

INTERIM REPORT
1ST QUARTER 2017/18
1 JUNE 2017 -
31 AUGUST 2017



Q1 HIGHLIGHTS

“In the first quarter, we saw double-digit growth across both business units and we improved our profitability. We launched several new, innovative products, increased brand partnering activities, and continued to strengthen our business model. Overall, we have had a satisfactory start and we are on track for the year”,
says CEO Henrik Clausen.

Key financial highlights Q1

(DKK million)	Q1 2017/18	Q1 2016/17	Change %
Revenue	592	515	15
Bang & Olufsen	325	287	13
B&O PLAY	267	229	17
Gross margin, %	39.9	33.4	6.5
Bang & Olufsen, %	40.0	33.3	6.7
B&O PLAY, %	39.6	33.6	6.0
Capacity costs	301	261	15
EBITDAC	(42)	(67)	
EBIT	(65)	(89)	
Free cash flow	(159)	(32)	

Neither the first quarter of 2016/17 nor the first quarter of 2017/18 included any non-recurring or aperiodic items.

All numbers are compared to same period last year:

- The Group realised a revenue growth of 15 per cent, driven by double-digit growth in both Bang & Olufsen (13 per cent) and B&O PLAY (17 per cent)
- In the quarter, the Bang & Olufsen business unit launched BeoLab 50 and BeoVision Eclipse. B&O PLAY launched E8 and E4. Together with the exist-

ing product portfolio and BeoSound Shape, which is now available in stores, the company has a strong foundation for the coming quarters.

- Brand partnering remains an important driver of both licence income as well as brand awareness. In the first quarter, the company announced new collaborations with LG on the new V30 flagship smartphone, and with HARMAN to deliver an audio system to Bentley Motors' Continental GT.
- The Group gross margin increased to 39.9 per cent from 33.4 per cent driven by higher revenue, resulting in a higher indirect cost absorption, increased income from brand partnering, improved product margins and a change in the product mix.
- As expected, capacity costs increased by 15 per cent due to higher depreciations on capitalised development costs related to the TV portfolio. Excluding the effect from the higher depreciations, capacity costs increased by 2 per cent.
- Incurred development costs and capitalisations of development projects were particularly high in the quarter, due to the final development of the BeoVision Eclipse. These costs are expected to decrease significantly in the coming quarters.
- Due to the seasonal nature of the business, EBITDAC was negative DKK 42 million, but still constitutes an

improvement from negative DKK 67 million last year. The increase in revenue and improved gross margin contributed to an improvement in profitability.

- In line with expectations, free cash flow was negative DKK 159 million compared to negative DKK 32 million last year. The change was due to product launches driving higher inventory and trade receivables as well as increased investments in products and the Innovation Lab in Struer.
- The outlook for 2017/18 remains unchanged. The Group expects to continue the growth momentum and increase revenue by around 10 per cent compared to 2016/17, and to increase the underlying EBITDAC margin to 8-10 per cent in 2017/18. The Group's free cash flow is expected to be positive in 2017/18.

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A webcast will be hosted on 4 October 2017 at 10:00 CET. Access to the webcast is obtained through our website www.bang-olufsen.com.

KEY FIGURES

Bang & Olufsen a/s – Group

(DKK million)	1st quarter	
	2017/18	2016/17
Income statement		
Revenue	592	515
Gross margin, %	39.9	33.4
Earnings before interest, taxes, depreciation, amortisation andt capitalisation (EBITDAC)	(42)	(67)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	23	(40)
Earnings before interest and tax (EBIT)	(65)	(89)
Financial items, net	(5)	1
Earnings before tax (EBT)	(70)	(87)
Earnings after tax	(55)	(67)
Financial position		
Total assets	2,755	2,749
Share capital	432	432
Equity	1,520	1,655
Net interest-bearing deposit	741	565
Net working capital	130	285
Cash flow		
– from operating activities	(78)	(6)
– from investment activities	(80)	(26)
Free cash flow	(159)	(32)
– from financing activities	(2)	(5)
Cash flow for the period	(161)	(38)
Key figures		
EBITDA-margin, %	3.9	(7.8)
EBIT-margin, %	(11.0)	(17.2)
Return on assets, %	(3.5)	(4.5)
Return on invested capital, excl. goodwill, %	1.1	(6.6)
Return on equity, %	(3.4)	(3.9)
Full time employees at the end of the period	1,107	1,690
Stock related key figures		
Earnings per share (EPS), DKK	(1.3)	(1.5)
Earnings per share, diluted (EPS-D), DKK	(1.3)	(1.5)
Price/Earnings	(81)	(42)

MANAGEMENT REPORT

Revenue grew by 15 per cent in the first quarter of 2017/18.

The Bang & Olufsen business unit had a good start to the year and grew 13 per cent while the B&O PLAY business unit continued the double-digit growth with 17 per cent. EBITDAC improved compared to last year in line with expectations. Due to the seasonal nature of the business, the net result was negative for the first quarter.

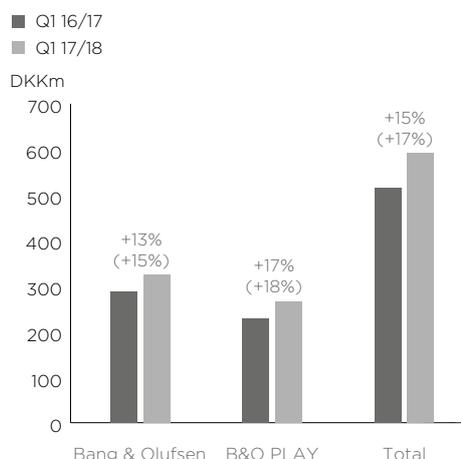
Revenue development by business unit

The Group's revenue increased from DKK 515 million last year to DKK 592 million, corresponding to a growth of 15 per cent (17 per cent in local currency).

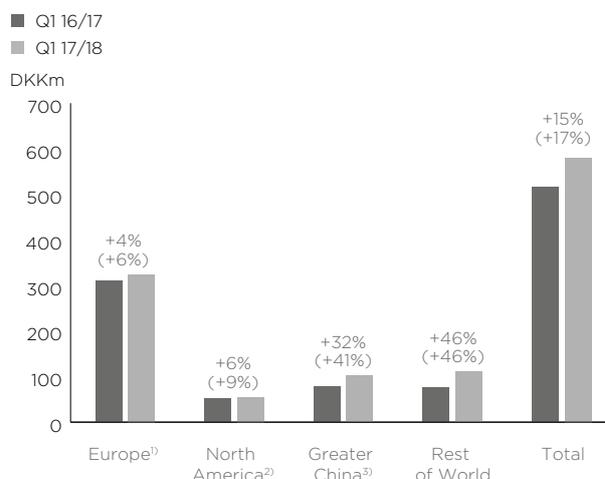
The Bang & Olufsen business unit realised a revenue of DKK 325 million, compared to DKK 287 million last year,

which was an increase of 13 per cent (15 per cent in local currency). This was primarily driven by increased sales of BeoSound 1 and 2, and by the launch of new products such as BeoLab 50, BeoVision Eclipse, and BeoSound Shape, together with increased income from brand partnering.

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



Revenue by region (growth in local currency in parenthesis)



¹⁾ Europe covers Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and United Kingdom.

²⁾ North America covers USA, Canada and Mexico.

³⁾ Greater China covers China, Hong Kong and Taiwan.

The revenue in the B&O PLAY business unit grew 17 per cent (18 per cent in local currency) and realised a revenue of DKK 267 million compared to last year. The main growth contributors in B&O PLAY were Beoplay A1, A9 and H5, which continued to perform well, as well as Beoplay P2 and E4 that were launched in the previous two quarters. Revenue through the B1 and shop-in-shop channel was at DKK 83 million on par with last year. Revenue through third-party retail and e-commerce increased by 25 per cent.

Revenue development by channel and region

In first quarter, the company continued the work to improve the distribution setup to ensure that the customer experience was strengthened and sales potential maximised.

The transformation of the distribution network continued as 14 new B1 stores and shop-in-shops were opened or upgraded, while 42 low-performing stores, primarily in Europe and the Greater China region, were closed or changed to shop-in-shops. Thus, the number of B1 stores and shop-in-shops was 598 at the end of the first quarter compared to 626 at the end of the previous quarter. B&O PLAY expanded the number of third party retail stores while maintaining a strong focus on ensuring quality and depth to improve sales in the existing stores through stronger in-store merchandising

and increased training. The number of third-party retail stores increased to 6,833 stores from 5,808 stores in the same period last year, and from 6,424 at the end of previous quarter.

Both business units grew in Europe in the first quarter. The growth was a result of the continued focus on driving sales of flexible living products as well as the launch of BeoLab 50. Revenue in Europe was DKK 324 million against DKK 311 million last year, corresponding to an increase of 4 per cent (6 per cent growth in local currency).

Revenue in North America was DKK 55 million against DKK 52 million last year, corresponding to an increase of 6 per cent (9 per cent in local currency). The growth in the first quarter was supported by increased income from brand partnering. Focus in the quarter was to continue the transformation of the organisational structure and the B1 network, while expanding the distribution in the third-party retail channel. This is expected to materialise in further growth in the coming quarters.

The growth momentum continued to be strong in the Greater China region, where key focus continued to be the growth of B&O PLAY. Revenue in the Greater China region was DKK 102 million against DKK 78 million last year, corresponding to an increase of 32 per cent (41 per cent in local currency).

Distribution development (number of stores)

	B1		Shop-in-shop		Third-party retail	
	31/08/2017	31/05/2017	31/08/2017	31/05/2017	31/08/2017	31/05/2017
Europe	291	297	128	136	3,330	3,278
North America	18	22	2	2	1,102	790
Greater China	35	36	21	30	1,150	1,146
Rest of World	89	91	14	12	1,251	1,210
Total	433	446	165	180	6,833	6,424

Revenue in the region Rest of World was DKK 110 million against DKK 75 million last year, corresponding to an increase of 46 per cent (46 per cent in local currency). The region was driven by growth in both the Bang & Olufsen and B&O PLAY business units and partially supported by increased income from brand partnering.

Gross margin

The Group gross margin was 39.9 per cent against 33.4 per cent last year.

The gross margin in the Bang & Olufsen business unit was 40.0 per cent against 33.3 per cent last year. The improvement was driven by higher revenue resulting in a higher indirect cost absorption in the quarter, increased income from brand partnering, and a change in product mix due to a higher share of speaker turnover.

The gross margin for B&O PLAY was 39.6 per cent against 33.6 per cent last year. The improvement in gross margin was due to product mix and continued to be driven by higher volumes and positive scalability impacts on the supply chain.

Capacity costs

The capacity costs were DKK 301 million compared to DKK 261 million last year. The increase was due to higher depreciation on development projects, which increased from DKK 35 million to DKK 70 million. Adjusted for this impact, capacity costs increased marginally by DKK 5 million.

Distribution and marketing costs were at DKK 162 million on par with last year. This was a result of continued investments in marketing and distribution in B&O PLAY, and lower costs in the Bang & Olufsen business unit, partly due to fewer company-owned and company-operated stores.

Administration costs totalled DKK 25 million compared to DKK 23 million in the same quarter last year.

Development costs were DKK 114 million against DKK 75 million last year. The increase was expected due to higher depreciations of the current TV product portfolio, as has been the case in the recent quarters. In addition, incurred development costs increased due to a higher level of activities related to new product development including the impact from the development of BeoVision Eclipse and BeoLab 50. Incurred development costs were DKK 109 million (of which DKK 65 million were capitalised) against DKK 67 million last year (of which DKK 27 million were capitalised). Incurred development costs and capitalisations are expected to decrease in the coming quarters while depreciations will remain at the current level.

Total amortisation charges on development projects were DKK 70 million against DKK 35 million last year.

The net effect on earnings before interest and tax of capitalisations and amortisations was negative DKK 5 million compared to a negative effect of DKK 8 million last year.

Capitalised development costs and carrying amount (DKK million)

Q1 - 2017/18

Capitalised, net	65
Carrying amount, net	330

Q1 - 2016/17

Capitalised, net	27
Carrying amount, net	375

As part of the transformation of creating a more agile and asset-light model, the number of full-time employ-

ees decreased from 1.690 to 1.107. The decrease was mainly a result of the divestiture of the Czech subsidiary.

Earnings

Earnings before interest, tax, depreciation, amortisation and capitalisation (EBITDAC) were negative DKK 42 million against negative DKK 67 million last year. The increase in revenue and improved gross margin contributed to an improvement in profitability. However, EBITDAC remained negative as expected due to the seasonal nature of the business.

The company's net financial items were negative DKK 5 million compared to DKK 1 million last year. The change was mainly related to a negative impact from changes in exchange rates.

Earnings before tax were negative DKK 70 million against negative DKK 87 million last year.

Development in balance sheet items and cash flow

The Group's net working capital was DKK 130 million. This was a decrease of DKK 155 million compared to the same period last year mainly due to the sale of the Czech production facility at the end of the previous financial year. Net working capital increased DKK 103 million compared to DKK 27 million in the beginning of the year. The increase was due to product launches in the quarter driving higher inventory and trade receivables.

Free cash flow was negative DKK 159 million compared to negative DKK 32 million last year, corresponding to a change of DKK 127 million. The change was related to an increase in net working capital and increased investments in products and the Innovation Lab in Struer.

The net interest bearing deposit was DKK 741 million compared to DKK 565 million last year.

The Group's equity decreased to DKK 1,520 million from DKK 1,655 million last year. The Group equity ratio was 55 per cent compared to 60 per cent last year.

Other events during the first quarter

Brand partnering continues to be a key part of the business both as a source of income through licence fees and as a platform for exposing potential customers to the brand. In the first quarter, the company entered two new collaborations.

LG Electronics and B&O PLAY have collaborated on LG's new flagship smartphone, LG V30. The smartphone will feature best-in-class audio functions developed in partnership with B&O PLAY and come with customised B&O PLAY earphones. The product will be launched in selected markets. Also, Bentley Motors and HARMAN partnered on the new Bentley Continental GT. The car will feature an optional audio system from Bang & Olufsen.

Subsequent events

No material events occurred after 31 August 2017.

Product launches in Q1 2017/18

While existing products such as the BeoSound Shape and BeoSound 1 and 2 in the Bang & Olufsen business unit and Beoplay A1, A9, and H5 in the B&O PLAY business unit continued to perform well, the company also launched several new products in the first quarter. All products are based on the company's core capabilities of acoustics, design and craftsmanship and supplemented by collaborations with technology partners.

Beoplay E4

June B&O PLAY launched a new pair of earphones for the Personal on-the-go use case where the music experience is personal and part of the consumer's everyday life. The next generation of active noise cancelling earphones, Beoplay E4, is designed as a stylish accessory for commuters and travellers alike.



Beoplay A4 delivers the precise and powerful audio quality that everyone has come to expect from a B&O PLAY product.

BeoLab 50

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



BeoVision Eclipse

August Bang & Olufsen launched BeoVision Eclipse. The new TV in the Immersive Moments category offers the ultimate immersive cinematic experience with focus on creating the beautifully-designed sound. It builds on Bang & Olufsen's core competencies within design, acoustics and craftsmanship, while offering OLED TV technology and create the ultimate TV experience. The new TV will be available in two sizes - a 55" and a 65" version.



Beoplay E8

August B&O PLAY introduced Beoplay E8. The company's first truly wireless earphones have been developed to cater the Personal on-the-go use case. Beoplay E8 therefore delivers a seamless listening experience on the move and a design in premium materials that remain at the heart of the Bang & Olufsen heritage.



OUTLOOK FOR 2017/18

In 2017/18, the Group expects to maintain the 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 busi-

ness 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.

MANAGEMENT'S STATEMENT

Today, we have considered and approved the interim report for the period 1 June 2017 – 31 August 2017 for Bang & Olufsen a/s.

The interim report is presented in accordance with IAS 34, Interim Financial Reporting, as endorsed by the EU and additional requirements in the Danish Financial Statements Act.

It is our opinion that the interim report provides a true and fair view of the Group's assets, liabilities and finan-

cial position as at 31 August 2017 and the results of the Group's operations and cash flows for the period 1 June 2017 – 31 August 2017.

It is also our opinion that the management report gives a true and fair view of developments in the Group's activities and financial situation, the earnings for the period and the Group's financial position in general as well as a description of the most significant risks and uncertainties to which the Group is exposed.

Struer, 4 October 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

Juha Christensen
Deputy Chairman

Albert Bensoussan

Brian Bjørn Hansen

Geoff Martin

Ivan Tong Kai Lap

Jesper Jarlbæk

Mads Nipper

Majken Schultz

Søren Balling

CONSOLIDATED INCOME STATEMENT

(DKK million)	Notes	1st quarter		Year
		2017/18	2016/17	2016/17
Revenue		591.9	515.5	2,954.0
Production costs		(356.0)	(343.1)	(1,827.9)
Gross profit		235.9	172.4	1,126.1
Development costs	3	(113.7)	(75.3)	(408.9)
Distribution and marketing costs		(162.3)	(163.0)	(778.2)
Administration costs		(24.9)	(22.7)	(107.7)
Other operating income		-	-	39.7
Operating profit (EBIT)		(65.0)	(88.7)	(129.0)
Financial income		0.7	1.6	2.4
Financial expenses		(5.8)	(0.2)	(39.4)
Financial items, net		(5.1)	1.3	(37.0)
Earnings before tax (EBT)		(70.1)	(87.3)	(166.0)
Income tax		15.4	20.8	49.4
Earnings for the year		(54.7)	(66.5)	(116.5)
Earnings per share				
Earnings per share (EPS), DKK		(1.3)	(1.5)	(2.7)
Diluted earnings per share (ESP-D), DKK		(1.3)	(1.5)	(2.7)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	1st quarter		Year
	2017/18	2016/17	2016/17
Earnings for the year	(54.7)	(66.5)	(116.5)
<i>Items that will be reclassified subsequently to the income statement:</i>			
Exchange rate adjustment of investment in foreign subsidiaries	(5.6)	(3.5)	(2.3)
Change in fair value of derivative financial instruments used as cash flow hedges	(6.4)	(0.6)	(28.9)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:			
Transfer to revenue	2.8	1.0	2.9
Transfer to production costs	(5.3)	-	6.3
Income tax on items that will be reclassified to the income statement:	2.0	(0.1)	4.4
<i>Items that will not be reclassified subsequently to the income statement:</i>			
Actuarial gains/(losses) on defined benefit plans	-	-	0.7
Income tax on items that will not be reclassified to the income statement:	-	-	(0.2)
Other comprehensive income for the year, net of tax	(12.5)	(3.2)	(17.1)
Total comprehensive income for the year	(67.2)	(69.7)	(133.6)

CONSOLIDATED BALANCE SHEET

(DKK million)	Notes	31/8/17	31/8/16	31/5/17
Goodwill		43.3	66.5	47.0
Acquired rights		4.0	4.7	4.2
Completed development projects		208.1	211.8	196.9
Development projects in progress		121.7	162.7	137.9
Intangible assets		377.1	445.6	386.0
Land and buildings		73.4	95.1	75.2
Plant and machinery		58.4	59.0	48.6
Other equipment		3.2	16.5	5.2
Leasehold improvements		3.5	18.8	4.6
Tangible assets in course of construction and prepayments for tangible assets		41.0	8.3	45.0
Tangible assets		179.5	197.7	178.6
Investment property		15.8	16.3	16.0
Other financial receivables		44.6	29.5	41.2
Financial assets		44.6	29.5	41.2
Deferred tax assets		297.4	219.5	279.2
Total non-current assets		914.3	908.6	901.0
Inventories		413.7	526.0	347.3
Trade receivables		387.0	350.2	410.3
Other financial receivables		8.4	93.1	11.3
Corporation tax receivable		12.9	52.3	13.0
Other receivables		80.8	51.2	71.7
Prepayments		19.5	13.9	13.7
Total receivables		508.6	560.7	520.0
Cash		918.4	750.7	1,079.2
Assets held for sale		-	2.9	-
Total current assets		1,840.7	1,840.2	1,946.5
Total assets		2,755.0	2,748.8	2,847.4

CONSOLIDATED BALANCE SHEET

(DKK million)	Notes	31/8/17	31/8/16	31/5/17
Share capital		432.0	432.0	432.0
Translation reserve		13.1	17.6	18.7
Reserve for cash flow hedges		(19.7)	2.8	(12.8)
Retained earnings		1,094.8	1,202.5	1,148.2
Total equity		1,520.2	1,654.9	1,586.2
Pensions		14.6	14.9	14.5
Deferred tax		9.6	11.0	10.7
Provisions		36.5	42.0	28.0
Mortgage loans		167.9	177.3	170.2
Other non-current liabilities		23.7	0.9	1.6
Deferred income		123.7	133.7	123.7
Total non-current liabilities		376.1	379.9	348.7
Mortgage loans		9.1	8.5	9.1
Provisions		67.9	24.8	79.4
Trade payables		428.7	365.1	463.2
Corporation tax payable		10.6	24.4	8.2
Other liabilities		321.6	258.3	327.7
Deferred income		20.7	32.8	25.0
Other current liabilities		858.6	714.0	912.5
Total liabilities		1,234.7	1,093.9	1,261.2
Total equity and liabilities		2,755.0	2,748.8	2,847.4

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Notes	1st quarter		Year
		2017/18	2016/17	2016/17
Earnings for the year - continuing operations		(54.7)	(66.5)	(116.5)
Amortisation, depreciation and impairment losses		88.2	48.7	327.9
Adjustments for non-cash items	4	(4.2)	(22.2)	(48.4)
Change in receivables		8.4	81.1	(5.9)
Change in inventories		(66.3)	(28.0)	59.6
Change in trade payables etc		(44.8)	(19.4)	154.4
Cash flow from operations		(73.4)	(6.4)	371.1
Interest received and paid, net		(3.3)	1.3	(9.3)
Income tax paid		(1.6)	(1.4)	(9.5)
Cash flow from operating activities		(78.3)	(6.5)	352.3
Purchase of intangible non-current assets		(65.8)	(26.7)	(177.5)
Purchase of tangible non-current assets		(14.0)	(3.1)	(64.3)
Sales of tangible non-current assets		-	2.6	2.6
Proceeds from sale of businesses		-	-	122.9
Change in financial receivables		(0.5)	1.2	71.3
Cash flow from investing activities		(80.3)	(26.0)	(45.0)
Free cash flow		(158.7)	(32.5)	307.2
Repayment of long-term loans		(2.2)	(3.8)	(10.4)
Settlement of share options		-	(1.6)	(6.1)
Cash flow from financing activities		(2.2)	(5.4)	(16.5)
Change in cash and cash equivalents		(160.8)	(37.9)	290.7
Cash and cash equivalents, opening balance		1,079.2	788.5	788.5
Cash and cash equivalents, closing balance		918.4	750.6	1,079.2
Cash and cash equivalents:				
Cash		918.4	750.6	1,079.2
Cash and cash equivalents, closing balance		918.4	750.6	1,079.2

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Notes	31/8/17	31/8/16	31/5/17
Equity, opening balance		1,586.2	1,724.9	1,724.9
Earnings for the period		(54.7)	(66.5)	(116.5)
Other comprehensive income, net of tax		(12.5)	(3.2)	(17.1)
Comprehensive income for the period		(67.2)	(69.7)	(133.6)
Grant of share options		1.3	1.3	1.1
Settlement of share options		-	(1.6)	(6.1)
Equity, closing balance		1,520.2	1,654.9	1,586.2

NOTES

1 ACCOUNTING PRINCIPLES

The interim report for Bang & Olufsen a/s is prepared as a condensed set of financial statements in accordance with IAS 34 'Interim Financial Reporting', as endorsed by the European Union and further additional Danish disclosure requirements for interim reports for listed companies. The interim report has not been audited or reviewed by the company's external auditors. An interim report for the parent company has not been prepared. The interim report is stated in Danish krone (DKK) which is the functional currency of the parent company.

The Annual Report 2016/17 contains a full description of applied accounting principles.

2 SIGNIFICANT ESTIMATES AND ASSESSMENTS BY MANAGEMENT

The preparation of interim reports requires that management makes estimates and assessments which affect the application of accounting principles and recognised assets, liabilities, income and expenses. Actual results may vary from these estimates.

The material estimates that management makes when applying the accounting principles of the Group, and the material uncertainty connected with these estimates and assessments are unchanged in the preparation of the interim report compared to the preparation of the Annual Report.

3 DEVELOPMENT COSTS AND EBITDAC

(DKK million)	1st quarter		Year
	2017/18	2016/17	2016/17
Incurring development costs before capitalisation	108.7	67.0	360.9
Hereof capitalised	(64.9)	(26.7)	(173.7)
Incurring development costs after capitalisation	43.8	40.3	187.2
<i>Capitalisation (%)</i>	<i>59.7%</i>	<i>39.8%</i>	<i>48.1%</i>
Total charges and impairment losses on development projects	69.9	35.0	221.6
Development costs recognised in the consolidated income statement	113.7	75.3	408.9

(DKK million)	1st quarter		Year
	2017/18	2016/17	2016/17
EBITDA	23.2	(40.0)	198.9
Capitalised development costs	(64.9)	(26.7)	(173.7)
EBITDAC	(41.6)	(66.7)	25.2

NOTES

4 ADJUSTMENTS FOR NON-CASH ITEMS IN
THE CASH FLOW STATEMENT

(DKK million)	1st quarter		Year
	2017/18	2016/17	2016/17
Change in other liabilities	19.2	(4.4)	26.4
Financial items, net	5.1	(1.3)	37.0
Gain/loss on sale of non-current assets	-	(2.5)	(2.5)
Gain/loss on sale of business	-	-	(30.9)
Tax on earnings for the year	(15.4)	(20.8)	(49.4)
Other adjustments	(13.1)	6.8	(28.9)
Total adjustments	(4.2)	(22.2)	(48.4)

5 SEGMENT INFORMATION

(DKK million)	1st quarter		Reported change %	Local currency change %
	2017/18	2016/17		
Revenue by segment and business area				
Bang & Olufsen	325.3	286.8	13	15
B&O PLAY	266.6	228.7	17	18
Total	591.9	515.5	15	17
Gross margin by business area, %				
Bang & Olufsen	40.0%	33.3%		
B&O PLAY	39.6%	33.6%		
Gross margin %, Group	39.9%	33.4%		
Revenue by region				
Europe	324.3	310.5	4	6
North America	55.4	52.3	6	9
Greater China	102.4	77.6	32	41
Rest of World	109.8	75.1	46	46
Total	591.9	515.5	15	17
Revenue by channel				
B1 and shop-in-shop distribution	408.3	368.8	11	
3rd party distribution and e-commerce	183.6	146.7	25	
Total	591.9	515.5	15	

APPENDIX 1

Earnings by quarter 2017/18:

(DKK million)	2017/18			
	Q1	Q2	Q3	Q4
Revenue	591.9			
Production costs	(356.0)			
Gross profit	235.9			
Development costs	(113.7)			
Distribution and marketing costs	(162.3)			
Administration costs	(24.9)			
Earnings before interest and tax (EBIT)	(65.0)			
Financial income	0.7			
Financial expenses	(5.8)			
Financial items, net	(5.1)			
Earnings before tax (EBT)	(70.1)			
Income tax	15.4			
Earnings for the year	(54.7)			

Accumulated earnings by quarter 2017/18:

(DKK million)	2017/18			
	3M	6M	9M	12M
Revenue	591.9			
Production costs	(356.0)			
Gross profit	235.9			
Development costs	(113.7)			
Distribution and marketing costs	(162.3)			
Administration costs	(24.9)			
Earnings before interest and tax (EBIT)	(65.0)			
Financial income	0.7			
Financial expenses	(5.8)			
Financial items, net	(5.1)			
Earnings before tax (EBT)	(70.1)			
Income tax	15.4			
Earnings for the year	(54.7)			

APPENDIX 1

Earnings by quarter 2016/17:

(DKK million)	2016/17			
	Q1	Q2	Q3	Q4
Revenue	515.5	867.1	786.1	785.3
Production costs	(343.1)	(509.5)	(450.9)	(524.4)
Gross profit	172.4	357.6	332.2	260.9
Development costs	(75.3)	(99.7)	(104.1)	(129.7)
Distribution and marketing costs	(163.0)	(206.1)	(186.1)	(223.1)
Administration costs	(22.7)	(24.0)	(26.7)	(34.3)
Other operating income, net	-	8.8	-	30.9
Earnings before interest and tax (EBIT)	(88.7)	36.7	18.3	(95.3)
Financial income	1.6	0.7	0.8	-
Financial expenses	(0.2)	(6.0)	(10.6)	(23.2)
Financial items, net	1.3	(5.3)	(9.8)	(23.2)
Earnings before tax (EBT)	(87.3)	31.5	8.4	(118.5)
Income tax	20.8	(8.8)	(5.3)	42.8
Earnings for the year	(66.5)	22.7	3.1	(75.8)

Accumulated earnings by quarter 2016/17:

(DKK million)	2016/17			
	3M	6M	9M	12M
Revenue	515.5	1,382.6	2,168.7	2,954.0
Production costs	(343.1)	(852.5)	(1,303.5)	(1,827.9)
Gross profit	172.4	530.0	865.2	1,126.1
Development costs	(75.3)	(175.0)	(279.1)	(408.9)
Distribution and marketing costs	(163.0)	(369.1)	(555.2)	(778.2)
Administration costs	(22.7)	(46.7)	(73.4)	(107.7)
Other operating income, net	-	8.8	8.8	39.7
Earnings before interest and tax (EBIT)	(88.7)	(52.0)	(33.7)	(129.0)
Financial income	1.6	2.2	3.0	2.4
Financial expenses	(0.2)	(6.2)	(16.8)	(39.4)
Financial items, net	1.3	(3.9)	(13.8)	(37.0)
Earnings before tax (EBT)	(87.3)	(55.9)	(47.4)	(166.0)
Income tax	20.8	12.0	6.7	49.4
Earnings for the year	(66.5)	(43.9)	(40.8)	(116.5)

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Financial calendar

Financial statements

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

Safe Harbour statement

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

About Bang & Olufsen

Bang & Olufsen 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 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.

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