4	460.2
Change in inventories		-	0.1
Change in trade payables etc		309.1	(548.5)
Cash flow from operations		**172.6**	**(61.8)**
Interest received		92.3	24.7
Interest paid		(72.5)	(21.8)
Income tax paid		(4.9)	6.2
Cash flow from operating activities		**187.4**	**(52.7)**
Purchase of intangible non-current assets		(173.6)	(154.5)
Purchase of tangible non-current assets		(19.3)	(1.4)
Purchase of investment property		(1.3)	(1.0)
Sale of subsidiary		122.9	-
Sales of investments in associates		-	23.0
Change in financial receivables		79.1	(5.1)
Cash flow from investing activities		**7.8**	**(139.0)**
Free cash flow		**195.2**	**(191.7)**
Repayment of long-term loans		(10.3)	(9.9)
Repayment of short-term borrowings		-	(210.0)
Settlement of share options		(6.1)	(3.0)
Cash flow from financing activities		**(16.4)**	**(222.9)**
Change in cash and cash equivalents		**178.8**	**(414.6)**
Cash and cash equivalents, 1 June		715.3	1,129.9
Cash and cash equivalents, 31 May		**894.1**	**715.3**
Cash and cash equivalents:			
Cash		894.1	715.3
Cash and cash equivalents 31 May		**894.2**	**715.3**

STATEMENT OF CHANGES IN EQUITY FOR BANG & OLUFSEN A/S 1 JUNE – 31 MAY

	Shareholders of the parent company			
(DKK million)	Share capital	Reserve for develop-ment costs	Retained earnings	Total
Equity 1 June 2016	**432.0**		**989.6**	**1,421.6**
Earnings for the year	-	135.4	(359.2)	(223.8)
Comprehensive income for the year	-	135.4	(359.2)	(223.8)
Grant of share options	-	-	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**
Equity 1 June 2015	**432.0**	**-**	**1,111.0**	**1,543.0**
Earnings for the year	-	-	(129.5)	(129.5)
Comprehensive income for the year	-	-	(129.5)	(129.5)
Grant of share options	-	-	11.1	11.1
Settlement of share options	-	-	(3.0)	(3.0)
Equity 31 May 2016	**432.0**	**-**	**989.6**	**1,421.6**

NOTES

(DKK million)

1 ACCOUNTING PRINCIPLES

The financial statements for 2016/17 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) cf. the Statutory Order on Adoption of IFRS (the Danish announcement on Adoption of IFRS) issued in accordance with the Danish Financial Statements Act.

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 and associates
Investments in subsidiaries and associates 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 and associates 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 and associates 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 the associate Bang & Olufsen Medicom 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.

NOTES

(DKK million)

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 334.8 million as at 31 May 2017 (DKK 382.8 million as at 31 May 2016).

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 131.2 million as at 31 May 2017 (DKK 70.1 million as at 31 May 2016).

NOTES

(DKK million)	2016/17	2015/16

3 REVENUE

Geographical split:		
Rest of the world	140.5	30.5
Denmark	163.7	279.7
Total	**304.2**	**310.2**
Functional split:		
Sale of services	12.9	12.4
Royalty	225.1	230.0
Rental income	66.2	67.8
Total	**304.2**	**310.2**

4 STAFF COSTS

Wages and salaries etc.	221.8	231.2
Share-based payment	0.6	4.0
Pensions	16.8	16.7
Other social security costs	1.8	2.9
Total	**241.0**	**254.7**
Expensed as follows:		
Production costs	74.5	79.4
Development costs	98.1	104.5
Distribution and marketing costs	23.6	25.1
Administration costs	44.9	45.8
Total	**241.0**	**254.7**
Average number of full-time employees	409	430

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.

NOTES

5 DEVELOPMENT COSTS

(DKK million)	2016/17	2015/16
Incurred development costs before capitalisation	283.2	289.8
Herof capitalised	(173.6)	(152.0)
Incurred development costs after capitalisation	109.6	137.8
Capitalisation (%)	*61.3%*	*52.4%*
Total amortisation charges and impairment losses on development projects	221.6	164.7
Total	**331.2**	**302.5**

6 FINANCIAL ITEMS

(DKK million)	2016/17	2015/16
Interest income from banks	0.4	0.9
Interest income from subsidiaries	1.6	6.7
Gain from sale of subsidiaries	90.3	-
Gain from sale of associated companies	-	5.5
Exchange rate gains, net	-	11.6
Financial income	**92.3**	**24.7**
Interest costs on bank loans	3.1	3.1
Interest costs on mortgage loans	7.9	7.6
Interest costs to subsidiaries	9.1	7.9
Exhchange rate losses, net	50.5	-
Other financial costs	1.9	3.2
Financial costs	**72.5**	**21.8**

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

NOTES

(DKK million)	2016/17	2015/16

7 TAXATION

Income statement and other comprehensive income

(DKK million)	2016/17	2015/16
Tax recognised in income statement		
Corporate tax, continuing operations	(86.4)	(60.9)
Corporate tax, discontinued operations	-	(0.5)
	(86.4)	(60.4)
Current tax charge/credit	(24.9)	(56.9)
Adjustment to prior periods, current tax	(0.3)	(7.8)
	(25.2)	(64.7)
Change in deferred tax	(61.2)	(2.6)
Adjustment of deferred tax prior years	-	6.9
Adjustments from change in tax rate	-	-
	(61.2)	4.3
Total taxation charge in the income statement	**(86.4)**	**(60.4)**
Tax recognised in:		
Income statement	(86.4)	(60.4)
Other comprehensive income	-	-
	(86.4)	(60.4)

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

	2016/17		2015/16	
	%	DKKm	%	DKKm
Tax calculated on earnings before tax	22.0	(68.0)	22.0	(41.9)
Non-deductible costs and non-taxable income	6.0	(18.7)	(1.3)	2.6
Adjustments to prior periods	0.1	(0.3)	0.4	(0.8)
Changes in tax rates	0.0	-	0.0	-
Non-taxable dividends / profit from subsidiaries and associates	0.0	-	10.5	(19.9)
Other	(0.2)	0.5	0.3	(0.4)
Annual effective tax rate/taxation charge in income statement	27.9	(86.4)	31.8	(60.4)

Income tax paid including on-account payments for the jointly-taxed Danish companies amounts to DKK 4.9 million (2015/16; DKK -6.3 million)

NOTES

(DKK million)

7 TAXATION (CONTINUED)

Balance sheet

Critical accounting estimates and judgements
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 131.2 million as at 31 May 2017 (DKK 70.0 million as at 31 May 2016).

	Non-current assets	Receivables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax assets 1 June 2015	13.3	-	7.9	20.5	32.6	74.3
Adjustment to Joint taxation	(0.5)	-	(5.4)	(1.1)	0.1	(6.9)
Changes in tax rates	-	-	-	-	-	-
Recognised in the income statement	(5.5)	-	(2.3)	12.6	(2.2)	2.6
Deferred tax assets 31 May 2016	7.3	-	0.2	32.0	30.5	70.1
Adjustment to Joint taxation	-	-	-	-	-	-
Changes in tax rates	-	-	-	-	-	-
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**

In 2016/17 a deferred tax assets of DKK 90.6 million has been recognised in the jointly-taxed Danish companies based on tax loss carry-forwards, which can be indefinitely carried forward (2015/16; DKK 32 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.

NOTES

(DKK million)

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 334.8 million as at 31 May 2017 (DKK 382,8 million as at 31 May 2016).

	Goodwill	Acquired rights	Completed development projects	Development projects in progress	Total
Cost					
At 1 June 2015	3.2	152.3	894.0	80.3	1,129.8
Additions in the year	-	2.5	47.8	104.2	154.5
Disposals in the year	(3.2)	-	(203.4)	-	(206.6)
Completed development projects	-	-	32.9	(32.9)	-
At 31 May 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**
Amortisation and impairment					
At 1 June 2015	-	(145.2)	(582.0)	-	(727.2)
Amortisation during the year	-	(4.3)	(164.7)	-	(169.0)
Reversed amortisation on disposals	-	206.6	-	206.6	-
At 31 May 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)**
Net book value					
At 31 May 2017	**-**	**1.4**	**196.9**	**137.9**	**336.2**
At 31 May 2016	-	5.3	231.2	151.6	388.1

	2016/17	2015/16
Amortisation and impairment losses		
Production costs	3.2	2.4
Development costs	222.3	166.6
Total	**225.5**	**169.0**

No impairment losses have been recognised in 2016/17 (2015/16 DKK 0 million).

NOTES

(DKK million)

9 TANGIBLE ASSETS

	Land and buildings	Plant and machinery	Other equipment	Leasehold improve-ments	Tangible assets in course of construction	Total
Cost						
At 1 June 2015	183.0	22.4	124.0	2.7	1.8	333.9
Additions in the year	0.1	-	0.5	-	0.8	1.4
Completed assets	-	-	-	-	(1.6)	(1.6)
Disposals in the year	-	-	(0.8)	-	-	(0.8)
At 31 May 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**
Amortisation and impairment						
At 1 June 2015	(131.3)	(21.2)	(121.7)	(1.7)	-	(275.9)
Depreciation during the year	(4.0)	(0.3)	(0.8)	(0.3)	-	(5.4)
Reversed depreciation on disposals	-	-	0.8	-	-	0.8
At 31 May 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)**
Net book value						
At 31 May 2017	**36.7**	**0.7**	**2.2**	**0.3**	**18.4**	**58.3**
At 31 May 2016	47.8	0.9	2.0	0.7	1.0	52.5

There are no contratual obligations regarding purchase of tangible assets.

	2016/17	2015/16
Depreciation and impairment losses		
Production costs	4.2	1.8
Development costs	8.6	3.6
Total	**12.8**	**5.4**

Impairment losses of DKK 7.5 million have been recognised in relation to tangible assets during 2016/17 (2015/16 DKK 0 million).

NOTES

(DKK million)

10 INVESTMENT PROPERTY

Cost	
At 1 June 2015	270.4
Additions	1.0
Completed assets	1.6
Disposals in the year	(1.6)
At 31 May 2016	271.4
Additions	1.3
Completed assets	0.6
At 31 May 2017	**273.3**
Depreciation and impairment	
At 1 June 2015	(209.0)
Depreciation during the year	(5.5)
Impairment losses during the year	1.2
At 31 May 2016	(213.3)
Depreciation during the year	(5.5)
At 31 May 2017	**(218.8)**
Net book value	
At 31 May 2017	**54.5**
At 31 May 2016	58.1

All investment property is located in Struer and is used for production, warehousing and offices. Due to the location of the investment property 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 48.2 million has been received from the investment property in 2016/17 (2015/16; DKK 44,9 million), and directly attributed operating expenses were DKK 22.8 million (2015/16; DKK 19.3 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 10.8 million will be received in the 3 months which are included in the lease term of the operating leases.

NOTES

(DKK million)

11 IMPAIRMENT OF NON-CURRENT ASSETS

Intangible assets excl. goodwill – impairment losses during the year
No impairment losses have been recognised in 2016/17 and 2015/16.

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) (2015/16; 9.0%/7.0%).

Goodwill
No impairment losses have been recognised on cash-generating units which include goodwill in 2016/17 or 2015/16 in the parent company.

Financial assets – impairment losses during the year
No impairment losses have been recognised on non-current financial assets in the parent company in 2016/17 or 2015/16.

12 INVESTMENTS IN SUBSIDIARIES

Cost	
At 1 June 2016	651.6
Disposals	(44.4)
At 31 May 2017	**607.1**

Refer to note 5.8 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.

NOTES

(DKK million)

14 MORTGAGE LOANS AND LOANS FROM BANKS

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%	2.3	10.2	10.5	20.7
Floating rate loans, interest rate level 0.5 - 1.0 %	6.8	27.3	122.2	149.5
At 31 May 2017	**9.1**	**37.5**	**132.7**	**170.2**
Fixed rate loans, interest rate 4.1 %	2.2	9.8	13.1	23.0
Floating rate loans, interest rate level 0.5 - 1.0 %	6.3	27.4	130.7	158.1
At 31 May 2016	**8.5**	**37.2**	**143.8**	**181.1**

The fair value of the parent company's mortgage loans amounts to DKK 180.2 million (2015/16; DKK 189.5 million).

All loans are in DKK. The fair value is calculated as the present value of the expected future instalments and interest payments.

Loans from banks
The parent company has no current draw (2015/16; DKK 0 million).

15 SHARE-BASED PAYMENT

The share option programmes described in note 4.7 to the consolidated financial statements are issued by Bang & Olufsen a/s. The value of the share options granted to employees in the parent company's subsidiaries is recognised in investments in subsidiaries. DKK 0.5 million of the total expense of DKK 1.1 million relates to subsidiaries (2015/16; DKK 1.0 million of DKK 11.1 million).

16 NON-CASH ITEMS

	2016/17	2015/16
Financial costs	72.5	21.8
Gain/loss on sale of non-current assets	-	53.9
Tax on earnings for the year	(86.4)	(60.4)
Other adjustments	(76.7)	(13.4)
Total adjustments	**(182.9)**	**(22.8)**

NOTES

(DKK million)

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

	2016/17		2015/16	
	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	14.6	14.6	9.1	9.1
Receivables from subsidiaries	3.0	3.0	31.8	31.8
Other receivables	17.3	17.3	1.6	1.6
Loans receivable and other receivables	**34.9**	**34.9**	**42.4**	**42.4**
Mortgage loans	179.3	180.2	189.7	190.5
Payables to subsidiaries	494.5	494.5	235.6	235.6
Trade payables	78.6	78.6	62.9	62.9
Financial liabilities valued at amortised cost	**752.4**	**753.3**	**488.1**	**488.9**

No receivables in the parent company are overdue at 31 May 2017 (2015/16; 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 2016/17 or 2015/16.

NOTES

(DKK million)

18 DISCONTINUED OPERATIONS

Accounting policies

Discontinued operations represent a separate major line of business disposed of or in preparation for sale. The results of discontinued operations are presented separately in the income statement and comparative figures are restated. Assets and related liabilities from discontinued operations are presented as separate items in the balance sheet, and the cash flows from discontinued operations are presented separately in the cash flow statement.

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 and liabilities from discontinued operations and assets held for sale except financial assets, etc. are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets held for sale are not depreciated.

	2016/17	2015/16
Income	-	2.3
Earnings before tax	**-**	**2.3**
Tax	-	(0.5)
Earnings for the year discontinued operations	**-**	**1.8**
Gains/losses on sale of assets and businesses	-	(53.9)
Gains/losses on sale of assets and businesses after tax	**-**	**(53.9)**
Cash flow from operating activities	-	(2.2)
Cash flow used for investing activities	-	23.0
Net cash flow from discontinued operations	**-**	**20.8**

NOTES

(DKK million)

19 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.

	2016/17	2015/16
Leasing commitments:		
Plant and machinery etc.	4.6	10.0
Office and factory property	7.0	0.9
Total	**11.6**	**10.9**
Maturity:		
Due within 1 year	5.6	4.1
Due 1 - 5 years	6.0	6.8
Due after 5 years	-	-
Total	**11.6**	**10.9**
Rental and lease payments, net for the year	24.7	27.7
Minimum rental and lease payments	24.7	27.7

No contingent rental or lease payments have been recognised in the income statement in 2016/17 or 2015/16.

	2016/17	2015/16
Guarantees		
Total guarantees as at 31 May	-	-

None of the guarantees are expected to result in any losses.

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.

NOTES

(DKK million)

20 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, and the associates Bang & Olufsen Medicom a/s and John Bjerrum Nielsen A/S, in which Bang & Olufsen a/s has significant influence.

Bang & Olufsen's share in subsidiaries and associates is shown in note 5.7 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 share option programmes are shown in notes 2.2 and 4.6 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:

	2016/17	2015/16
Purchase of services - subsidiaries	27.0	34.3
Rental income - subsidiaries	65.6	67.8
Royalty income - subsidiaries	80.0	230.0

The parent company has a net payable to subsidiaries of DKK 491.5 million at 31 May (2015/16; net receivable DKK 203.8 million). All receivables and payables with subsidiaries fall due within 1 year.

The fair value of the intercompany receivables and payables are DKK 3.0 million and DKK 494.5 million respectively (2015/16; DKK 31.8 million and DKK 235.6 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 2015/16.

NOTES

(DKK million)

20 RELATED PARTIES (CONTINUED)

Other transactions
Bang & Olufsen a/s has received DKK 0 million in dividend from its subsidiaries (2015/16; DKK 134.1 million). No dividend has been received from its associates in 2016/17 or 2015/16.

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.

21 MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

No material events have occured after the balance sheet date.

STATEMENTS

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 2016 – 31 May 2017.

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 2017 as well as of their financial performance and their cash flow for the financial year 1 June 2016 – 31 May 2017.

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 2017

Executive Management Board:

Henrik Clausen
President & CEO

Anders Aakær Jensen
Executive Vice
President & CFO

Stefan Persson
Executive Vice
President of HOME

John Mollanger
Executive Vice
President & CEO of B&O PLAY

Board of Directors:

Ole Andersen
Chairman

Jim Hagemann Snabe
Deputy Chairman

Albert Bensoussan

Brian Bjørn Hansen

Geoff Martin

Ivan Tong Kai Lap

Jesper Jarlbæk

Jesper Olesen

Juha Christensen

Mads Nipper

Majken Schultz

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 2016 – 31 May 2017, which comprise an income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as for the Parent Company,. The consolidated financial statements and the Parent Company 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's at 31 May 2017 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 June – 31 May 2017 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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" section of our report. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year 2016/17. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon, and 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 the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company 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 accompanying consolidated financial statements and parent company financial statements.

Recognition and measurement of Capitalised Development projects

The Group capitalises development costs in accordance with IFRS, which prescribes capitalisation when certain criteria are met. Recognition and measurement of capitalised development costs were significant to our audit because the balance of DKK 335 millions at 31 May 2017 is material to the consolidated financial statements and because the criteria for capitalisation and impairment testing are subject to judgement and estimates based on Management's assumptions, including consideration of anticipated technological developments within the audio and TV industry and product lifecycle.

Additional details on capitalised development costs are provided in section 3.1 of the consolidated financial statements.

Our procedures in relation to the audit of recognition and measurement of capitalised development costs included, amongst other:

- Assessing group accounting policies and controls for compliance with IFRS and on a sample basis testing available documentation to consider whether the criteria for capitalisation were met.

- Testing and/or considering the assumptions applied in the impairment test by means of comparison with business plans, historic performance and Management's assumptions regarding strategy, product life cycle, market conditions and discount rates for selected development projects.

Measurement of Deferred tax assets

The group has recognised a deferred tax asset of DKK 279 million as at 31 May 2017 due to historical negative taxable income with a tax asset from tax loss carry forward of DKK 136 millions and unrealised deferred tax asset of DKK 143 millions due to timing differences. The group has recognised the tax asset 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 financial statements. This area was important to our audit due to the amount of the tax assets as well as the judgment involved in management's assessment of the likelihood and magnitude of creating future taxable profits to offset the tax assets. This assessment requires the Management to make assumptions to be used in the forecasts of future taxable profits, including expectations for future sales and margin developments and overall market and economic conditions.

Our audit procedures in relation to the audit of the measurement of the deferred tax asset included, amongst others:

- Evaluating the assumptions and methodologies used by the company. When evaluating the assumptions we checked for consistency with the assumptions used in the impairment test and the long term forecast and strategy plans.

- We also focused on the adequacy of the disclosures as included in Note 2.5 of the financial statements. The Management's assessment and conclusion of the recoverability of the tax assets and related disclosures are included in the above-mentioned note in the financial statements.

Statement on the Management's review

Management is responsible for the Management's review.

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

In connection with our audit of the consolidated financial statements and the parent company 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 consolidated financial statements or the parent company 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 our procedures, we concluded that the Management's review is in accordance with the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and the 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.

Management is also responsible for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company 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 these consolidated financial statements and parent company 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is 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 consolidated financial statements and the parent company financial statements, including the note disclosures, and whether the consolidated financial statements and the parent company 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.

Copenhagen, 12 July 2017

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

Steen Skorstengaard State Authorised Public Accountant	Niels-Jørgen Andersen State Authorised Public Accountant

Bang & Olufsen a/s
Peter Bangs Vej 15
DK-7600 Struer
Denmark

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