

BANG & OLUFSEN A/S GROUP

# ANNUAL REPORT 2014/15

01 JUNE 2014 - 31 MAY 2015



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BANG & OLUFSEN

BANG & OLUFSEN



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# ABOUT BANG & OLUFSEN

The Bang & Olufsen Group designs and develops high-quality, innovative audio and visual solutions for its customers by combining design and technology in innovative and meaningful ways.

Bang & Olufsen was founded in Struer, Denmark, in 1925 by Peter Bang and Svend Olufsen, two innovative, young engineers devoted to high quality audio reproduction. Since then, the brand has become an icon of performance and design excellence through its long-standing craftsmanship tradition and the strong commitment to high-tech research and development.

Still at the forefront of domestic technology, Bang & Olufsen's current product range epitomizes seamless media experiences in the home and on the move.

At the end of the financial year, Bang & Olufsen employed 2,015 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.

## Core competencies

Bang & Olufsen recognises the importance of identifying, cultivating and utilising its own expertise and has, over the years, built up a number of areas of expertise through experience, practice, development and cooperation with external partners. Of these areas, some have been identified as the company's core areas of expertise, such as sound and acoustics, concept development, design, system integration and craftsmanship.

## Business areas

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

The Bang & Olufsen business comprises audio and video products sold exclusively in 700 Bang & Olufsen stores around the world. The B&O PLAY brand delivers headphones and portable audio systems distributed through Bang & Olufsen stores and third party retailers and online.



# LETTER TO OUR SHAREHOLDERS

2014/15 was an eventful and challenging year for Bang & Olufsen. While the company demonstrated solid growth in the consumer segment driven by strong product innovation and a strengthened distribution, the continued vulnerability related to the lack of scale and high complexity resulted in an unsatisfactory result. This caused an adjustment of the strategy, with the aim of creating a less complex, more focused business model, better positioned to deliver profitable growth in the future.

The revenue for the continuing business increased by 9 per cent in the 2014/15 financial year, driven by new, innovative products launched under the Bang & Olufsen and the B&O PLAY brands. The continued strengthening of the Bang & Olufsen retail network and expansion of the B&O PLAY third party retail network supported the growth.

The earnings before interest and tax (EBIT) of the continuing business was negative DKK 807 million, which was negatively impacted by DKK 484 million of non-recurring and aperiodic, non-cash items as well as costs for shared functions and license fees previously allocated to discontinued operations in the fourth quarter to reflect a new and leaner operating model implemented as part of the update to the Company's strategy. Even after adjusting for these non-recurring and aperiodic costs the result was unsatisfactory and did not live up to the company's plans and expectations, especially for the first half of the financial year, where unexpected issues related to the ramp-up of the TV production adversely affected sales, profitability and net working capital with knock-on effect on activities across the business. Consequently, the Board of Directors and Executive Management in December 2014 decided to

initiate a review to analyze strategic and structural options to strengthen the balance sheet and address the company's lack of scale and high degree of complexity.

## **Creating a strong, consumer focused business**

Based on the results of the strategic review, the Board of Directors and Executive Management decided to divest the Automotive assets and transform the Automotive business to a licensed based business, allowing the company to focus on building the two consumer brands Bang & Olufsen and B&O PLAY. The Bang & Olufsen high-end brand is the backbone of the company, on which the continuing business will be built. The Bang & Olufsen brand will continuously be strengthened by integrating the company's unique capabilities within design, acoustics, innovation and craftsmanship. Focus for the B&O PLAY branded business is to continue to strengthen the young brand's premium positioning and to further increase the global brand awareness and accessibility, leveraging the Group's core capabilities.

## **Automotive**

Bang & Olufsen took a significant step to reduce the company's complexity and issues related to the lack of scale, by the divestiture of the Automotive assets



and entering a brand licensing agreement with HARMAN International Industries Inc. The partnership is expected to increase Bang & Olufsen's brand presence in the Automotive industry through the scale, technology platform and global footprint of HARMAN, while reducing the risk and complexity of the Bang & Olufsen business model.

The transaction resulted in a significant strengthening and stabilization of the company's financial position by securing an upfront cash payment of DKK 1,105 million, as well as future license payments.

#### **New and innovative products**

Bang & Olufsen launched a number of new and innovative products during 2014/15, which were well received by the market. Products were launched across all segments in the Group and all products build on Bang & Olufsen's unique competencies within acoustics, design and craftsmanship.

The TV portfolio was expanded with the BeoVision Avant 75 and 85-inch Ultra High Definition (UHD) TVs. The BeoVision Avant TV accentuates Bang & Olufsen's high level of innovation and, as a testimony to this, was awarded the Design and Engineering Honouree Status in High Performance Home Audio at CES.

In January 2015, Bang & Olufsen launched a pioneering audio product, BeoSound Moment. BeoSound Moment includes several ground-breaking features such as a touch-on-wood functionality, PatternPlay and the MoodWheel. All of which combine Bang & Olufsen's craftsmanship traditions with high-tech innovation to create a truly magical Bang & Olufsen user experience.

B&O PLAY expanded the product portfolio with many new products during the year. Key launches included the BeoPlay H8 wireless on-ear headphones and the BeoPlay A2 Bluetooth speaker. Both products have received numerous design and innovations awards.

#### **The retail network**

During the year, the net number of B1 and shop-in-shop stores declined by 10, as the company's journey towards a retail network of fewer, more profitable stores continues. The net development was a consequence of 73 store closings and 63 openings. The average like-for-like sales per store in the Bang & Olufsen retail network continued to increase during the year leading to a stronger foundation for delivering a consistent, high-end customer experience.

B&O PLAY revenue through third party channels increased by 80 per cent in 2014/15, and has now become a significant contributor to the B&O PLAY revenue. This increase was driven by strong demand for new B&O PLAY products and an increase in the number of third party stores, which exceeded 3,300 stores at the end of the financial year. The aggressive expansion is expected to continue in the coming years, especially in the US, while focusing on growing like-for-like sales, driven by increased brand awareness, strong in-store merchandising and a high launch pace of new innovative products. In addition to generating sales, the increase in the number of stores has also increased the exposure of the company's unique capabilities within acoustics, design and craftsmanship to a broad group of potential customers.

#### **Employees and organisation**

Bang & Olufsen's employees are an essential part of the company's success and continued development. During the year, the company continued to take steps to build stronger competencies and processes as well as strengthen general management capabilities, while continuing to optimize the global footprint and create a smaller, less complex organisation. At the end of the financial year, Bang & Olufsen had 2,015 full time employees worldwide.

#### **Strengthening of management**

Changes occurred to the Board of Directors and Executive Management during the year. At the Annual





General Meeting in September, Andre Loesekrug-Pietri and Rolf Eriksen stepped down from the Board and were replaced by Albert Bensoussan and Mads Nipper. In August 2014 Anders Aakær Jensen joined Bang & Olufsen as Executive Vice President and CFO. In addition, Stefan Persson joined the company as Executive Vice President and COO from October 2014. Executive Management now consists of CEO Tue Mantoni, CFO Anders Aakær Jensen and COO Stefan Persson.

#### **Dividend policy and capital structure**

At the end of 2014/15 the company received significant proceeds from the Automotive transaction. Nonetheless, due to the company's vulnerable situation, historical earnings volatility, the fact that the new strategy is not yet proven, and the fact that the company's bank debt facilities have been repaid, the Board of Directors will recommend to the AGM that no dividend is paid to the shareholders.

The company is currently undergoing a significant transformation. When the new strategy starts to gain traction the Board of Directors will establish a long term capital structure and will reconsider distribution of capital to the shareholders.

#### **The future**

With the solid financial foundation created in 2014/15, the company will focus on further strengthening the Bang & Olufsen and B&O PLAY brands and continue the journey of creating a more agile, less complex and more profitable company that again begins to offer an attractive return to the shareholders.

Focus for the Bang & Olufsen branded business will be to address scale issues in product development by increasing the use of technology partners in areas where Bang & Olufsen can benefit from the partners' scale and technology. At the same time, the company will focus on protecting and enhancing the value of the Bang & Olufsen high-end brand by keeping innovation at a high level and continue strengthening the customer experience in the Bang & Olufsen branded distribution. B&O PLAY will broaden the headphones and portable audio portfolio by building on the success of the existing products, the unique capabilities within acoustics and design, and continued use of outsourcing partners, while aggressively expanding distribution.

To turn around the Group and restore profitability and to ensure that costs for shared functions are eliminated following the Automotive transaction, strong emphasis will be given to further reduce complexity across the company and lower the costs and net working capital. The increased level of innovation, the growth momentum in B&O PLAY, slimming down the operational asset base, the sharper strategic focus and focused execution are expected to drive profitable growth in the Bang & Olufsen Group.

Best regards,

Ole Andersen  
Chairman

Tue Mantoni  
President & CEO



## BeoLab 18

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Inspired by the legendary BeoLab 8000 speaker, BeoLab 18 honours the classic, slender, and straight-lined beauty of that same vertical silhouette. BeoLab 18 delivers exceptional wireless performance to achieve peerless home acoustics without compromise.



# KEY FIGURES

Bang & Olufsen a/s – Group (DKK million)	2014/15	2013/14*	2012/13*	2011/12*	2010/11*
<b>Income statement</b>					
Revenue	2,356	2,162	2,814	3,008	2,867
Gross margin, %	24.6	38.4	38.9	40.4	40.3
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	(535)	(95)	(107)	99	48
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	(376)	81	144	379	299
Earnings before interest and tax (EBIT)	(807)	(261)	(187)	122	60
Financial items, net	(6)	(29)	(25)	(16)	(20)
Earnings before tax (EBT)	(803)	(286)	(210)	104	40
Earnings after tax, continued operations	(607)	(228)	(210)	104	40
Earnings after tax, discontinued operations	664	199	-	-	-
Earnings after tax	57	(29)	(159)	73	28
<b>Financial position:</b>					
Total Assets	3,449	2,892	2,757	2,892	2,508
Share capital	432	393	393	362	362
Equity	1,921	1,604	1,640	1,626	1,538
Net interest-bearing deposit/(debt)	788	(374)	(273)	(248)	(85)
Net working capital	261	657	557	613	451
<b>Cash flow:</b>					
- from operating activities	55	184	127	225	320
- from investment activities	858	(285)	(328)	(380)	(318)
- acquisition of tangible assets	(83)	(82)	(84)	(121)	(96)
- free cash flow	913	(101)	(202)	(155)	2
- from financing activities	233	64	171	134	(100)
Cash flow for the period	1,146	(37)	(30)	(21)	(98)
<b>Key figures:</b>					
EBITDA-margin, %	(16.0)	3.8	5.1	12.3	10.4
EBIT-margin, %	(34.3)	(12.1)	(6.6)	4.1	2.1
NIBD/EBITDA ratio	-	4.6	1.9	0.7	0.3
Return on assets, %	(36.1)	(10.6)	(7.6)	5.2	2.8
Return on invested capital, excl. goodwill, %	(41.5)	(0.9)	2.4	17.4	13.3
Return on equity, %	3.2	(1.8)	(9.7)	4.6	1.8
Full time employees at the end of the period	2,015	2,180	2,036	2,106	2,008
<b>Stock related key figures:</b>					
Earnings per share (EPS), DKK	1	(1)	(4)	2	1
Earnings per share from continuing operations (EPS), DKK	(14)	(6)	(4)	2	1
Earnings per share, diluted (EPS-D), DKK	1	(1)	(4)	2	1
Earnings per share from continuing operations (EPS-D), DKK	(14)	(6)	(4)	2	1
Price/Earnings	44	(84)	(13)	30	96

For definitions refer to Section 5.8

\* Comparative figures for the 2013/14 income statement have been adjusted in order to reflect that the discontinuing operations have been separated. Figures for 2012/13, 2011/12 and 2010/11 have not been adjusted.





## BeoPlay H6

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BeoPlay H6 combines a natural and authentic sound performance with carefully selected, high-quality materials that rest softly and comfortably on your head, bringing a true sense of everyday luxury.





# FINANCIAL REVIEW

2014/15 was financially challenging for Bang & Olufsen's continuing business, which showed healthy revenue growth but unsatisfactory underlying earnings. A number of significant steps, including a brand license agreement and the sale of the Automotive assets were taken to sharpen the company's strategic focus, thereby strengthening the capital structure and creating a leaner, more agile business model on which a profitable, growing company can be built.

## Revenue

Revenue in Bang & Olufsen Group continuing operations was DKK 2,356 million in 2014/15, which is DKK 195 million higher than last year, corresponding to an increase of 9 per cent which was in line with guidance for the year. Both the Bang & Olufsen and the B&O PLAY segments showed growth in the financial year, driven by new and innovative products, and expansion of the distribution, especially within the third party retail. Revenue declined by 2 per cent during the first half of the financial year, but regained momentum and grew by 19 per cent in the second half of the year. Revenue in the discontinued operations declined by DKK 67 million.

The Bang & Olufsen segment generated revenue of DKK 1,743 million in the 2014/15 financial year against DKK 1,628 million last year, corresponding to an increase of 7 per cent. The first half of the 2014/15 was adversely impacted by ramp up issues related to the launch of the BeoVision Avant, and the knock-on effects on the launch of other products. However, during the second half of the financial year, the growth momentum was regained.

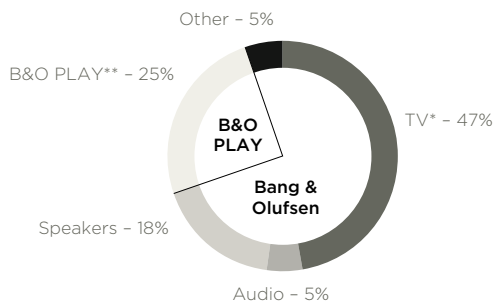
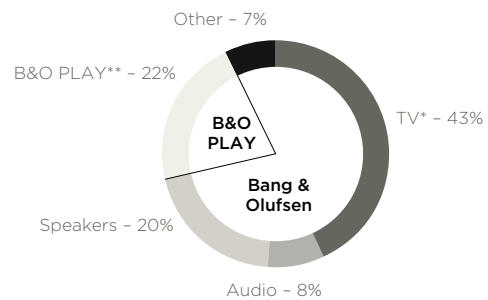
47 per cent of the revenue in the continuing business was generated from the TV category (incl. BeoPlay V1)

compared to 43 per cent in 2013/14. The BeoVision Avant was well received by customers, and was the main driver revenue growth in the TV category.

Revenue in the Audio category declined to 5 per cent of revenue from 8 per cent in 2013/14. The launch of a multiroom functionality in the audio category, combined with the BeoSound Moment, is expected to increase the share of revenue generated by the Audio category going forward.

The share of revenue from speaker sales was 18 per cent compared to 20 per cent last year. Last year was positively impacted by the launch of a broad range of wireless speakers in Bang & Olufsen. In addition, the speaker category in general is negatively impacted by the declining Audio sales.

During the 2014/15 financial year, B&O PLAY generated revenue of DKK 613 million against DKK 534 million last year corresponding to a growth of 15 per cent. B&O PLAY showed strong growth through third party channels, which grew by 80 per cent compared to last financial year, while revenue through the B1 and shop-in-shop channel declined by 7 per cent. The overall growth was driven by a series of product launches, where especially the BeoPlay A2 and BeoPlay H8

**Share of revenue 2014/15 - (%)****Share of revenue 2013/14 - (%)**

\* The BeoPlay V1 is included in the TV revenue

performed well, as well as a significant growth in the number of third party stores.

**Gross margin**

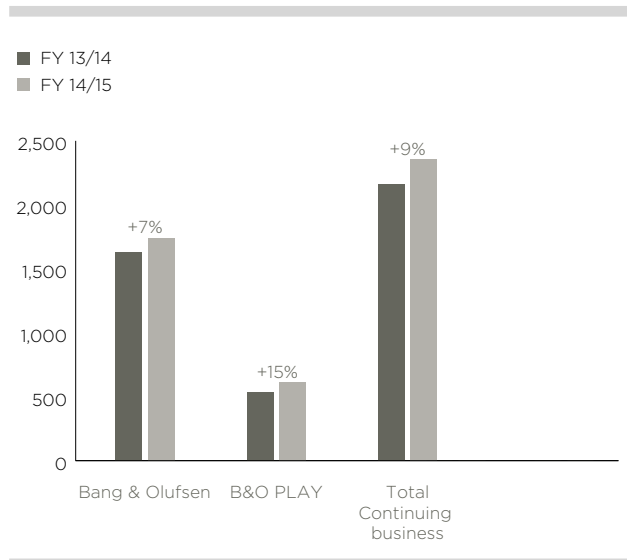
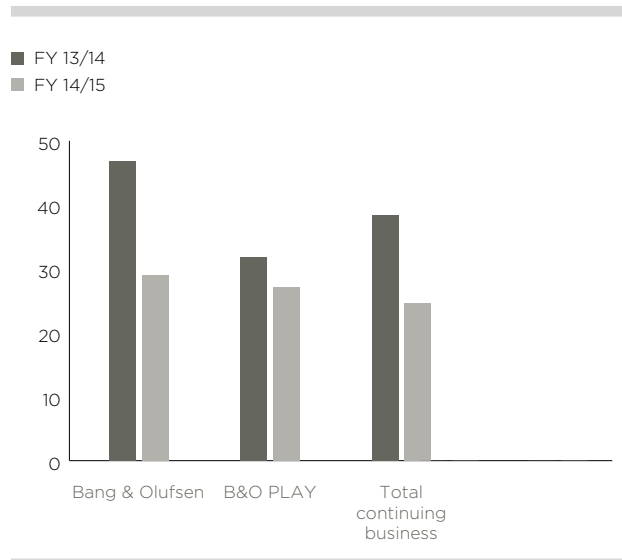
As a result of the Automotive transaction and the sale of the 33 per cent stake in Medicom as well as the revised strategy, the company has reassessed the value of certain assets of the continuing business. This resulted in value adjustments of the tangible assets, investment property, inventory, and specific trade receivables. The adjustments have no cash effect for the company. However, the changes did have a significant on the gross margin and capacity cost of the continuing business.

The Group's reported gross margin for the continuing operations in the 2014/15 financial year was 24.6 per cent. Adjusting for non-recurring and aperiodic items and costs and license fees previously allocated to the discontinued operations, the gross margin was 37.2 per cent. The gross margin for the continuing business was 38.4 per cent last year.

The non-recurring and aperiodic items impacting the gross profit in 2014/15 totaled DKK 171 million and were related to:

- Revaluation of inventory values on service stock and terminated products corresponding to DKK 62 million. This was partly due to the reassessment of the future service obligations as well as the strategic decision to discontinue certain products and focus on the best selling products.
- Write down of fixed assets, primarily production facilities, corresponding to DKK 17 million.
- Adverse effects on indirect production costs from the write-down of inventory and other adjustments corresponding to DKK 36 million.
- Ramp-up issues related to the launch of the BeoVision Avant in the first half of 2014/15, which impacted gross profit by approximately DKK 19 million.
- Other items related to restructuring in the fourth quarter of DKK 36 million.

The gross margin for the Bang & Olufsen segment in the financial year was 26.5 per cent. Adjusting for the above mentioned non-recurring and aperiodic items the gross margin was 35.2 per cent. The gross margin was 44.1 per cent in the last financial year. The underlying

**Revenue and growth by segment – (DKK million)****Gross margin by segment – (%)**

gross margin was negatively impacted by a changed product mix, as the TVs category generally has a lower gross margin than the Speakers and Audio category.

The gross margin for B&O PLAY in the 2014/15 financial year was 27.2 per cent. The non-recurring and aperiodic items described above only had a minor impact on the B&O PLAY gross margin, hence resulting in an underlying gross margin of 30.2 per cent. The gross margin was 31.8 per cent last year. The decline in gross margin mainly relates to a change in the product mix in the segment, and a larger share of revenue from third party retailers.

In addition, the gross profit was affected by costs for shared functions and license fees previously allocated to Automotive of DKK 124 million.

During the second half of the year, the Group took several initiatives to improve the gross margin including the restructuring of the AV business (See Company Announcement no. 14.25). These improvements are expected to take effect during 2015/16, which will result in an improved gross margin in 2015/16 compared to 2014/15.

**Capacity costs**

The reported capacity costs for the continuing business were DKK 1,387 million in 2014/15. As mentioned above, the capacity costs were adversely affected by non-recurring and aperiodic, non-cash items mainly related to the Automotive transaction and the revised strategy as well as costs for shared functions and license fees previously allocated to the discontinued operations. These amounted to DKK 189 million for the 2014/15 financial year. The underlying capacity costs were DKK 1,198 million, compared to DKK 1,090 million last year.

The non-recurring and aperiodic costs were related to:

- Restructuring of the Bang & Olufsen business corresponding to DKK 16 million
- Impairment of buildings following the sale of the Automotive assets and Medicom of DKK 22 million
- An impairment of development assets and an assessment of warranty provisions in line with the strategy to focus on the most innovative and best selling products of DKK 36 million



**Capitalised development costs and carrying amount**  
(DKK million)

2014/15	B2C
Capitalised, net	159
Carrying amount, net	392
<hr/>	
2013/14	B2C
Capitalised, net	178
Carrying amount, net	471

- Provisions for losses on specific debtors and other adjustments following the strategy to lift the quality of the network of DKK 42 million
- Other non-recurring and aperiodic items of DKK 17 million

In addition to these items, the continuing business was adversely impacted by the costs for shared functions, which were previously allocated to the discontinued business of approximately DKK 57 million. Final closing of the Automotive transaction was completed on 29 May, and pursuant to the agreement Bang & Olufsen will continue to deliver services to HARMAN during a transition period. During this transition period, the Group will work to adapt the capacity costs, to align with the future activity level of the Group.

Distribution and marketing costs were DKK 862 million in the 2014/15 financial year compared to DKK 732 million last year. This corresponds to an increase of DKK 130 million of which approximately DKK 42 million relates to provisions for losses on specific debtors and other non-recurring and aperiodic costs as mentioned above. The remaining increase mainly relates to increased marketing of new products in Bang & Olufsen as well as B&O PLAY.

Administrative costs for the continuing business amounted to DKK 77 million, which was an increase of DKK 11 million compared to last year, due to various cost savings, partly offset by a gain of DKK 11 million in 2013/14 relating to the sale and lease back in the Czech Republic.

Development costs recognised as an expense (incl. amortization and impairment losses) were DKK 449 million compared to DKK 293 million last year. The development costs included non-recurring and aperiodic costs of DKK 90 million as described above, related to the impairment of development projects and other non-recurring and aperiodic cost.

The capitalized development costs were DKK 159 million for the continuing business in the financial year, compared to DKK 176 million last year, corresponding to a capitalization rate of 43.1 per cent compared to 61.8 per cent last year.

Total amortization charges and impairment losses on development projects were DKK 238 million compared to DKK 184 million last year. The net effect on earnings before interest and tax (EBIT) of the continuing business, from amortisation and capitalization was negative DKK 79 million compared to DKK 8 million last year.

EBIT in the continuing business was negative DKK 807 million for the 2014/15 financial year. The underlying EBIT (i.e. adjusting for non-recurring, aperiodic costs as well as costs for shared functions and license fees previously allocated to discontinued operations) was negative DKK 323 million. This was below guidance of negative DKK 230 - 260 million. EBIT for the continuing business was negative DKK 261 million last year.

Financial items, net for the year was negative DKK 6 million compared to negative DKK 29 million last year. The development mainly relates to positive exchange rate gains.



Tax on earnings for the year for continuing business was positive DKK 195 million compared to DKK 59 million last year. Tax on earnings for discontinued business was 20 million including tax impact from Automotive transaction compared with DKK 65 million last year. Net earnings for the 2014/15 financial year for the continuing operations were negative DKK 607 million.

Net earnings from discontinued operations (i.e. Automotive and ICEpower) were positive DKK 664 million. The result was driven by the net result from discontinued operations of DKK 172 million for the year and the net gain (i.e. after tax and book value of assets) from the sale of the Automotive assets of DKK 492 million.

The net earnings for the Group was positive DKK 57 million for the 2014/15 financial year, compared to negative DKK 29 million last year.

#### Development in balance sheet items and cash flow

As a result of the Automotive transaction and the sale of the 33 per cent stake in Medicom as well as the revised strategy, the company has reassessed the value of certain assets of the continuing business. This resulted in a value adjustment of the intangible and tangible assets, investment property and inventory. The change had no cash effect for the company.

The investment in intangible assets in the continuing business was DKK 209 million, of which the main part relates to development projects, corresponding to 9 per cent of revenue. Last year's investment level was 11 per cent (incl. Automotive and ICEpower). The investment in tangible assets was DKK 83 million compared to DKK 82 million last year.

At the end of the 2014/15 financial year the net working capital of the continuing business was DKK 261 million compared to DKK 657 million at the end of the financial year 2013/14. Approximately DKK 145 million of the reduction was a result of the discontinuation of ICEpower and Automotive. The remaining reduction

mainly came from inventory value adjustments and write downs on receivables as well as higher payables.

Free cash flow in the 2014/15 financial year was DKK 913 million compared to negative DKK 101 million last year. The free cash flow was positively impacted by DKK 1,123 million from the sale of activities. Adjusting for this, the free cash flow for the year was negative DKK 210 million. This was mainly due to a negative free cash flow of DKK 281 million during the first half of the year, while the free cash flow during the second half of the year was positive DKK 70 million adjusted for the gain from the sale of assets. The free cash flow in the last financial year was positively affected by a non-recurring positive impact from DKK 79 million from the disposal of the land and production facilities owned by Bang & Olufsen s.r.o. in the Czech Republic.

At the end of the financial year, the company had a net interest bearing deposit of DKK 788 million, compared to a net interest bearing debt of DKK 374 million at the end of 2013/14. The improvement related to the cash received from the Automotive transaction.

In June 2014 Bang & Olufsen a/s carried out a capital increase through a private placement at market price using an accelerated book-building process. The capital increase represented 3,927,042 shares of a nominal value of DKK 10 each and generated net proceeds of DKK 250 million.

Group equity increased to DKK 1,921 million from DKK 1,604 million last year. The increase in the equity was mainly the result of the Automotive transaction and the capital increase made in the first quarter of the 2014/15 financial year. The Group equity ratio was 56 per cent at the end of the 2014/15 financial year against 55 per cent at the end of the 2013/14 financial year.

#### Subsequent events

No significant subsequent events have occurred after 31 May 2015.



# RETAIL DEVELOPMENT

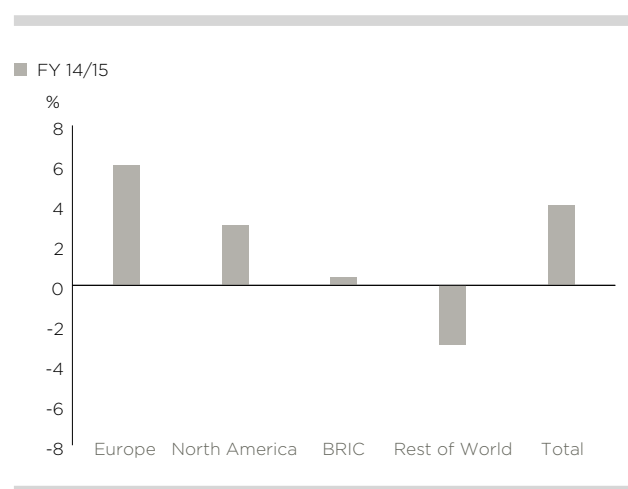
During the 2014/15 financial year, the focus on lifting the retail experience and creating a strong, sustainable retail network continued. Upgraded retail training programmes, innovative retail merchandising and marketing initiatives and an increased focus on the best and high-potential stores contributed to an increase in sales per retailer and positive same-store-sales growth for the year.

## Retail strategy

During the 2014/15 financial year, work has continued to attract new retail partners to create a strong and profitable network of stores, which can invest in service, events, marketing, store design and other customer focused activities. During the year 78 new B1-stores and shop-in-shops have opened, primarily in Europe. This was however surpassed by the closure of 88 low performing stores during the year, thereby leading to a reduction in the number of B1 and shop-in-shops to 714 from 724 last year.

A key focus area for the year has been to strengthen the in-store customer experience. This has been done through initiatives such as the Bang & Olufsen Retail Academy and a strengthening of the product demonstration tools. During the year, the roll-out of the new store design has continued. The store design has a strong emphasis on Bang & Olufsen's core capabilities within acoustics, design and craftsmanship and is designed to create a unique shopping experience for Bang & Olufsen's customers.

## Growth by region - excluding third party retail



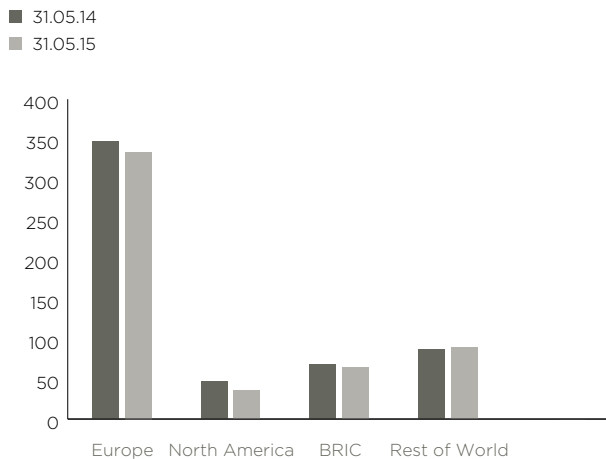
<sup>1)</sup> Europe covers Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Norway, Spain, Sweden, Switzerland and United Kingdom.

<sup>2)</sup> North America covers USA, Canada and Mexico.

<sup>3)</sup> BRIC covers Brazil, Russia, India and Greater China (Mainland China, Hong Kong, Korea and Taiwan).



### B1-shops per region



In addition to improving the company distribution through B1 stores and shop-in-shops, it has been a key focus area to increase the revenue through alternative channels distribution for the B&O PLAY brand. The interest from third party retailers to market the B&O PLAY products has been strong, and during the year, distribution agreements were signed with large distributors across the world.

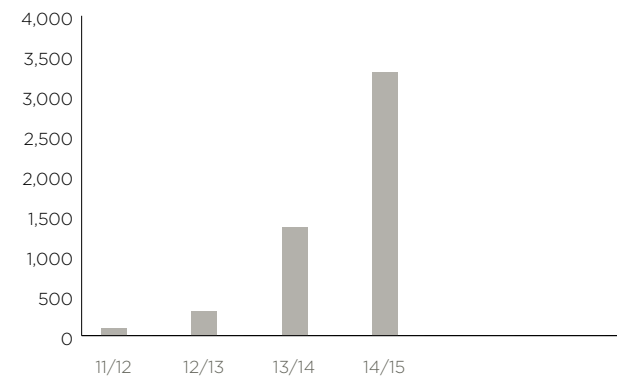
B&O PLAY therefore increased the distribution to more than 3,300 third party retail stores at the end of 2014/15 from 2,400 stores at the end of February 2015 and 1,400 stores at the end of May 2014, and thereby significantly increased the brand presence and revenue in third party channels.

In addition, B&O PLAY continued to leverage the e-commerce platform, making it simple and easy for customers to shop B&O PLAY products online.

#### Development in Bang & Olufsen's revenue by region

During the 2014/15 financial year, the European region saw an increase in revenue of DKK 87 million from DKK 1,335 million to DKK 1,422 million, corresponding to 6 per cent. The growth was driven by the launch of new

### TPR stores



and innovative products as well as a stabilization and an emerging strengthening of the retail network.

Revenue in North America increased by DKK 5 million to DKK 165 million in the 2014/15 financial year, corresponding to an increase of 3 per cent compared to the 2013/14 financial year. Revenue in North America was positively impacted by a strengthening of the US dollar. The underlying performance of the market was weak and adversely affected by the closure of stores.

BRIC revenue was almost unchanged of DKK 307 million. The revenue in the BRIC markets was adversely impacted by the crisis in Russia where revenue declined by approximately DKK 35 million.

Revenue for the Rest of World decreased by DKK 7 million to DKK 218 million in the 2014/15 financial year, corresponding to a decrease of 3 per cent compared to the 2013/14 financial year.

#### Distribution development

At the end of May 2015 the Bang & Olufsen and B&O PLAY products were distributed through 525 B1 stores and 189 shop-in-shops. In addition, the B&O PLAY products were distributed through approximately





3,300 third party retail stores as well as online. The broad global distribution ensures that existing as well as potential customers are exposed to Bang & Olufsen's unique capabilities within acoustics, design and craftsmanship.

Revenue to B1 stores and shop-in-shop stores which have been in operation for more than 24 months increased by 2 per cent for B1 stores and 10 per cent for shop-in-shops.

### Store development

B1	31.05.14	Openings	Closures	Conversions	31.05.15
Europe	347	19	(31)	(1)	334
North America	47	1	(7)	(5)	36
BRIC	68	5	(5)	(3)	65
Rest of World	87	10	(9)	2	90
<b>Total</b>	<b>549</b>	<b>35</b>	<b>(52)</b>	<b>(7)</b>	<b>525</b>



# INNOVATION

The Bang & Olufsen Group's strong position in innovation was reaffirmed in 2014/15 with many new and pioneering product launches. BeoSound Moment, the expansion in the award-winning BeoVision Avant TV portfolio and the enlargement of the B&O PLAY product portfolio were key in positioning the company to continue to deliver world-class products and services to the market.

Bang & Olufsen launched many new, innovative products during the 2014/15 financial year, which clearly demonstrated Bang & Olufsen's unique capabilities within acoustics, design and craftsmanship.

The Bang & Olufsen audio portfolio was expanded with the pioneering BeoSound Moment – the modern and cloud based wireless music system. Moment includes a **touch-on-wood** feature, which combines craftsmanship traditions and the high-tech world, and allows the user to access exactly the sound experience that fits the daily rhythm by one-touch.

BeoSound Moment includes several other groundbreaking features including an intelligent algorithm that over time learns the rhythm of the user's home. **PatternPlay** tracks what the BeoSound Moment is playing, what day of the week and what time of the day. It learns from every interaction and the more it is used the smarter becomes. Touch the wheel and it starts to playback the music or radio, which is typically listened to that day of the week and that time of the day. The **MoodWheel** is an instant one-touch interface on top of the integrated Deezer music streaming service and the user's own music collection based on the NAS drive or iTunes on the PC/MAC. With the MoodWheel, the user can adjust the music to how they want to feel and what atmosphere they want to create.

Bang & Olufsen expanded the TV portfolio with the BeoVision Avant 75 and 85-inch Ultra High Definition (UHD) TV. The Avant TV family accentuates Bang & Olufsen's high level of innovation. The BeoVision Avant has been conceived building on core Bang & Olufsen competences within acoustics, design and craftsmanship. The nicely orchestrated mechanical movements of speakers and stands make the Avant a perfect fit in the modern homes of Bang & Olufsen's customers. In January 2015 the BeoVision Avant was awarded the Design and Engineering Honouree Status in High Performance Home Audio at CES.

B&O PLAY expanded the product portfolio by many new and innovative products during the year. In November, the BeoPlay H2 on-ear headphone was launched, and in January 2015 the BeoPlay H8 wireless on-ear headphones was added to the portfolio. The BeoPlay H8 features an innovative aluminium touch interface on the right ear cup, active noise cancellation, Bluetooth 4.0 and up to 14 hours of battery lifetime.

The B&O PLAY wireless audio portfolio was expanded with BeoPlay A2 and Beolit 15. Both BeoPlay A2 and Beolit 15 feature B&O PLAY's True360 omni-directional sound technology and latest 4.0 Bluetooth technology that ensures best-in-class streaming performance.

To ensure that TV and audio products continue to be up-to-date, Bang & Olufsen has made a commitment to its customers to provide regular feature and functionality enhancements through software updates.



## Product launches in FY 2014/2015

### Q1



#### AUTOMOTIVE

**June** Bang & Olufsen announced the launch of a bespoke system for the 2014 Audi S7 powered by the company's new amplifier, the BeoCore. The amplifier generates 1,440 watts of power for the 15 loudspeakers.

**July** Bang & Olufsen announced the launch of a high-end surround sound system for the new BMW X6. The system features model specific sound tuning, anodised aluminium grilles, Acoustic Lens Technology, and a motorised opening centre speaker unit - and delivers a total of 1,200 watts of audio power.

#### BEOPLAY S8

**August** The flexible and compact BeoPlay S8 stereo system comprises an 8-inch subwoofer powered by a dedicated 280 watts amplifier and two satellite speakers, each powered by a dedicated 140 watts amplifier. BeoPlay S8 connects to almost all streaming devices, hooks up to "regular" audio amplifiers, or connects to BeoPlay V1 or any Bang & Olufsen television.



#### BEOPLAY H6 SPECIAL EDITION

**August** Graphite Blush, Bronzed Hazel and Blue Stone are special editions of BeoPlay H6. The special editions of the popular headphones bring an edge that makes them particularly interesting for youthful, design affectionate professionals looking for that something special that stands out.



### Q2



#### BEOVISION AVANT 85

**September** The new 85-inch flagship television displays Ultra High-Definition (4K) picture, and with eight integrated driver units and a surround sound module BeoVision Avant 85 provides sound performance unlike any other TV. BeoVision Avant 85 is a state-of-the-art product at a competitive price for a television of this size and level of innovation.



#### BEOPLAY A2

**October** BeoPlay A2 is a portable Bluetooth speaker with 360 degrees of sound, and it has enough battery power to keep the music playing for up to 24 hours on a single battery charge. Designed by industrial designer Cecilie Manz, BeoPlay A2 has a flat design with two rugged polymer shells and a solid aluminium core.



#### BEOPLAY H2

**November** BeoPlay H2 is a new ultra flexible, on-ear headphone weighing in at a modest 150 grams. Despite the low weight it is a very strong and wear-resistant headphone, made from durable composites and rugged textiles, and with smooth, genuine lambskin covering the ears.



#### BEOPLAY H6 WITH DJ KHALED

**November** A new collaboration between B&O PLAY and HEADS Innovation was announced. This has resulted in the US launch of BeoPlay H6 with DJ Khaled, an American music producer and DJ.



#### AUTOMOTIVE

**November** Bang & Olufsen announced the launch of the Bang & Olufsen Sound System for the new Audi TT Roadster. The system features 12 active loudspeakers and delivers a total output of 680 watts.



## Product launches in FY 2014/2015

## Q3

**BEOSOUND MOMENT**

**January** The modern and cloud based wireless music system BeoSound Moment has a detachable and double-sided interface that allows for two different user experiences. One side is an aluminium interface with a touch screen for interaction, and the other side holds the world's first touch-sensitive wood interface designed for one-touch access. BeoSound Moment is compatible with the whole Bang & Olufsen range of wireless and wired speakers.

**BEOVISION AVANT 75**

**January** Bang & Olufsen introduced a 75-inch version of BeoVision Avant. BeoVision Avant 75 also displays Ultra High-Definition (4K) picture, and with eight integrated driver units and a surround sound module it provides sound performance unlike any other TV.

**BEOPLAY H8**

**January** The new wireless on-ear headphones BeoPlay H8 feature an innovative aluminium touch interface placed on the right ear cup, active noise cancellation, Bluetooth 4.0 and up to 14 hours of battery lifetime. Nevertheless, BeoPlay H8 is one of the lightest active noise cancellation headphones on the market.

**BEOLIT 15**

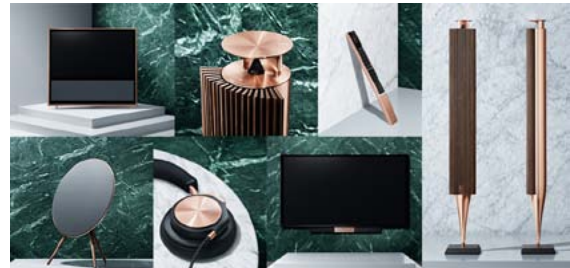
**February** Beolit 15 is a portable Bluetooth speaker with True360 omni-directional sound, 240 watts of peak power, up to 24 hours of continuous playtime from a single battery charge and featuring materials such as anodised aluminium and full grain leather. Beolit 15 is designed by Danish designer Cecilie Manz.

**AUTOMOTIVE**

**January** Bang & Olufsen presented the Bang & Olufsen 3D Advanced Sound System for the all new Audi Q7. The system is powered by Bang & Olufsen's Class-D BeoCore amplifier and delivers over 1,900 watts of efficient power. The system consists of 23 loudspeakers.

**February** BMW and Bang & Olufsen unveiled the new BMW 6 Series with bespoke Bang & Olufsen high-end surround sound system. With its 16 fully active loudspeakers, the system delivers 1,200 watts of power.

## Q4

**LOVE AFFAIR COLLECTION**

**March** Bang & Olufsen commemorates its 90th Anniversary with the Love Affair Collection, which is a carefully selected range of iconic Bang & Olufsen products in a rose golden nuance. The Love Affair Collection consists of BeoVision Avant 85, BeoVision 11-46, BeoLab 5, BeoLab 19, BeoRemote One, BeoPlay A9, BeoPlay H6 and BeoLab 18 with a new walnut lamella front.

**AUTOMOTIVE**

**March** The Bang & Olufsen Sound System in the new Audi R8 debuts in Geneva. The new Audi R8 features 13 active loudspeakers, each with their own dedicated amplifier channel including a subwoofer placed into the cavity of the front wheel liner.

**ICEPOWER**

**April** 700ASC2 is the newest addition to ICEpower's broad range of Class D amplifiers and the company's most powerful two-channel solution to date with an output power of 2 x 700 watts. 700ASC2 opens up for endless design applications within consumer and professional audio products such as active speakers, subwoofers and PA amplifiers.

**BEOPLAY A2 BLACK COPPER**

**May** B&O PLAY introduces a new Black Copper edition of the BeoPlay A2 Bluetooth speaker. The Black Copper edition joins the already existing grey, green and black editions that made Bang & Olufsen history by becoming the fastest selling product in the history of the company.

**BEOPLAY H3 OCEAN BLUE**

**May** B&O PLAY introduces a combination consisting of the special edition BeoPlay H3 Ocean Blue headphones together with POINT, a leather and felt pouch from Hard Graft.

**BEOPLAY H6 RAPHA EDITION**

**May** The BeoPlay H6 Rapha Edition over-ear headphones is designed in close collaboration with British cycling brand Rapha.





# CORPORATE SOCIAL RESPONSIBILITY

The Bang & Olufsen logo is a quality guarantee as it has been since the company was established in 1925. This is not only related to delivering products of high quality to the customers, but also related to the way the business is run.

This section summarises Bang & Olufsen's CSR policy. A detailed description of Bang & Olufsen's CSR work is available in Bang & Olufsen statement of corporate social responsibility in accordance with the Financial statement Act §99a.

Bang & Olufsen recognises the UN and ILO declarations regarding human rights, labour rights, environment and anti-corruption and has therefore chosen to structure the CSR work, including the CSR policy, in accordance with the UN Global Compact guidelines.

Bang & Olufsen works systematically with CSR, and is certified in accordance with ISO 9001 (quality management), TS16949 (technical standard for quality within the automotive industry), ISO 14.001 (environmental management) and OHSAS 18.001 (work environment management). The management systems contribute to ensure that the efforts are concentrated in the areas with main potential for improvement.

The CSR policy is supported by Bang & Olufsen's Code of Conduct, which contains the company's CSR requirements to suppliers. External audits of the suppliers, as

well as their sub-suppliers, are carried out when there is a concrete suspicion of breach of the Code of Conduct.

Bang & Olufsen's procurement department has a set of moral and ethics guidelines, which include internal anti-corruption guidelines for e.g. gift exchange, negotiation principles and handling of conflicts of interest. The internal anti-corruption guidelines have been extended to include the sales organisation, which is especially relevant for new markets where Bang & Olufsen is currently expanding the business.

To support the guidelines, Bang & Olufsen has set up a whistle-blower function, which is an externally run hotline to which the employees anonymously can report suspected unethical behaviour.

## 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 aims to ensure compliance both within its own organization as well as for partners and suppliers.

### Human Rights

Bang & Olufsen aims, in all matters within the Group's control, to support and respect the protection of internationally proclaimed human rights.

### Employee Rights

Bang & Olufsen aims to show 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 recognizes the right to collective bargaining. Bang & Olufsen aims to be 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 and bribery.

### Environment and Climate

Bang & Olufsen has an integrated thinking with regard to the environmental consequences the production and products have on employees, customers and surroundings. We use the word "environment" broadly to cover the disciplines of work environment, product environment and external environment.

As a responsible company Bang & Olufsen aims to create sustainable products. 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 and products including reduction of climate impact.

## The CSR effort, objectives and results

A detailed description of Bang & Olufsen's CSR work and results in the 2014/15 financial year, as well as the activities and targets for the 2015/16 financial year, are available in Bang & Olufsen's statement for Corporate Social Responsibility (CSR), which is reported in accordance with the Financial Statements Act §99a. The statement is available in its entirety on the company's homepage [<http://www.bang-olufsen.com/CSR-report-2015-UK>], and forms part of the management report in the Bang & Olufsen Annual Report for the 2014/15 financial year.

The work, objectives, and results are summarised in the first table below. Detailed comments and explanations on deviations to targets, can be found in the company's full statement on CSR by clicking on the above mentioned link.

In 2015/16 Bang & Olufsen will continue the work to improve the working environment and reduce the environmental impact of the Group's activities. Independent supplier audits will continue with re-audits of the suppliers where deviations have been found in relation to Code of Conduct. Bang & Olufsen's CSR activities and target for the 2015/16 financial year are summarised in the table below.

**CSR activities, objectives and results for 2014/15 (refer to full report published on web for comments on deviations)**

Policy area	Topic	Objective	Result 2014/15
Human rights Labour	Independent supplier audits	Risk-assessment of supplier base to identify audit need.	2 new suppliers audited
		Conduct audits and follow-up accordingly	2 suppliers re-audited
Environment	Reduction in the frequency of work accidents per 1 million working hours	Frequency must not exceed 2	3.5
	Reduction in hours of absence per 1,000 working hours due to work related accidents	Severity must not exceed 0.095	0.214
	Reduction of energy consumption (kWh/total salary expense)	<0.34	0.35
	Reduction of scrap	A reduction of 5 per cent compared to the 2013/14 financial year	10.7 per cent reduction
	Sustainable Design	Meet the increasing demand for sustainable products	Sustainable design has now been implemented as an integral part of the innovations process
	Prepare CZ-site for ISO 14001 and OHSAS 18001 certification	Gaps identified	Gap analysis completed
Anti-corruption	Sharpen white collar's awareness of anti-corruption policy and -legislations	Training conducted for white collars in Procurement and Sales	Policy Awareness program conducted for all white collar employees

**Planned CSR activities and objectives in 2015/16**

Policy area	Topic	Objective
Human rights Labour	Collective agreement for employees (Suppliers and contractors)	Risk-assessment of supplier base to identify audit need. Conduct audits and follow-up accordingly
	Conflict minerals	Review and maintain processes and supplier agreements to avoid conflict minerals in any product
Environment	Reduction of accidents	Frequency must not exceed 2. Severity must not exceed 0.095
	Energy savings in facilities	<0.34 kWh/total salary expense
Anti-corruption	Policy review	Policies reviewed and updated to reflect actual business set-up
	Anti-corruption training	Conduct training for white collars in Procurement and sales



# THE BANG & OLUFSEN SHARE

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

## IR Policy

It is Bang & Olufsen's objective to inform NASDAQ OMX 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 OMX Copenhagen A/S or other relevant bodies.

For further details regarding the Investor Relations Policy on [www.bang-olufsen.com/investors](http://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 Executive Management. The telephone

## The Bang & Olufsen share

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

	2014/15	2013/14
Closing price 31 May	58.0	62.5
Market value 31 May (DKK million)	2,504	2,454
Nominal share value (DKK)	43,974,780	39,704,350
Nominal value (DKK)	10	10
Issued shares	43,197,478	39,270,435
Own shares	29,999	77,369
Shares in circulation	43,167,479	39,193,066
Registered shareholders (approx.)	27,500	29,000
Hereof in Denmark (approx.)	26,500	28,000
Listed capital placed in Denmark*	51%	47%

\* Percentage of owner registered capital



conferences are subsequently available at [www.bang-olufsen.com/investors](http://www.bang-olufsen.com/investors). In addition, it is also possible to contact the company's Investor Relations function, which is responsible for maintaining an on-going 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 58.0 per share on 31 May 2015 corresponding to a decrease of 7 per cent for the financial year. The OMXC Mid Cap index increased 24 per cent in the same period. The average daily turnover of the Bang & Olufsen share was DKK 8,518,066 in the 2014/15 financial year compared to DKK 4,559,569 in 2013/14.

The chart below shows the development in share price from 1 June 2011 to 31 May 2015:

■ Closing price



### Analyst coverage

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

Alm. Brand Markets  
Carnegie Bank A/S  
Danske Markets Equities  
Nordea Markets  
SEB Equities  
Sydbank

### Dividend

At the end of 2014/15 the company received significant proceeds from the Automotive transaction. Nonetheless, due to the company's vulnerable situation, historical earnings volatility, the fact that the new strategy is not yet proven, and the fact that the company's bank debt facilities have been repaid, the Board of Directors will recommend to the AGM that no dividend is paid to the shareholders.

As at 31 May, 2015, 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 %
Delta Lloyd Asset Management N.V., Amstelplein 6, P.O. Box 1000, 1000 BA Amsterdam, the Netherlands	6,359,351	14.7
Arbejdsmarkedets Tillægspension, Kongens Vænge 8, 3400 Hillerød, Danmark	5,361,391	12.4
Sparkle Roll Holdings Ltd, 25/F, Office Tower 1, Henderson Center, No 18 Jianguomennei Avenue, Beijing 100005, P.R.of China	2,404,186	5.6





The company is currently undergoing a significant transformation. When the new strategy starts to gain traction the Board of Directors will establish a long term capital structure and will reconsider distribution of capital to the shareholders.

### Capital structure

As a consequence of the Automotive transaction the company was obliged in accordance with its loan covenants to redeem its bank facilities.

### Website

Bang & Olufsen invites investors and other stakeholders to visit the company's website [www.bang-olufsen.com](http://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.

### Financial calendar

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#### Annual General Meetings

10 September 2015	Annual General Meeting 2014/15
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#### Financial statements

30 September 2015	Interim report (1 <sup>st</sup> quarter 2015/16)
13 January 2016	Interim report (2 <sup>nd</sup> quarter 2015/16)
6 April 2016	Interim report (3 <sup>rd</sup> quarter 2015/16)
11 August 2016	Annual report 2015/16
27 September 2016	Interim report (1 <sup>st</sup> quarter 2016/17)

### Contact

The company's Investor Relations function is responsible for maintaining an on-going dialogue with current and potential shareholders.

Investor Relations Manager

Claus Højmark Jensen

Phone: +45 9684 1251

Email: [investors@bang-olufsen.dk](mailto:investors@bang-olufsen.dk)

### Annual General Meeting

Bang & Olufsen a/s' Annual General Meeting will be held on Thursday 10 September 2015 at Struer Statsgymnasium, Jyllandsgade 2, DK-7600 Struer.

**Company Announcements 2014/15**

No	Date	Subject
1	19 June 2014	Bang & Olufsen a/s releases preliminary results for the fourth quarter of the 2013/14 financial year in line with the company's previous guidance
2	19 June 2014	Offering of up to 3,927,043 new shares in Bang & Olufsen a/s
3	20 June 2014	Offering of up to 3,927,043 new shares will be completed
4	25 June 2014	Registration of share capital increase of nominally DKK 39,270,430 completed
5	26 June 2014	Bang & Olufsen appoints new Chief Operating Officer
6	01 Juli 2014	Bang & Olufsen a/s major shareholder announcement
7	13 August 2014	Bang & Olufsen a/s Group Annual Report 2013/14
8	18 August 2014	Annual General Meeting in Bang & Olufsen a/s
9	10 September 2014	Annual General Meeting in Bang & Olufsen a/s
10	10 September 2014	Articles of Association for Bang & Olufsen a/s
11	15 September 2014	Introduction of Matching Shares Programme for a group of non-executive managerial employees
12	02 October 2014	Interim Report 1 <sup>st</sup> quarter 2014/15 (1 June 2014 - 31 August 2014)
13	02 October 2014	Announcement of managerial staffs etc. trading with company shares
14	03 October 2014	Announcement of managerial staffs etc. trading with company shares
15	06 October 2014	Announcement of managerial staffs etc. trading with company shares
16	07 October 2014	Announcement of managerial staffs etc. trading with company shares
17	15 October 2014	Announcement of managerial staffs etc. trading with company shares
18	16 October 2014	Announcement of managerial staffs etc. trading with company shares
19	27 October 2014	Announcement of managerial staffs etc. trading with company shares
20	29 October 2014	Announcement of managerial staffs etc. trading with company shares
21	03 November 2014	Bang & Olufsen a/s' CEO, CFO and COO participate in Matching Shares Programme
22	21 November 2014	Bang & Olufsen a/s - financial calendar
23	22 December 2014	Bang & Olufsen releases revised guidance for the 2014/15 full year based on preliminary results for the second quarter of the 2014/15 financial year
24	20 January 2015	Interim report 1 <sup>st</sup> half-year 2014/15 (1 June 2014 - 30 November 2014)
25	12 March 2015	Bang & Olufsen a/s restructures the AV business and confirms guidance for the financial year based on a strong growth in the third quarter
26	31 March 2015	Bang & Olufsen enters into an Automotive brand license agreement and transfers its Automotive assets to HARMAN to focus on scaling the core consumer business based on the Bang & Olufsen and B&O PLAY brands
27	16 April 2015	Interim Report 3 <sup>rd</sup> Quarter 2014/15 (1 June 2014 - 28 February 2015)
28	29 May 2015	Bang & Olufsen completes its previously announced transaction with HARMAN comprising a brand license agreement and the transfer of its Automotive assets to HARMAN

The statements can be read in full at [www.bang-olufsen.com](http://www.bang-olufsen.com) under Investors  
<http://www.bang-olufsen.com/en/investors>



# STRATEGY & OUTLOOK



## BeoVision Avant

The majestic 85" version of BeoVision Avant delivers exquisite imagery and iconic sound, bringing the true power of cinema straight to your living room, with unprecedented flexibility and freedom of movement.



# STRATEGY

The increased level of innovation, the growth momentum in B&O PLAY and the reduced business complexity brought about by the Automotive transaction represent an opportunity to drive profitable growth in the future through an undivided focus on the consumer business.

Since the launch of the Leaner, Faster, Stronger strategy, Bang & Olufsen has revitalised the company's product portfolio and lifted the overall level of innovation, launched B&O PLAY attracting new and younger customers, as well as strengthened the company's global retail network.

Despite significant and fundamental improvements, the company has not delivered satisfactory financial results. This is partly due to continued challenges related to the lack of scale, and a continued high degree of complexity in the way the company operates. Therefore, on the back of disappointing results, the Board of Directors and Executive Management in December 2014 decided to initiate a review to identify strategic and structural options to address the company's lack of scale and high degree of complexity.

During spring 2015, Bang & Olufsen took significant steps to the company's challenges. The main step being the divesture of the Automotive assets and a brand licensing agreement with HARMAN International Industries Inc. This will allow the company to focus on its consumer business whilst continuing and expanding its presence in the Automotive market through a strong licensing partner.

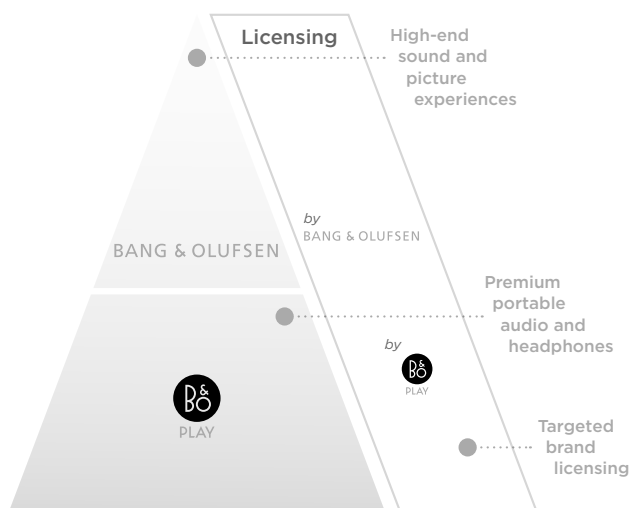
The strategy for the coming years will focus on building the two consumer brands Bang & Olufsen and B&O PLAY, complemented by a targeted brand license business.

The Bang & Olufsen high-end brand is the backbone of the company, on which the rest of the business will be built. The Bang & Olufsen brand will continuously be strengthened by integrating the company's unique capabilities within design, acoustics, innovation and craftsmanship. Key focus for the Bang & Olufsen branded business will be to further strengthen the brand attractiveness to its target customers and continue to invest in innovation and retail experiences, while improving the segment's profitability.

Focus for the B&O PLAY branded business is to continue to strengthen the young brand's premium positioning and further increase the global brand awareness and accessibility, leveraging the Group's core capabilities within design and acoustics. The brand targets a younger and broader audience than the Bang & Olufsen brand and will in the medium term be the main growth driver for the Group. The high frequency of launching innovative, personal audio products and further expanding the distribution will continue.



The business model of the Group will be adapted so the consumer focused business is complemented by brand licensing partnerships within selected complementary categories to support the long-term brand building of the company and drive value. Bang & Olufsen's Automotive partnership with HARMAN is a key part of this brand licensing strategy. The partnership enables Bang & Olufsen to accelerate the brand presence in the Automotive industry through the scale, technology and global footprint of HARMAN, while reducing the risk of the Bang & Olufsen business model.



### Controlled growth in the Bang & Olufsen branded business and sharpening of the high-end positioning

Focus for the Bang & Olufsen branded business will be to address scale issues in product development and continue focusing the efforts on protecting and enhancing the value of the Bang & Olufsen high-end brand. The latter will be done, in particular, by keeping innovation at a high level combined with continuously improved and consistent customer experiences in retail.

### Product development and innovation:

The Bang & Olufsen product portfolio will further build on the acoustical leadership, as well as the strengths within design and craftsmanship, while increasing the use of technology partners in areas where Bang & Olufsen can benefit from the partners' scale and technology. The company will strengthen Bang & Olufsen's own capabilities with particular focus on software design and innovation, to ensure readiness for further product innovation. The overall profitability of the product portfolio is a key focus area, with special attention on improving the profitability of the TV portfolio through a significant degree of outsourcing and partnerships.

### Retail experiences:

A key focus area is to continue strengthening the customer experience in the Bang & Olufsen branded distribution (B1 and shop-in-shop). Emphasis is on creating a consistent, high-end customer experience. This will be done by continuing the roll out of the Sensory Store concept, which has proven to significantly lift the like-for-like sales of the upgraded stores. Other key initiatives include working with the current network of retailers on increased training, best practice sharing, optimizing the sales process and in-store demonstrations, retail standards and visual merchandising.

Complementing the improvement of the existing distribution, Bang & Olufsen will continue the effort to attract new, high potential partners to key locations, especially in Europe. This will allow Bang & Olufsen to continue to lift the standards in the network and thereby improve the customer experiences. Bang & Olufsen will only selectively own stores in locations considered strategically important for the company.

For markets outside Europe, focus is to ensure a controlled, profitable, organic growth. In North America, pilots during the 14/15 financial year have shown promising results from working with custom installers and A/V consultants who have direct contact with the target customers in this competitive market. This route to market will be exploited further with special emphasis





given to selected geographical locations like New York City and Los Angeles. In China, focus continues to be on building brand awareness and delivering organic growth, based on the company-owned and -operated retail network in the tier 1 and tier 2 cities, and the sales and customer support organisation, which has been built up over the last three years.

### Aggressive expansion of B&O PLAY

B&O PLAY will broaden the headphones and portable audio portfolio by building on the success of the existing products, the unique capabilities within acoustics and design, and continued use of outsourcing partners.

B&O PLAY will continue to expand the third party retail distribution globally, with particular focus on expanding the distribution in North America to ensure a strong and broad brand presence in this key market. The retail expansion will continue to happen through professional value-added distributors with local knowledge, to ensure that the distribution evolves in a cost efficient way and with high speed. The aggressive expansion will be done, while focusing on maintaining the sales per store and like-for-like growth, driven by increased brand awareness, strong in-store merchandising and high launch pace of new innovative products.

E-commerce continues to be a key part of the B&O PLAY distribution strategy and support the overall growth of the brand through sales and increased brand awareness.

### A more lean and agile company

To turn around the Group and restore profitability and to ensure that costs for shared functions are eliminated following the Automotive transaction, strong emphasis is given to create a more lean and agile company and lower the costs and net working capital. Particular focus is on:

- Increased use of technology and sourcing partners in areas where the Group can benefit from the partners' economy of scale, especially in the TV business

### Financial targets for the 2015/16 to 2017/18 strategy period

	Target
<b>Revenue</b>	Approx. 10 per cent CAGR with B&O PLAY as the primary growth driver for the Group
<b>EBIT margin</b>	Approx. 7 per cent EBIT margin before special items reached within the strategy period
<b>Cash flow</b>	Generate a positive free cash flow during the strategy period

- Strong product life cycle management, for effective transitions at product launches and elimination of older, non-productive products
- Optimised logistics, especially for B&O PLAY, to ensure the best possible scale advantages related to third party distribution
- Simplified service and service related setup to effectively match current and future dealer and consumer demands

As a consequence of the Automotive transaction and to reflect the new strategy and a leaner and more agile business model (e.g., shorter product lifecycles, elimination of older, non-productive products and a higher degree of technology partnerships), significant non-recurring, non-cash adjustments were made to the balance sheet in the fourth quarter of 2014/15.

The increased level of innovation, the growth momentum in B&O PLAY, slimming down the operational asset base and focused execution will drive profitable growth in the consumer business over time. The year-on-year increase in revenue, reduction in costs (especially the shared costs remaining from the Automotive transaction) and the expected license revenues from Automotive from 2017 are expected to lead to a positive EBIT from the 2016/17 financial year onwards.



# OUTLOOK FOR 2015/16

In the 2015/16 financial year, the key focus will be to create profitable growth, by growing revenue, improving gross margin and adapting the cost base to reflect the reduced size of the company.

## Revenue

Revenue for the Group's business is expected to grow 8 to 12 per cent compared to 2014/15. B&O PLAY is expected to be the main growth driver, while the rate of growth in Bang & Olufsen is expected to be moderate.

New product launches and organic growth in Bang & Olufsen and B&O PLAY, as well as a continued expansion of especially the third party retail network will be the main growth contributors.

## EBIT

As a result of higher revenue, an improved gross margin and continued cost reduction efforts, Bang

& Olufsen expects to significantly improve the earnings before interest and tax (EBIT) of the continuing business, compared to 2014/15.

However, as costs for functions that previously were shared with the Automotive division will not be fully eliminated during 2015/16, and since the strategic initiatives such as footprint optimization and restructuring will take time to implement and as the company does not expect to receive any license payment related to Automotive during 2015/16, Bang & Olufsen expects to realize a negative EBIT. Adjusted for costs for shared functions previously allocated to Automotive, EBIT in 2015/16 is expected to be around break-even.

### 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 A9

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Designed and crafted like a beautiful piece of furniture, BeoPlay A9 is a music system that responds to your touch like magic. BeoPlay A9 is always ready to deliver gorgeous sound that is big enough to fill even the most spacious of rooms.





# 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), Zebra A/S (Chairman of the Board), EQT Partners (Senior Advisor), 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 (2013/14; 80,250)

Jim Hagemann Snabe (1965)



**Deputy chairman**

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

**Directorships and other offices:**

Danske Bank A/S (Board Member), Siemens AG (Board Member), Allianz SE (Board Member), SAP SE (Board Member), World Economic Forum (member of Foundation Board and Chariman of Centre of Global Industries)

This member is considered independent  
Member of the Nomination Committee  
Number of shares in Bang & Olufsen a/s at the end of the year: 11,740 (2013/14; 7,940)

Jesper Jarlbæk (1956)



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

**Directorships and other offices:**

Altius Invest A/S (Chairman), Basic Consulting International ApS and 3 subsidiaries (Chairman), Catacap Management ApS (Chairman), Frokost.DK Aps (Chairman), GroupCare A/S (Chairman), GroupCare Holding A/S (Chairman), Jaws A/S (Chairman), Sanderman Pte. Ltd (Singapore) (Chairman), ShowMe ApS (Chairman), Valuemaker A/S (Chairman), A-Solutions A/S (Board Member), Polaris III Invest Fonden (Board Member), Økonomiforum ApS (Board Member), Earlbrook Holdings Ltd A/S (Director and Board Member), SCSK 2272 ApS (Director), TIMPCO ApS (Director), Golf Metrics Inc. ,Delaware, USA, CC Track Holding A/S (Board Member), Beyond Budgeting Institute P/S (Chairman), Smartshare systems A/S (Board Member), Business Angles Fond - London I-II-III A/S (Chairman and Board Member), Bookboon Corporate A/S (Board Member, Lyngsoe systems holding A/S (Board Member)

This member is considered independent  
Chairman of the Audit Committee  
Number of shares in Bang & Olufsen a/s at the end of the year: 6,500 (2013/14; 4,500)

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 Audit Committee  
Number of shares in Bang & Olufsen a/s at the end of the year: 5,300 (2013/14; 0)

**Albert Bensoussan (1959)**

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

Boucheron Holding SAS (Vice president)  
Sowind Group SA (Board Member)  
Ulysse Nardin SA (Chairman)  
Pomellato s.p.A. (Board Member)  
Queelin Holding Luxembourg (Board Member)

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 (2013/14; 0)

**Mads Nipper (1966)**

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

Tulip food company A/S (Board  
Member)

This member is considered independent  
Number of shares in Bang & Olufsen a/s  
at the end of the year:  
2,890 (2013/14; 0)

**Knud Olesen (1952)**

Year of first appointment, 2003  
Employee-elected  
Technical Project Manager

Number of shares in Bang & Olufsen a/s  
at the end of the year:  
885 (2013/14; 885)

**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 (2013/14; 1,578)

**Per Østergaard  
Frederiksen (1971)**

Year of first appointment, 2011  
Employee-elected  
Technical Project Manager

Number of shares in Bang & Olufsen a/s  
at the end of the year:  
206 (2013/14; 206)





# EXECUTIVE MANAGEMENT

Tue Manton (1975)



**President & CEO**

Employed since 1 March 2011  
M.Sc. (Business Administration and Management Science)

**Directorships\***

Danish Bake ("Lagkagehuset") (Board Member)  
Number of shares in Bang & Olufsen a/s  
at the end of the year:  
78,267 (2013/14; 73,267)

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:  
7,200 (2013/14; 0)

Stefan Persson (1967)



**Executive Vice President & COO**

Employed since 1 October 2014  
M.Sc The institute of Technology at Linköping University

**Directorships\***

None  
Number of shares in Bang & Olufsen a/s  
at the end of the year:  
3,000 (2013/14; 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 OMX Copenhagen.

Bang & Olufsen's Board of Directors and Executive Management constantly strive to ensure that the Group's management structure and control systems are appropriate and work satisfactorily. Internal procedures have been developed and are regularly updated in order to ensure active, reliable and profitable business management.

As a company listed on NASDAQ OMX 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 OMX 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 OMX Copenhagen A/S implemented revised recommendations for corporate governance. Bang & Olufsen a/s complies with these recommendations.

The Board of Directors of Bang & Olufsen a/s has prepared a report on corporate governance for the 2014/15 financial year, which has been incorporated into management's report. This report is available for

review and download at [www.bang-olufsen.com/investor/corporate-governance/uk](http://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 in connection with the Company's presentation of the annual report.

## **Management structure**

Bang & Olufsen a/s' management structure comprises the Board of Directors and Executive Management. 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 2014/15, the evaluation was conducted by the individual directors and executives anonymously completing a comprehensive online questionnaire which was then summarized by an external consultant.



The results of the assessment process will be presented to the Board of Directors in September 2015 by the Chairman. The report describes a number of areas in which the Board is both effective and well-functioning and gives an overall impression of a well performing Board of Directors. The report further shows that most areas for improvement which were identified in the previous Board assessment have been addressed. The Chairman will hold individual meetings with each Director to review their performance.

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

	CHAIRMAN	DEPUTY CHAIRMAN	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	EMPLOYEE ELECTED
Albert Bensoussan			•			
Jesper Jarlbæk			•		•	
Jesper Olesen						•
Jim Hagemann Snabe		•		•	•	
Knud Olesen						•
Mads Nipper				•		
Majken Schultz			•			
Ole Andersen	•			•	•	
Per Østergaard Frederiksen						•

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

### Diversity

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 new legislation requires the Board of Directors to decide on a policy to increase the proportion of the underrepresented gender in senior management positions. The Board of Directors believes that members should be chosen for their overall competences, and also recognizes the benefits of a diverse Board in respect of experience, culture and gender.

Currently one member, or 17 per cent of the Board of Directors, elected by the General Meeting is a woman. According to the objective set in 2013 with regard to gender diversity of the Board of Directors, the target was to have female representation on the Board of Directors at the latest by the Annual General Meeting 2017, and therefore this objective was already met in 2014. Based hereon, the Board of Directors has in 2015 decided to set a new target setting 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.

The share of women in the senior management in the Bang & Olufsen Group has increased from 7.5 per cent on 31 May 2014 to 11.1 per cent on 31 May 2015. Senior management is defined as Executive Management and the Business Leadership Team. The total number of employees in this group at the end of May 2015 was 36 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

The goal is to have not less than 15 per cent female members at senior management level by May 2017.

**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 authorized 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 authorized 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 2014 the Board of Directors was authorised in the period until 30 September 2015, 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 OMX 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 represent them on 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 will join 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 etc.**

Bang & Olufsen's share option programme extends to a number of the Group's executive directors and managers. As at 31 May 2015 the total pool of options amount to 1,119,769 which can be exercised during the period 2014-2016 if certain criteria are met.

Further, at the Annual General Meeting in September 2014, the Company's "General guidelines concerning incentive-based remuneration" was amended to the effect that the members of the Management Board at the discretion of the Board of Directors, can be offered to participate in a new Matching Shares Program, exercisable from 2017. As a consequence of the introduction of the new Matching Shares Program, any further grants of new stock options under the existing Long-term Incentive Share Option Scheme and the Special Share Option Scheme was discontinued.

For further details, please refer to note 4.7 and note 15 in the consolidated and the parent company financial statements respectively.

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. In the event that the Company is taken over and delisted from NASDAQ OMX Copenhagen A/S, the CEO is entitled to consider his employment to be terminated. 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.





# RISK MANAGEMENT AND INTERNAL CONTROLS

The Group is exposed to a number of risks related to its activities. The risks are very different, but they are all common risks within the high-end and electronics industry.

Management considers efficient risk management as an integrated part of all the Group's activities and is continuously striving to identify, analyze and control major risks in order to optimize the Group for the benefit of its stakeholders. The Group carries out an annual review of how its overall risk exposure has changed, and whether the risk mitigation measures undertaken are sufficient or excessive. The Board of Directors sets out the guidelines for the most important risk areas, follows developments and ensures that plans are in place for controlling the different risks, including strategic, operational and financial risks.

## Strategic risks

### Markets and competition

Although the Group's products are marketed globally, most of the revenue derives from Europe. Bang & Olufsen is a niche player in an industry dominated by major international electronics companies.

The company can be affected by economic trends in the countries where the Group's products are sold, as well as by new technological initiatives by the industry's main players.

Sales trends are seasonal with the main emphasis on the period from October to December. In order to mitigate risks related to the seasonal variations and the exposure to economic trends, the company has a high degree of flexibility in the production. In addition, the company uses sourcing partners where commercially relevant and attractive.

### Customer relations

Bang & Olufsen mainly sells its products through a network of dedicated stores which primarily sell Bang & Olufsen products. The products are marketed globally, but the main part of the Group's revenue stems from stores in Europe. To avoid excessive sensitivity to changing economic cycles in the different markets, Bang & Olufsen is increasingly establishing stores outside of Europe.

To broaden the company's target group and product portfolio, the company launched the B&O PLAY brand in 2012. B&O PLAY has launched a number of products which are more attractive to a younger target group than Bang & Olufsen's classic products, for which reason Bang & Olufsen now generally covers a wider target group than before. In addition, B&O PLAY products are also sold outside the dedicated Bang & Olufsen store network, through third party channels and e-com.



### Compliance

As a global company, Bang & Olufsen is obliged to comply with the legislation and guidelines of the countries in which the Group operates. In the subsidiaries, management has extensive knowledge of local rules and on central level compliance is addressed in relation to products, production, finance, administration and CSR in order to assist the organization in complying with applicable rules, regulations, policies and standards.

Bang & Olufsen recognizes the UN and ILO declarations on human rights, labour rights, the environment and anti-corruption, for which reason we have chosen to structure our CSR work and reporting according to the UN's Global Compact.

### Design

Bang & Olufsen devotes considerable efforts to creating innovative and durable concepts and designs to differentiate the company from other consumer electronics producers. The company's concept developers collaborate with a number of selected external designers who have a high degree of independence and considerable influence, which helps ensure that the interaction between user-friendliness and technology is fully optimized. The cooperation with external designers means that Bang & Olufsen is constantly receiving new input and maintaining a broad creative horizon in terms of design.

### Innovation ability

Bang & Olufsen is constantly striving to optimize the company's innovation processes, which encompasses the definition, creation and realization of the right products for customers in the target group. The product and technology strategy is continuously being developed based on general market developments, input from markets and customers, completed technology projects and Bang & Olufsen's so-called technology radar, which contains information on, and an overview of, expected future technologies. The strategy is based on Bang & Olufsen's core competencies in combination

with a number of strategic partnerships, ensuring to the greatest possible extent that Bang & Olufsen's own strengths are being applied to the technology areas where Bang & Olufsen's products stand out from the products of other producers.

### Quality

Bang & Olufsen strives to improve the efficiency of the quality management system by preventive quality improvement activities to provide the customers with the best possible quality, innovation and craftsmanship.

Quality objectives are defined and used as a benchmark for the performance. These objectives are revised on an ongoing basis to ensure that they are appropriate for Bang & Olufsen and relevant to the customers.

The ambition is to fulfil our quality objectives by having clear processes and controls as well as well-educated staff, recognized for their professional integrity and proactive and customer-oriented approach, at all levels.

Bang & Olufsen's quality management system is based on ISO 9001:2008 for the Bang & Olufsen branded business. The system is subjected to regular internal and annual external reviews to ensure that Bang & Olufsen continually improve quality and fulfil the requirements.

### Patents and trademarks

In connection with the development of new products, continuous internal control is performed to ensure, as far as possible, that these products do not infringe on any third-party rights. This applies both to patents, trademarks and design.

With regard to Bang & Olufsen's rights, these are registered in order to ensure that the business plans for the future may be realized, just as the enforcement of Bang & Olufsen's rights is carried out with the same focus.



## Operational risks

### Suppliers

The Group is dependent on a large number of suppliers, primarily from Europe and Asia, and strives to maintain long-term supplier relations with regard to the purchase of development services and production goods. Bang & Olufsen endeavours to ensure that supplies of critical raw materials are assured through contracts and agreements and, when possible, through co-operation with several suppliers.

### Employees

Focus is on individual personal and career development which is secured through maintaining and creating interesting and challenging jobs throughout the Group to attract and retain highly qualified employees at all times.

Each year the Group therefore actively contributes to a range of training programmes for its employees.

### Insurance

Bang & Olufsen's insurance policy stipulates that insurance policies must cover any damage arising to Bang & Olufsen's assets and any claims that Bang & Olufsen may incur so that such damage or claims do not impact the company's capital and future operations to any significant extent. Consistent with this, the Group can be self-insured in respect of minor risks, while major risks are fully insured. In those instances, when deemed financially beneficial, insurance policies contain an excess. In respect to the above, a global insurance programme has been established to include all-risk, operational losses, business and product responsibility.

Bang & Olufsen has a written contingency plan and works continuously with risk management in order to protect against damage to own and contractors' facilities.

### IT risk

The Group is dependent on reliable IT systems for its day-to-day operations, to ensure control of product procurement and to increase the efficiency of the Group's supply chain. Work is continuously being undertaken to hedge these risks in the form of firewalls, access control, emergency plans etc.

The overall IT platform and infrastructure have been outsourced to a major global supplier, which significantly reduces the risk.

## Financial risks

### The Group's management of financial risks

As a result of Bang & Olufsen's extensive international activities, the Group's income statement, balance sheet and equity are exposed to a number of financial risks at any given time.

These risks are as follows:

- Foreign exchange rate risk
- Interest rate risk
- Credit risk
- Liquidity risk

Bang & Olufsen continually assesses these risks at Group level. As it is the Group's policy not to speculate in financial instruments, its financial management is solely directed towards the management of financial risks in relation to operations and financing.

The company's main credit risk relates to trade receivables from store owners. The company continuously works on improving the credit management policy and processes in order to mitigate potential future credit risk.

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



# ACCOUNTS & DATA





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# CONSOLIDATED INCOME STATEMENT

## 1 JUNE – 31 MAY

(DKK million)	Notes	2014/15	2013/14
<b>Revenue</b>	2.1	<b>2,356.5</b>	<b>2,161.7</b>
Production costs	2.2	(1,776.2)	(1,332.0)
<b>Gross profit</b>		<b>580.3</b>	<b>829.7</b>
Development costs	2.2, 2.3	(448.5)	(292.8)
Distribution and marketing costs	2.2	(861.7)	(731.9)
Administration costs	2.2, 2.4	(77.1)	(65.8)
<b>Operating profit (EBIT)</b>		<b>(807.0)</b>	<b>(260.6)</b>
Share of result after tax in associated companies		10.5	3.2
Financial income	4.2	24.8	5.6
Financial expenses	4.2	(30.9)	(34.5)
Financial items, net		(6.1)	(28.9)
<b>Earnings before tax (EBT)</b>		<b>(802.7)</b>	<b>(286.4)</b>
Income tax	2.5	195.4	58.7
Earnings for the year - continued operations		(607.3)	(227.6)
Earnings for the year after tax - discontinued operations	5.2	664.3	198.6
<b>Earnings for the year</b>		<b>57.0</b>	<b>(29.0)</b>
<b>Earnings per share</b>			
Earnings per share (EPS) DKK		1.3	(0.7)
Diluted earnings per share (EPS-D) DKK		1.3	(0.7)
Earnings per share from continuing operations, DKK		(14.2)	(5.8)
Diluted earnings per share (EPS-D) from continuing operations, DKK	2.6	(14.2)	(5.8)



# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## 1 JUNE - 31 MAY

(DKK million)	Notes	2014/15	2013/14
<b>Earnings for the year</b>		<b>57.0</b>	<b>(29.0)</b>
<i>Items that will be reclassified subsequently to the income statement:</i>			
Exchange rate adjustment of investment in foreign subsidiaries		12.1	(9.6)
Change in fair value of derivative financial instruments used as cash flow hedges		(8.8)	(2.7)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:			
Transfer to revenue		(8.2)	1.7
Transfer to production costs		12.4	(2.9)
Income tax on items that will be reclassified to the income statement:	2.5	1.1	1.0
<i>Items that will not be reclassified subsequently to the income statement:</i>			
Actuarial gains/(losses) on defined benefit plans		(4.2)	(0.1)
Income tax on items that will not be reclassified to the income statement	2.5	0.9	0.0
<b>Other comprehensive income for the year, net of tax</b>		<b>5.3</b>	<b>(12.7)</b>
<b>Total comprehensive income for the year</b>		<b>62.3</b>	<b>(41.7)</b>



# CONSOLIDATED BALANCE SHEET AT 31 MAY

(DKK million)	Notes	31/5/15	31/5/14
Goodwill		70.2	63.5
Acquired rights		8.0	14.5
Completed development projects		312.1	406.2
Development projects in progress		80.3	317.6
<b>Intangible assets</b>	3.1	<b>470.6</b>	<b>801.7</b>
Land and buildings		104.6	114.7
Plant and machinery		68.9	123.5
Other equipment		26.8	26.8
Leasehold improvements		44.9	39.5
Tangible assets in course of construction and prepayments for tangible assets		9.1	29.8
<b>Tangible assets</b>	3.2	<b>254.3</b>	<b>334.3</b>
<b>Investment property</b>	3.3	<b>17.2</b>	<b>38.6</b>
Investments in associates		5.9	10.2
Other financial receivables	3.4	123.3	44.2
<b>Financial assets</b>		<b>129.2</b>	<b>54.4</b>
<b>Deferred tax assets</b>	2.5	<b>187.5</b>	<b>180.4</b>
<b>Total non-current assets</b>		<b>1,058.8</b>	<b>1,409.5</b>
<b>Inventories</b>	3.5	<b>533.1</b>	<b>666.2</b>
Trade receivables	3.5	456.6	537.4
Receivables from associates	5.4	-	1.9
Corporation tax receivable		33.5	21.3
Other receivables		71.5	65.8
Prepayments		19.9	69.5
<b>Total receivables</b>		<b>581.5</b>	<b>696.0</b>
<b>Cash</b>		<b>1,198.0</b>	<b>120.4</b>
<b>Assets held for sale</b>		<b>77.6</b>	<b>-</b>
<b>Total current assets</b>		<b>2,390.2</b>	<b>1,482.6</b>
<b>Total assets</b>		<b>3,449.0</b>	<b>2,892.1</b>



# CONSOLIDATED BALANCE SHEET AT 31 MAY

(DKK million)	Notes	31/5/15	31/5/14
Share capital	4.5	432.0	392.7
Translation reserve		24.6	12.4
Reserve for cash flow hedges		(3.5)	0.0
Retained earnings	4.6	1,468.3	1,199.2
<b>Total equity</b>		<b>1,921.4</b>	<b>1,604.4</b>
Pensions	3.6	17.1	13.3
Deferred tax	2.5	10.6	7.7
Provisions	3.7	44.8	39.8
Mortgage loans	4.1	191.1	197.8
Other non-current liabilities		1.6	1.9
Deferred income	3.8	148.7	-
<b>Total non-current liabilities</b>		<b>414.0</b>	<b>260.5</b>
Mortgage loans	4.1	8.4	8.2
Loans from banks	4.1	210.0	220.0
Overdraft facilities		-	68.5
Provisions	3.7	25.4	28.8
Trade payables	3.5	443.1	434.0
Corporation tax payable		33.7	18.1
Other liabilities		309.1	215.8
Deferred income		67.7	33.9
<b>Other current liabilities</b>		<b>1,097.4</b>	<b>1,027.2</b>
<b>Liabilities associated with assets held for sale</b>		<b>16.3</b>	<b>-</b>
<b>Total liabilities</b>		<b>1,527.6</b>	<b>1,287.8</b>
<b>Total equity and liabilities</b>		<b>3,449.0</b>	<b>2,892.1</b>



# CONSOLIDATED CASH FLOW STATEMENT

## 1 JUNE - 31 MAY

(DKK million)	Notes	2014/15	2013/14
Earnings for the year - continuing operations		(607.3)	(227.6)
Earnings for the year - discontinued operations		664.3	198.6
Amortisation, depreciation and impairment losses		430.8	342.1
Adjustments for non-cash items	5.1	(662.3)	(13.9)
Change in receivables		10.6	(141.2)
Change in inventories		78.5	(63.2)
Change in trade payables etc		155.8	127.1
<b>Cash flow from operations</b>		<b>70.3</b>	<b>221.9</b>
Interest received		24.8	5.6
Interest paid		(30.9)	(34.5)
Income tax paid		(9.2)	(9.5)
<b>Cash flow from operating activities</b>		<b>55.0</b>	<b>183.5</b>
Purchase of intangible non-current assets		(209.2)	(310.5)
Purchase of tangible non-current assets		(82.9)	(82.3)
Acquisition of activity		-	(41.0)
Sales of tangible non-current assets		-	142.7
Proceeds from sale of associated companies		12.5	-
Proceeds from sale of businesses		1,110.8	-
Received reimbursements, intangible non-current assets		12.5	7.4
Change in financial receivables		14.0	(0.9)
<b>Cash flow from investing activities</b>		<b>857.7</b>	<b>(284.6)</b>
<b>Free cash flow</b>		<b>912.7</b>	<b>(101.1)</b>
Repayment of long-term loans		(6.5)	(6.8)
Proceeds from/repayment of short-term borrowings		(10.0)	70.0
Capital increase		248.2	-
Purchase of own shares		-	-
Sale of own shares		2.6	1.2
Settlement of share options		(0.9)	-
<b>Cash flow from financing activities</b>		<b>233.4</b>	<b>64.4</b>
<b>Change in cash and cash equivalents</b>		<b>1,146.1</b>	<b>(36.7)</b>
Cash and cash equivalents, 1 June		51.9	89.7
Exchange rate adjustment, cash and cash equivalents		-	(1.1)
<b>Cash and cash equivalents, 31 May</b>		<b>1,198.0</b>	<b>51.9</b>
<b>Cash and cash equivalents:</b>			
Cash		1,198.0	120.4
Current overdraft facilities		-	(68.5)
<b>Cash and cash equivalents 31 May</b>		<b>1,198.0</b>	<b>51.9</b>





# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 1 JUNE - 31 MAY

(DKK million)	Share capital	Foreign cur- rency trans- lation reserve	Cash flow hedge reserve	Retained earnings	Total
<b>Equity 31 May 2014</b>	<b>392.7</b>	<b>12.5</b>	<b>0.0</b>	<b>1,199.3</b>	<b>1,604.4</b>
Earnings for the year	-	-	-	57.0	57.0
Other comprehensive income	-	12.1	(4.6)	(4.2)	3.3
Other comprehensive income, tax	-	-	1.1	0.9	2.0
Comprehensive income for the year	-	12.1	(3.5)	53.7	62.3
Capital increase	39.3	-	-	219.9	259.2
Costs relating to capital increase	-	-	-	(10.9)	(10.9)
Grant of share options	-	-	-	4.6	4.6
Reversal of dividend	-	-	-	-	-
Sale of own shares	-	-	-	2.6	2.6
Settlement of share options	-	-	-	(0.9)	(0.9)
<b>Equity 31 May 2015</b>	<b>432.0</b>	<b>24.6</b>	<b>(3.5)</b>	<b>1,468.3</b>	<b>1,921.4</b>
<b>Equity 1 June 2013</b>	<b>392.7</b>	<b>22.1</b>	<b>3.0</b>	<b>1,222.4</b>	<b>1,640.2</b>
Earnings for the year	-	-	-	(29.0)	(29.0)
Other comprehensive income	-	(9.6)	(4.0)	(0.1)	(13.7)
Other comprehensive income, tax	-	-	1.0	0.0	1.0
Comprehensive income for the year	-	(9.6)	(3.0)	(29.1)	(41.7)
Grant of share options	-	-	-	4.2	4.2
Reversal of dividend	-	-	-	0.6	0.6
Sale of own shares	-	-	-	1.2	1.2
<b>Equity 31 May 2014</b>	<b>392.7</b>	<b>12.5</b>	<b>0.0</b>	<b>1,199.3</b>	<b>1,604.4</b>



# 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 2014/15 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 recognized in the balance sheet, when it is probable that future economic benefits resulting from a past event will flow to the Group. Liabilities are recognized 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 and 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, which have not been settled at the balance sheet date, are translated at the exchange rates prevailing at this date. Currency gains and losses arising between the transaction date and the date of payment or the balance sheet date, respectively, are recognised in the profit and loss account as financial income or financial costs. Tangible and intangible non-current assets, inventories and other non-monetary assets, which have been purchased in a foreign currency, and which are measured at historical cost prices, are translated at the exchange rate prevailing at the transaction date.



# SECTION 1

## BASIS OF REPORTING

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, which 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 recognized 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, which 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, including salaries for sales personnel, advertising and exhibition costs, depreciation/amortization and impairment losses. Costs in subsidiaries, which are responsible exclusively for the sale of the Group's products, are allocated to distribution and marketing costs.

### **Administration costs etc.**

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



# SECTION 1

## BASIS OF REPORTING

### **Adoption of new or amended IFRSs**

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the European Union effective on or after 1 January 2015, it has been assessed that the application of these new IFRSs has not had a material impact on the Consolidated financial statements in 2015, 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**

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 2014 - 31 May 2015.

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the European Union effective on or after 1 June 2015, it has been assessed that the application of these new IFRSs has not had a material impact on the consolidated financial statements in 2014/15, and management does not anticipate any significant impact on future periods from the adoption of these new IFRS.

Bang & Olufsen has thoroughly considered the impact of the new IFRS standards and interpretations, and has concluded that other standards which are effective for the financial year 1 June 2015 - 31 May 2016 are either of no relevance to the Group, or exert no material impact on the financial statements for the current year.

IASB has issued a number of new standards, amendments to existing standards and bases for conclusions, which have not yet come into force, but which will become effective in the financial year later than 2015/16. 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 probably from 1 January 2018. It currently awaits EU endorsement. IFRS 9 is part of the IASB's project to replace IAS 39, and the new standard will substantially change the classification and measurement of financial instruments and hedging requirements.
- IASB has issued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2018. It currently awaits EU endorsement. 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.
- IASB has issued a re-exposure draft on IAS 17 'Leasing'. Depending on the wording of the final standard, the change in lease accounting is expected to require capitalization of the majority of the Group's operational lease contracts.

Management is currently assessing the potential impact on the consolidated financial statements. It is Management's immediate assessment that the changes will not have any significant impact on recognition and measuring.



# 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.

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

<u>Accounting estimate/judgement</u>	<u>Note</u>
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 10-14.

### 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.

##### **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 the customers and products of the segments. Bang & Olufsen and B&O PLAY which has been created with a view to increase revenue and attract new potential customers to the existing Bang & Olufsen distribution. The B&O PLAY products are sold through Bang & Olufsen's B1 stores and shop-in-shops and through third party retail stores as well as online.

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

The segments 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.

In 2014/15 the Group's reportable segments have been adjusted to consist of Bang & Olufsen and B&O PLAY. The former Automotive and ICEpower segments have been excluded and are reported as discontinued operations cf. note 5.2.



# SECTION 2

## RESULTS FOR THE YEAR

### 2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

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

The Group's geographical areas are:

- Europe
- North America
- BRIC
- Rest of World

BRIC includes Brazil, Russia, India, China, Taiwan, Hong Kong and Korea.

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)

	2014/15			Total
	Bang & Olufsen	B&O PLAY	Unallocated	
<b>Revenue, Group</b>	<b>1,743.0</b>	<b>613.5</b>	<b>-</b>	<b>2,356.5</b>
<b>Gross profit, Group</b>	<b>461.4</b>	<b>167.1</b>	<b>(48.2)*</b>	<b>580.3</b>
<b>Gross margin-%</b>	<b>26.5</b>	<b>27.2</b>	<b>-</b>	<b>24.6</b>
Amortization, depreciation and impairment losses	(281.7)	(41.7)	(5.0)	(328.4)
Other non-allocated capacity costs	-	-	(1,058.9)	(1,058.9)
Share of result after tax in associated companies	-	-	10.5	10.5
Financial income	-	-	24.8	24.8
Financial expenses	-	-	(30.9)	(30.9)
<b>Earnings before tax</b>	<b>-</b>	<b>-</b>	<b>(1,107.7)</b>	<b>(802.7)</b>
Completed development projects	318.2	24.6	-	342.8
Development projects in progress	79.6	0.7	-	80.3
Total segment assets	397.8	25.3	-	423.1
Unallocated assets	-	-	3,025.9	3,025.9
<b>Total assets, Group</b>	<b>397.8</b>	<b>25.3</b>	<b>3,025.9</b>	<b>3,449.0</b>
Denmark	1,043	31	-	1,074
Rest of world	981	15	-	996
<b>Average number of full-time employees, Group</b>	<b>1,975</b>	<b>46</b>	<b>-</b>	<b>2,070</b>

\* Unallocated costs include cost for shared functions previously allocated to discontinued operations.

\* Comparative figures for 2013/14 have been adjusted to reflect that the discontinuing operations have been separated.



## SECTION 2

### RESULTS FOR THE YEAR

(DKK million)

#### 2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

	2013/14			Total
	Bang & Olufsen	B&O PLAY	Unallocated	
<b>Revenue, Group</b>	<b>1,628.0</b>	<b>534.7</b>	<b>-</b>	<b>2,161.7</b>
<b>Gross profit, Group</b>	<b>718.2</b>	<b>170.2</b>	<b>(58.7)*</b>	<b>829.7</b>
<b>Gross margin-%</b>	<b>44.1</b>	<b>31.8</b>	<b>-</b>	<b>38.4</b>
Amortization, depreciation and impairment losses	(234.3)	(44.3)	(2.3)	(280.9)
Other non-allocated capacity costs	-	-	(809.5)	(809.5)
Share of result after tax in associated companies	-	-	3.2	3.2
Financial income	-	-	5.6	5.6
Financial expenses	-	-	(34.5)	(34.5)
<b>Earnings before tax</b>	<b>-</b>	<b>-</b>	<b>(896.2)</b>	<b>(286.4)</b>
Completed development projects	260.5	28.1	-	288.6
Development projects in progress	173.9	8.7	-	182.5
Total segment assets	434.3	36.8	-	471.1
Unallocated assets	-	-	2,421.0	2,421.0
<b>Total assets, Group</b>	<b>434.3</b>	<b>36.8</b>	<b>2,421.0</b>	<b>2,892.1</b>
Denmark	1,107	21	-	1,128
Rest of world	897	2	-	898
<b>Average number of full-time employees, Group</b>	<b>2,003</b>	<b>23</b>	<b>-</b>	<b>2,026</b>

\* Unallocated costs include cost for shared functions previously allocated to from discontinued operations.



## SECTION 2

### RESULTS FOR THE YEAR

(DKK million)

#### 2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

	Total non-current assets		Total revenue	
	2014/15	2013/14	2014/15	2013/14
<b>Geographical information*</b>				
Europe	701.1	876.5	1,421.7	1,335.0
North America	8.7	7.6	165.2	159.8
BRIC	38.1	42.3	307.3	306.1
Rest of world	-	2.7	218.0	225.2
Total Bang & Olufsen distribution	747.9	929.1	2,112.2	2,026.0
B&O PLAY	-	-	244.3	135.7
Total third party distribution and e-commerce	-	-	244.3	135.7
<b>Total - Group</b>	<b>747.9</b>	<b>929.1</b>	<b>2,356.5</b>	<b>2,161.7</b>
Denmark	597.5	875.6	312.4	272.2
Rest of world	150.4	53.5	2,044.1	1,889.5
<b>Total</b>	<b>747.9</b>	<b>929.1</b>	<b>2,356.5</b>	<b>2,161.7</b>

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

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

The Group's total revenue is almost exclusively derived from the sale of goods (99.9 per cent in 2014/15 and 99.9 per cent in 2013/14).



## SECTION 2

### RESULTS FOR THE YEAR

(DKK million)	2014/15	2013/14
<b>2.2 STAFF COSTS</b>		
Wages and salaries etc.	732.9	646.8
Share-based payment	4.3	3.8
Pensions	45.6	42.5
Other social security costs	41.3	37.4
<b>Total</b>	<b>824.1</b>	<b>730.5</b>
Expensed as follows:		
Production costs	405.8	368.5
Development costs	118.7	131.9
Distribution- and marketing costs	238.1	189.9
Administration costs	61.5	40.2
<b>Total</b>	<b>824.1</b>	<b>730.5</b>
<b>Average number of full-time employees</b>	<b>2,070</b>	<b>2,026</b>

Whereof to:	2014/15			2013/14		
	Board	Executive Management	Other key employees	Board	Executive Management	Other key employees
Wages, salaries and fees	3.7	9.4	14.1	3.7	8.4	12.9
Pensions	-	0.4	1.6	-	-	1.3
Bonus	-	-	2.2	-	0.5	1.2
<b>Total</b>	<b>3.7</b>	<b>9.8</b>	<b>17.9</b>	<b>3.7</b>	<b>8.9</b>	<b>15.4</b>
Share-based payment	-	2.1	1.5	-	2.3	1.4
<b>Total remuneration</b>	<b>3.7</b>	<b>11.9</b>	<b>19.4</b>	<b>3.7</b>	<b>11.1</b>	<b>16.8</b>

In 2014/15 there were 8 members of staff in the group 'Other key employees', which is unchanged from last year.

Specified as follows:	2014/15	2013/14
Remuneration of Executive Management:		
Tue Mantoni	7.3	7.7
Anders Aakær Jensen (appointed 01.08.2014)	2.4	-
Stefan K Persson (appointed 01.10.2014)	1.5	-
Henning Bejer Beck (resigned 31.07.2014)	0.8	2.8
John Bennett-Therkildsen	-	0.6
<b>Total</b>	<b>11.9</b>	<b>11.1</b>

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.

Refer to note 4.7 for further information about the Group's share option programme.





## SECTION 2

### RESULTS FOR THE YEAR

(DKK million)	2014/15	2013/14
<b>2.2 STAFF COSTS (CONTINUED)</b>		
Remuneration of the Board:		
Ole Andersen (chairman)	0.9	0.9
Jim Hagemann Snabe (deputy chairman)	0.6	0.6
Jesper Jarlbæk	0.4	0.4
Majken Schultz	0.3	0.2
Albert Bensoussan (appointed 10.09.2014)	0.2	-
Mads Nipper (appointed 10.09.2014)	0.2	-
Knud Olesen	0.3	0.3
Jesper Olesen	0.3	0.3
Per Østergaard Frederiksen	0.3	0.3
André Loeseckrug-Pietri (resigned 10.09.2014)	0.1	0.3
Rolf Eriksen (resigned 10.09.2014)	0.1	0.3
Alberto Torres (resigned 19.09.2013)	-	0.1
<b>Total</b>	<b>3.7</b>	<b>3.7</b>

## 2.3 DEVELOPMENT COSTS

### Accounting policies

Development costs, which do not meet the criteria for capitalization as defined in note 3.1 are recognised in the income statement as development costs along with amortization and impairment losses on capitalized development projects.

Incurring development costs before capitalization	369.7	285.0
Hereof capitalized	(159.2)	(176.1)
Incurring development costs after capitalization	210.5	108.9
<i>Capitalization (%)</i>	<i>43.1</i>	<i>61.8</i>
Total amortization charges and impairment losses on development projects	238.0	183.9
<b>Total</b>	<b>448.5</b>	<b>292.8</b>

In 2013/14 there were in addition to the incurred development costs above further additions of DKK 47.5 million to capitalized development costs ref note 3.1. These additions related to key components and technologies acquired from third parties.

## 2.4 FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

Statutory audit	2.2	2.1
Other assurance services	0.2	0.5
Tax services	1.1	0.4
Other services	3.0	0.8
<b>Total</b>	<b>6.5</b>	<b>3.8</b>

EY were re-appointed as auditors at the Annual General Meeting on 10 September 2014.



## 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.

The deferred tax is measured using the tax rates and regulations in the different countries, which – based on the laws that have been enacted or substantively enacted at the balance sheet date – are expected to prevail, when the deferred tax is expected to be realized 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, which 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, 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 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, 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 187.5 million as at 31 May 2015 (DKK 180.4 million as at 31 May 2014).



## SECTION 2

### RESULTS FOR THE YEAR

(DKK million)	2014/15	2013/14
<b>2.5 TAXATION (CONTINUED)</b>		
<b>Tax recognised in Income statement</b>		
Corporation tax, continuing operations	(195.4)	(58.7)
Corporation tax, discontinued operations	204.1	65.4
<b>Total</b>	<b>8.7</b>	<b>5.8</b>
<b>Income statement and other comprehensive income</b>		
Current tax charge/credit	18.1	(17.1)
Adjustment for prior periods, current tax	(6.3)	(0.5)
	11.8	(17.6)
Change in deferred tax	(10.3)	10.8
Adjustment of deferred tax prior years	8.8	(8.0)
Adjustments from change in tax rate	(2.7)	19.6
	(4.2)	22.4
<b>Total taxation charge in the income statement</b>	<b>7.6</b>	<b>4.8</b>
Tax recognised in:		
Income statement	8.7	5.8
Other comprehensive income	(1.1)	(1.0)
<b>Total</b>	<b>7.6</b>	<b>4.8</b>

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:

	2014/15		2013/14	
Tax calculated on earnings before tax	23.5%	16.2	24.5%	(5.6)
Non-deductible costs and non-taxable income	0.6%	0.4	(7.8%)	1.8
Deviating tax rates in foreign subsidiaries	4.7%	2.7	(2.2%)	0.5
Changes in tax rates	(3.8%)	(2.7)	(84.8%)	19.6
Adjustments to prior periods	3.6%	2.5	34.3%	(8.0)
Re-capitalised tax loss carry-forwards	(15.6%)	(10.7)	7.9%	(1.8)
Foreign withholding tax	0.2%	0.2	0.5%	(0.1)
Non-taxable dividends/profit from subsidiaries and associates	(0.6%)	(0.4)	3.9%	(0.9)
Other	0.6%	0.5	(1.4%)	0.3
<b>Annual effective tax rate/taxation charge in income statement</b>	<b>13.2%</b>	<b>8.7</b>	<b>(25.1%)</b>	<b>5.8</b>



## SECTION 2

### RESULTS FOR THE YEAR

(DKK million)

## 2.5 TAXATION (CONTINUED)

### Balance sheet

Deferred tax assets	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax assets 1 June 2013	75.4	12.3	7.7	20.2	66.7	0.8	183.1
Changes in tax rates	(13.0)	(1.0)	-	(0.5)	(5.1)	-	(19.6)
Recognised in the income statement	36.3	0.3	1.4	(9.4)	(12.5)	0.8	16.9
Deferred tax assets 31 May 2014	98.7	11.6	9.1	10.3	49.1	1.6	180.4
Changes in tax rates	0.9	0.5	-	0.8	0.5	-	2.7
Recognised in the income statement	(25.9)	(12.5)	(0.1)	6.9	(5.3)	41.3	4.4
<b>Deferred tax assets 31 May 2015</b>	<b>73.7</b>	<b>(0.4)</b>	<b>9.0</b>	<b>18.0</b>	<b>44.3</b>	<b>42.9</b>	<b>187.5</b>

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

Other includes deferred tax assets of DKK 32.6 million from deferred income.

In 2014/15 a deferred tax assets of DKK 14.4 million has been recognised in the jointly-taxed Danish companies based on tax loss carry-forwards, which can be indefinitely carried forward. This deferred tax asset has been recognised on the basis of management's expectations of the Group's long-term earnings up to 5 years.

In 2014/15 has Bang & Olufsen US capitalised DKK 11.1 million of the total losses carried forward. The recognition in Bang & Olufsen US is based on the expectations to future earnings in the US subsidiary. The unrecognised deferred tax assets amount to DKK 45.3 million. The basis for the remaining unrecognised deferred tax assets includes tax losses of DKK 128.3 million. The tax losses can be carried forward for a period of one to 20 years.



## SECTION 2

### RESULTS FOR THE YEAR

(DKK million)

#### 2.5 TAXATION (CONTINUED)

Deferred tax	Non-current assets	Inventories	Receivables	Provisions	Tax loss carry forwards	Other	Total
Deferred tax liabilities 1 June 2013	14.1	(0.4)	(0.3)	(1.3)	(0.7)	2.4	13.8
Recognised in the income statement	(3.8)	-	(0.5)	0.3	0.7	(2.8)	(6.1)
Deferred tax liabilities 31 May 2014	10.3	(0.4)	(0.8)	(1.0)	-	(0.4)	7.7
Recognised in the income statement	2.8	0.2	(0.2)	0.8	(0.8)	0.1	2.9
<b>Deferred tax liabilities 31 May 2015</b>	<b>13.1</b>	<b>(0.2)</b>	<b>(1.0)</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(0.3)</b>	<b>10.6</b>

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.

#### 2.6 EARNINGS PER SHARE

2014/15	Basic	Diluted
Earnings for the year - continued operations	(607.3)	(607.3)
Earnings for the year	57.0	57.0
Weighted average number of shares in issue - million	42.9	42.9
Dilution due to share options	-	-
Total weighted average number of ordinary shares in issue - million	42.9	42.9
Earnings per ordinary share - continued operations	(14.2)	(14.2)
Earnings per ordinary share	1.3	1.3
2013/14	Basic	Diluted
Earnings for the year - continued operations	(227.7)	(227.7)
Earnings for the year	(29.0)	(29.0)
Weighted average number of shares in issue - million	39.2	39.2
Dilution due to share options	-	-
Total weighted average number of ordinary shares in issue - million	39.2	39.2
Earnings per ordinary share - continued operations	(5.8)	(5.8)
Earnings per ordinary share	(0.7)	(0.7)



# 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	Unlimited - 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 capitalized only after technical and commercial feasibility of the projects have been established. In connection with the capitalization of development costs, the expected useful life of the product is to be determined. Management has assessed that the amortization period is usually 2-6 years. Management also makes assumptions when assessing the possible impairment of development projects. The applied principles are unchanged from the 2013/14 financial year. Development projects amount to DKK 392.4 million as at 31 May 2015 (DKK 723.8 million as at 31 May 2014). The main additions in the 2014/15 financial year are development projects relating to TV 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
<b>Cost</b>					
At 1 June 2013	54.5	166.9	1,320.1	178.2	1,719.7
Exchange rate adjustment to year-end rate	(0.1)	-	-	-	(0.1)
Additions in the year	11.9	4.2	73.2	233.4	322.7
Reimbursements received	-	-	-	(7.4)	(7.4)
Disposals in the year	(0.1)	(7.0)	(374.3)	-	(381.4)
Completed development projects	-	-	86.6	(86.6)	-
At 31 May 2014	66.2	164.1	1,105.6	317.6	1,653.5
Exchange rate adjustment to year-end rate	4.3	-	-	-	4.3
Additions in the year	2.8	1.1	81.1	124.2	209.2
Reimbursements received	-	-	-	(9.2)	(9.2)
Disposals in the year	(2.1)	-	(167.9)	(1.3)	(171.3)
Disposals in the year from sale of businesses	-	(3.8)	(302.3)	(104.9)	(411.0)
Transfer to assets held for sale	-	(1.5)	(44.3)	(24.3)	(70.1)
Completed development projects	-	-	221.8	(221.8)	-
<b>At 31 May 2015</b>	<b>71.2</b>	<b>159.9</b>	<b>894.0</b>	<b>80.3</b>	<b>1,205.4</b>
<b>Amortisation and impairment</b>					
At 1 June 2013	(2.6)	(146.2)	(835.4)	-	(984.2)
Exchange rate adjustment to year-end rate	(0.1)	-	-	-	(0.1)
Amortisation during the year	-	(7.1)	(238.3)	-	(245.4)
Reversed amortisation on disposals	-	3.7	374.3	-	378.0
At 31 May 2014	(2.7)	(149.6)	(699.4)	-	(851.7)
Exchange rate adjustment to year-end rate	(0.4)	-	-	-	(0.4)
Amortisation during the year	-	(6.4)	(253.2)	-	(259.6)
Impairment losses during the year	-	-	(30.7)	-	(30.7)
Reversed amortisation on disposals	2.1	-	167.9	-	170.0
Reversed amortisation on disposals from sale of businesses	-	2.6	199.3	-	201.9
Assets transferred to held for sale	-	1.5	34.2	-	35.7
<b>At 31 May 2015</b>	<b>(1.0)</b>	<b>(151.9)</b>	<b>(581.9)</b>	<b>-</b>	<b>(734.8)</b>
<b>Net book value</b>					
<b>At 31 May 2015</b>	<b>70.2</b>	<b>8.0</b>	<b>312.1</b>	<b>80.3</b>	<b>470.6</b>
At 31 May 2014	63.5	14.5	406.2	317.6	801.8



## SECTION 3

### OPERATING ASSETS AND LIABILITIES

(DKK million)

#### 3.1 INTANGIBLE ASSETS (CONTINUED)

##### Impairment losses during the year

###### Goodwill

The majority of the Group's goodwill (DKK 41.7 million) is related to the acquisition of the Dutch distribution in 2004/05. The goodwill is allocated to the cash-generating unit, which includes the activities in Holland. DKK 20.0 million relate to the take over of 20 shops from the previous master dealer Richcom in China in 2013/14. The goodwill is allocated to the cash-generating unit, which includes the activities in BRIC. The goodwill relates in its entirety to the business segment Bang & Olufsen. No impairment losses have been recognised on cash-generating units which include goodwill in 2014/15 or 2013/14 in the Group.

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 expected future cash flows according to the company's strategy and forecasts for the coming 2 financial years. The terminal value is determined on the assumption of a growth of 2 per cent (2013/14; 2.0 per cent). The growth rate is not expected to exceed the long-term growth rate. A discount rate before tax of 9 per cent is used (6.9 per cent after tax) (2013/14; 10 per cent/7.6 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 life-time of the assets, and a discount rate before tax of 10 per cent (2013/14; 10.0 per cent).

Further it has been assessed whether impairments are required on any individual development projects. During 2014/15 impairment losses of DKK 30.7 million have been recognised on development projects related to terminated products (2013/14; DKK 0 million).

	2014/15	2013/14
<b>Amortisation and impairment losses</b>		
Production costs	4.3	4.1
Development costs	283.8	239.2
Distribution- and marketing costs	2.0	1.9
Administration costs	0.2	0.2
<b>Total</b>	<b>290.3</b>	<b>245.4</b>



# 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, which are depreciated separately, if the expected useful life differs for the individual components.

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

Asset class	Asset type	Depreciation policy
Land & Buildings	Land	None
	Buildings	Straight-line over 40 years
	Interior refurbishment/ special installations	Straight-line over 10 years
Plant & 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)

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#### 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 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.

In 2014/15 impairment losses have been 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, had it not been impaired.

Impairment losses on individual tangible assets of DKK 17.4 million have been recognised relating to assets no longer used (2013/14 DKK 0 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
<b>Cost</b>						
At 1 June 2013	482.8	1,240.9	202.6	72.8	67.5	2,066.6
Exchange rate adjustment to year-end rate	(6.5)	(3.2)	(0.4)	(1.5)	-	(11.6)
Reclassification	-	-	0.3	(0.3)	-	-
Additions in the year	4.2	22.7	9.9	25.7	24.8	87.3
Completed assets	0.5	11.6	3.7	-	(15.8)	-
Disposals in the year	(99.4)	(21.7)	(8.4)	(16.9)	(46.7)	(193.1)
At 31 May 2014	381.6	1,250.3	207.7	79.8	29.8	1,949.2
Exchange rate adjustment to year-end rate	0.8	(0.1)	5.5	10.4	0.2	16.8
Additions in the year	6.8	28.4	16.3	19.4	12.0	82.9
Completed assets	1.2	25.0	0.5	0.7	(27.4)	-
Disposals in the year	(3.6)	(20.8)	(13.0)	(11.5)	(0.4)	(49.3)
Disposals in the year from sale of businesses	-	(136.6)	(16.2)	(8.9)	(4.0)	(165.7)
Transfer to assets held for sale	-	(2.1)	(6.3)	(0.9)	(1.1)	(10.4)
<b>At 31 May 2015</b>	<b>386.8</b>	<b>1,144.1</b>	<b>194.5</b>	<b>89.0</b>	<b>9.1</b>	<b>1,823.5</b>
<b>Amortisation and impairment</b>						
At 1 June 2013	(284.6)	(1,085.3)	(178.2)	(42.6)	-	(1,590.7)
Exchange rate adjustment to year-end rate	1.8	2.9	0.4	0.6	-	5.7
Reclassification	-	-	(0.1)	0.1	-	-
Depreciation during the year	(12.7)	(64.9)	(9.5)	(12.7)	-	(99.8)
Reversed depreciation on disposals	28.6	20.5	6.5	14.3	-	69.9
At 31 May 2014	(266.9)	(1,126.8)	(180.9)	(40.3)	-	(1,614.9)
Exchange rate adjustment to year-end rate	(0.3)	-	(3.1)	(4.1)	-	(7.5)
Depreciation during the year	(10.8)	(60.2)	(11.3)	(18.0)	-	(100.3)
Impairment losses during the year	(4.4)	(12.2)	(0.8)	-	-	(17.4)
Reversed depreciation on disposals	0.2	21.8	12.2	9.8	-	44.0
Reversed amortisation on disposals from sale of businesses	-	100.4	11.0	7.6	-	119.0
Reversed depreciation on assets transferred to held for sale	-	1.8	5.2	0.9	-	7.9
<b>At 31 May 2015</b>	<b>(282.2)</b>	<b>(1,075.2)</b>	<b>(167.7)</b>	<b>(44.1)</b>	<b>-</b>	<b>(1,569.2)</b>
<b>Net book value</b>						
<b>At 31 May 2015</b>	<b>104.6</b>	<b>68.9</b>	<b>26.8</b>	<b>44.9</b>	<b>9.1</b>	<b>254.2</b>
At 31 May 2014	114.7	123.5	26.8	39.5	29.8	334.3

There are no contractual obligations regarding purchase of tangible assets.





## SECTION 3

## OPERATING ASSETS AND LIABILITIES

(DKK million)	2014/15	2013/14
<b>3.2 TANGIBLE ASSETS (CONTINUED)</b>		
<b>Depreciation and impairment losses</b>		
Production costs	84.5	57.2
Development costs	7.6	12.9
Distribution- and marketing costs	25.0	27.2
Administration costs etc.	0.6	2.5
<b>Total</b>	<b>117.7</b>	<b>99.8</b>

Impairment losses of DKK 17.4 million have been recognised in relation to tangible assets during 2014/15 (2013/14 DKK 0 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.

Impairment losses of DKK 20.2 million have been recognised in relation to change in use of investment property during 2014/15 (2013/14 DKK 0 million).

**Cost**

At 1 June 2013	79.9
At 31 May 2014	79.9
<b>At 31 May 2015</b>	<b>79.9</b>

**Depreciation and impairment**

At 1 June 2013	(39.9)
Depreciation during the year	(1.3)
At 31 May 2014	(41.2)
Depreciation during the year	(1.3)
Impairment losses during the year	(20.2)
<b>At 31 May 2015</b>	<b>(62.8)</b>

**Net book value**

<b>At 31 May 2015</b>	<b>17.2</b>
At 31 May 2014	38.6

Investment property consists of a building that is used only for rental purposes, and the property that is partly used by Bang & Olufsen Medicom a/s.

External rental income of DKK 2.5 million has been received from the investment property in 2014/15 (2013/14; DKK 2.3 million), and directly attributed operating expenses were DKK 1.5 million (2013/14; DKK 1.6 million).

The property is leased on operating leases with a remaining duration of 46 months. According to the existing operating leases a rental income of DKK 2.5 million will be received in 2015/16.



## SECTION 3

### OPERATING ASSETS AND LIABILITIES

(DKK million)

#### 3.4 OTHER FINANCIAL RECEIVABLES

##### Cost

At 1 June 2013	54.8
Exchange rate adjustment to year-end rate	1.6
Changes in the year	(1.9)
At 31 May 2014	54.5
Exchange rate adjustment to year-end rate	3.2
Changes in the year	89.0
<b>At 31 May 2015</b>	<b>146.7</b>

##### Impairment

At 1 June 2013	(12.1)
Exchange rate adjustment to year-end rate	(0.5)
Impairment reversals/losses during the year	2.3
At 31 May 2014	(10.3)
Exchange rate adjustment to year-end rate	(1.1)
Impairment reversals/losses during the year	(12.0)
<b>At 31 May 2015</b>	<b>(23.4)</b>

##### Net book value

<b>At 31 May 2015</b>	<b>123.3</b>
At 31 May 2014	44.2

The fair value of other financial receivables in the Group amounts to DKK 123.3 million (DKK 44.2 million in 2013/14). 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 price.

###### Other financial liabilities

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

###### Deferred income

Deferred income comprises received payments related to income 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 applied principles are unchanged from the 2013/14 financial year. The trade receivables amount to DKK 456.6 million as at 31 May 2015 (DKK 537.4 million as at 31 May 2014).

###### 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 2014/15 a change in the method for estimating the net realisable value of spare parts has been implemented. The changed estimate has been implemented as it is management's view that the new method reflect the current use of spare parts more reliably. The change has resulted in a further write-down of inventory of approximately DKK 40 million compared to the estimate used in previous years. Estimates for other inventories than spare parts are unchanged from the 2013/2014 financial year. Inventories amount to DKK 533.1 million as at 31 May 2015 (DKK 666.2 million as at 31 May 2014).



## SECTION 3

## OPERATING ASSETS AND LIABILITIES

(DKK million)	2014/15	2013/14
<b>3.5 WORKING CAPITAL (CONTINUED)</b>		
<b>3.5.1 Inventories</b>		
Raw materials	132.8	140.0
Work in progress	30.4	37.1
Spare parts	75.1	113.6
Finished goods	294.8	375.4
<b>Total 31 May</b>	<b>533.1</b>	<b>666.2</b>

It is Group policy that spare parts should be available for a number of years after sale of the product. DKK 38.2 million (2013/14; DKK 57.8 million) out of the DKK 75.1 million in spare parts, is expected to be realised in the period after more than 12 months.

Other disclosures:

Inventory movement recognised in production costs	1,654.0	1,303.5
Impairment of inventories recognised in production costs	60.0	12.9
Reversal of impairment of inventories recognised in production costs	1.9	2.8

Reversal of impairment of inventories is, as in the previous year, a result of better than expected sales of impaired inventories.

**3.5.2 Trade receivables**

Trade receivables at 31 May (gross)	577.3	634.6
Impairment 1 June	(97.2)	(91.9)
Exchange rate adjustment to year-end rate	0.1	(0.2)
Change in impairment during the year	(59.8)	(7.3)
Actual losses during the year	36.2	2.2
Impairment 31 May	(120.7)	(97.2)
<b>Trade receivables at 31 May (net)</b>	<b>456.6</b>	<b>537.4</b>

All trade receivables fall due within one year.

Financial income of DKK 4.2 million (2013/14; DKK 4.2million) 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.

	2014/15	2013/14
Maturity analysis:		
Amounts not due	388.3	461.1
Overdue up to 30 days	30.8	5.9
Overdue between 30 and 60 days	13.4	12.9
Overdue between 60 and 90 days	9.2	5.2
Overdue between 90 and 120 days	8.7	6.4
Overdue more than 120 days	6.2	45.9
<b>Trade receivables at 31 May (net)</b>	<b>456.6</b>	<b>537.4</b>

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)

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#### 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 or 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

(DKK million)	2014/15	2013/14
<b>3.6 PENSIONS (CONTINUED)</b>		
<b>Amounts recognised in the income statement:</b>		
Defined contribution plans	47.8	45.6
Defined benefit plans	1.1	1.9
Total pension amount charged to the income statement	48.9	47.5
<b>Amounts recognised in the balance sheet:</b>		
Wholly unfunded defined benefit plans	3.3	3.6
Wholly or partly funded defined benefit plans	28.2	24.6
Present value of defined benefit obligation 31 May	31.5	28.2
Fair value of plan assets	(13.8)	(14.8)
Unrecognised actuarial(gains) and losses	-	-
Defined benefit plans obligation 31 May	17.7	13.4
Actual return on plan assets	0.2	0.2

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	
	2014/15	2013/14	2014/15	2013/14
<b>Actuarial assumptions:</b>				
Calculation rate p.a.	1.6%	3.0%	2.3%	4.0%
Expected salary increase p.a.	1.5%	1.5%	2.75%	3.75%
Expected rate of return p.a.	1.6%	3.0%	2.3%	4.0%





## SECTION 3

### OPERATING ASSETS AND LIABILITIES

(DKK million)

#### 3.6 PENSIONS (CONTINUED)

	2014/15	2013/14
<b>Germany:</b>		
Present value of future payments	20.9	18.1
Fair value of plan assets	(8.3)	(8.4)
Actuarially calculated net obligation	12.6	9.7
<b>Norway:</b>		
Present value of future payments	7.3	6.5
Fair value of plan assets	(5.5)	(6.4)
Actuarially calculated net receivable	1.8	0.1
Net obligation	14.4	9.8
Wholly unfunded defined benefit plans	3.3	3.6
<b>Defined benefit plans 31 May, net</b>	<b>17.7</b>	<b>13.4</b>

5 year overview:	2014/15	2013/14	2012/13	2011/12	2010/11
Present value of defined benefit obligation	31.5	28.2	27.2	26.2	23.8
Fair value of plan assets	(13.8)	(14.8)	(14.6)	(14.9)	(14.6)
Deficit, defined benefit plans	17.7	13.4	12.6	11.3	9.2
Experience-based adjustments of defined benefit obligation	4.2	1.2	1.4	1.7	0.6
Experience-based adjustments of plan assets for defined benefit plans	(0.6)	0.6	(0.0)	(0.1)	(0.4)

#### 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 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 58.8 million have been recognized as at 31 May 2015 (2013/14; DKK 51.7 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 2013/14 financial year. No reimbursements will be received from third parties to cover the provisions.

	Warranty and fairness	Employee anniversary benefits	Other obligations	Total
At 1 June 2013	70.9	8.0	18.4	97.3
Exchange rate adjustment to year-end rate	(0.4)	0.1	(0.4)	(0.7)
Provisions in the year	26.6	0.3	2.1	28.9
Provisions used in the year	(31.2)	(0.9)	(5.7)	(37.8)
Provisions reversed in the year	(14.2)	(4.5)	(0.4)	(19.2)
At 31 May 2014	51.7	2.9	14.0	68.5
Exchange rate adjustment to year-end rate	3.0	-	0.8	3.8
Provisions in the year	53.4	0.8	2.5	56.7
Provisions used in the year	(32.1)	(0.8)	(5.5)	(38.4)
Provisions reversed in the year	(17.2)	-	(3.2)	(20.4)
<b>At 31 May 2015</b>	<b>58.8</b>	<b>2.9</b>	<b>8.6</b>	<b>70.2</b>
Falls due 1-5 year	34.2	2.3	8.3	44.8
Falls due after 5 years	-	-	-	-
Non-current provisions	34.2	2.3	8.3	44.8
Falls due within one year	24.6	0.6	0.3	25.4
<b>At 31 May 2015</b>	<b>58.8</b>	<b>2.9</b>	<b>8.6</b>	<b>70.2</b>

#### 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.

#### 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%	2.1	9.4	17.4	26.8
Floating rate loans, interest rate level 0.5 - 1.0 %	6.3	25.4	138.9	164.3
<b>Book value 31 May 2015</b>	<b>8.4</b>	<b>34.8</b>	<b>156.3</b>	<b>191.1</b>
Fixed rate loans, interest rate 4.1%	2.0	9.1	18.3	27.3
Floating rate loans, interest rate level 0.5 - 1.0 %	6.2	25.2	145.3	170.5
Book value 31 May 2014	8.2	34.3	163.5	197.8

The fair value of the Group's mortgage loans amounts to DKK 199.9 million (2013/14; DKK 207.4 million). All loans are in DKK.

#### 4.1.2 Loans from banks

The Group has a current draw of DKK 210.0 million (2013/14; DKK 220.0 million) on a committed facility with Nordea. This is also the fair value. As a consequence of the Automotive transaction the company was obliged in accordance with its loan covenants to redeem its bank facilities.



# 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.

	2014/15	2013/14
Interest income from banks	0.8	0.2
Exchange rate gains, net	19.5	-
Other financial income	4.5	5.4
<b>Financial income</b>	<b>24.8</b>	<b>5.6</b>
Interest costs on bank loans etc	(9.6)	(8.4)
Interest costs on mortgage loans	(7.2)	(10.0)
Exchange rate losses, net	-	(4.6)
Other financial costs	(14.1)	(11.5)
<b>Financial costs</b>	<b>(30.9)</b>	<b>(34.5)</b>

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

### 4.3 FINANCIAL INSTRUMENTS

#### Accounting policies

##### Financial assets

The Group classifies its financial assets into the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables; or
- derivative instruments designated as hedges.

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

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

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



## 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 asset or liability or a firm commitment (fair value hedge); or
- a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

##### **Fair value hedges**

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

##### **Cash flow hedges**

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

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

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

	2014/15		2013/14	
	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	123.3	123.3	44.2	44.2
Trade receivables	456.6	456.6	537.4	537.4
Receivables from associates	0.0	0.0	1.9	1.9
Other receivables	71.5	71.5	65.8	65.8
<b>Loans receivable and other receivables</b>	<b>651.4</b>	<b>651.4</b>	<b>649.3</b>	<b>649.3</b>
Mortgage loans	199.5	199.9	206.0	207.4
Loans from banks	210.0	210.0	220.0	220.0
Overdraft facilities	0.0	0.0	68.5	68.5
Trade payables	443.1	443.1	434.0	434.0
Other liabilities	309.1	309.1	215.8	215.8
<b>Financial liabilities valued at amortised cost</b>	<b>1,161.7</b>	<b>1,162.1</b>	<b>1,144.3</b>	<b>1,145.7</b>
Derivative financial instruments relating to hedging of forecasted future transactions included in Other receivables	(4.5)	(4.5)	0.0	0.0
<b>Financial liabilities held for trading</b>	<b>(4.5)</b>	<b>(4.5)</b>	<b>0.0</b>	<b>0.0</b>

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

Foreign exchange contracts 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 liabilities used as hedging instruments. The fair value is negative DKK 4.5 million (2013/14; DKK 0.0 million).



## SECTION 4

## CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

## 4.3 FINANCIAL INSTRUMENTS (CONTINUED)

**Foreign exchange rate risk**

In 2014/15 90 per cent of the Group's turnover was in foreign currency (2013/14; 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 and CHF, and the most significant exposure is presently related to these. The most significant exposure on the outflow is USD and CZK. 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 75 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 2015, the Group has entered into foreign exchange forward contracts at a repurchase value of net DKK 434.3 million (2013/14; DKK 9.6 million), with a fair value of negative DKK 4.5 million (2013/14; DKK 0 million).

Foreign exchange contracts, net sale (purchase)

	31 May 2015		31 May 2014	
	Contractual value	Fair value	Contractual value	Fair value
USD	(339.3)	1.2	(109.1)	-
GBP	-	-	-	-
CHF	161.0	(5.5)	108.0	-
CZK	(66.0)	(0.2)	-	-
Other	-	-	10.7	-
<b>Total</b>	<b>(244.3)</b>	<b>(4.5)</b>	<b>9.6</b>	<b>-</b>



## 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% change in the selected currencies compared to average annual rates estimated on unhedged basis.

	EBIT		Equity	
	2014/15	2013/14	2014/15	2013/14
USD	(9.8)	(12.7)	(7.5)	(9.5)
GBP	8.4	7.6	6.4	5.7
CHF	8.4	8.8	6.4	6.6
Other	-	(0.9)	0.8	0.1
<b>Total</b>	<b>7.0</b>	<b>2.8</b>	<b>6.1</b>	<b>2.9</b>

**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 1198.0 million (2013/14; DKK 120.4 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 0.6 million in 2014/15 (2013/14; DKK 0.5 million).

At the end of the financial year, the Group's interest-bearing debt totaled DKK 409.5 million (2013/14; DKK 494.5 million) corresponding to 11.7 per cent of the balance sheet total (2013/14; 17.1 per cent).

Of the interest-bearing debt DKK 156.3 million falls due after five years (2013/14; DKK 163.5 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 recognized correspond to the maximum credit risk.

At the end of the financial year, the Group sold its products through 714 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 2014/15 financial year, DKK 36.2 million was expensed as losses on trade receivables (2013/14; DKK 2.2 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 facilities 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
<b>2014/15</b>				
Long-term bank loans		60.3	202.3	262.6
Short-term bank loans	218.4	-	-	218.4
Trade payables	443.1	-	-	443.1
Total non-derivative financial liabilities	661.5	60.3	202.3	924.1
<b>Total financial liabilities</b>	<b>661.5</b>	<b>60.3</b>	<b>202.3</b>	<b>924.1</b>

	Less than one year	Between one and five years	More than five years	Total
<b>2013/14</b>				
Long-term bank loans	-	59.9	218.3	278.2
Short-term bank loans	297.0	-	-	297.0
Trade payables	434.0	-	-	434.0
Total non-derivative financial liabilities	731.0	59.9	218.3	1,009.2
<b>Total financial liabilities</b>	<b>731.0</b>	<b>59.9</b>	<b>218.3</b>	<b>1,009.2</b>

**Specification of net interest-bearing debt**

	2014/15	2013/14
Cash and cash equivalents	1,198.0	120.4
Bank loans, non-current liabilities	(191.1)	(197.8)
Bank loans, current liabilities	(218.4)	(297.0)
<b>Total</b>	<b>788.5</b>	<b>(374.4)</b>

**Defaults or breaches on loans**

No loan agreements have been defaulted or breached in 2014/15 or 2013/14.



## SECTION 4

### CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

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#### 4.4 CAPITAL STRUCTURE

Based on the company's result and to have sufficient funds to support the strategic initiatives, the Board of Directors proposes to the General Meeting that no dividend be paid out for the 2014/15 financial year. It is the intention of the Board of Directors to resume dividend payments as soon as the financial results justify it.

Bang & Olufsen operates in an industry with very frequent and significant changes in technology, and therefore, the Group will from time to time be faced with small or medium-sized investment opportunities within new business areas and new fields of technology. The product distribution largely takes place through partner-owned retail shops. But in certain markets it might from time to time be necessary for the Group to acquire established retail networks or open new stores. For these reasons and to ensure adequate reserves to implement the the second phase of the "Leaner, Faster, Stronger" strategy where the main focus will be on creating profitable growth, and to manage the considerable seasonal variations in the company's income, Bang & Olufsen must maintain an adequate capital reserve.

#### 4.5 SHARE CAPITAL

##### **Accounting policies**

##### **Dividend**

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

##### **Own shares**

Acquisition and sales prices for own 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)	
	2014/15	2013/14	2014/15	2013/14
1 June	39,270,435	39,270,435	392.7	392.7
Capital increase	3,927,043	-	39.3	-
<b>31 May</b>	<b>43,197,478</b>	<b>39,270,435</b>	<b>432.0</b>	<b>392.7</b>

Bang & Olufsen a/s carried out a capital increase through an accelerated book-building process in June 2014 (refer to company announcements 14.02, 14.03 and 14.05 of 19 June, 20 June and 25 June respectively). The capital increase represents 3,927,043 share of a nominal value of DKK 10 each and was subscribed for at a price per share of DKK 66. Bang & Olufsen received net proceeds of DKK 250 million and will use these to accelerate the execution of the Group's growth plan.

Transaction costs of DKK 10.9 million have been recognised directly in equity in relation to the capital increase. The costs are specified in note 4.6.

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.

	2014/15	2013/14	2012/13	2011/12	2010/11
Specification of movements in the share capital:					
Share capital	392.7	392.7	362.4	362.4	362.4
Capital increase	39.3	-	30.3	-	-
Share capital	432.0	392.7	392.7	362.4	362.4

#### Own shares

	Number		Nominal value (DKKm)		% of share capital	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
1 June	77,369	102,021	0.8	1.0	0.2	0.3
Used in connection with employee share option programmes	(54,370)	(24,652)	(0.5)	(0.2)	(0.1)	(0.1)
<b>31 May</b>	<b>22,999</b>	<b>77,369</b>	<b>0.2</b>	<b>0.8</b>	<b>0.1</b>	<b>0.2</b>

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



## SECTION 4

### CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

#### 4.6 COSTS RELATING TO CAPITAL INCREASE

The following costs have been recognised directly in equity in relation to the capital increase carried out through an accelerated book building process in June 2014 as described in note 4.5.

There were no corresponding costs in 2013/14.

	2014/15
Legal fees	1.6
Consultancy fees	9.0
Issuance fees	0.3
<b>Total</b>	<b>10.9</b>

#### 4.7 SHARE-BASED PAYMENT AND MATCHING SHARES

##### Accounting policies

##### Share-based incentive programmes

Share-based incentive programmes, in which Executive Management and select other key employees are given the right to 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. The other side of the entry is recognised directly in equity.

The fair value of the equity instruments is calculated on the basis of the Monte Carlo simulation model based on the assumptions listed below.

Share options have not been granted in the financial year 2014/15.

##### Matching shares

The Board of Directors in 2013/14 decided to implement a matching share program (MSP) to replace the stock option programs previously used as a variable component in compensation offered to 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 the number of investment shares acquired and the performance of the Bang & Olufsen Group.

The MSP should be accounted for on an accruals basis over the three-year vesting period, as it is a condition that the employees should be employed until 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.





## SECTION 4

## CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

## 4.7 SHARE-BASED PAYMENT (CONTINUED)

**Share-based payment**

The Bang & Olufsen Group's share option programmes extend to Executive Management and a number of key employees in the Group. As at 31 May 2015, the total pool of options amount to 2,127,790 options, which can be exercised in the period 2015-2016. Vesting of the share options is dependent on the recipient of the option being employed during the vesting period. For some of the programs there are certain demands regarding development in share price and other performance measures.

The share options can only be settled with shares. To a limited extent, Bang & Olufsen a/s has purchased own shares to cover the obligation for the outstanding options. The shares are recognised directly in the equity. The holding of own shares totals 26,999 shares as at 31 May 2015 (77,639 shares as at 31 May 2014).

	2014/15		2013/14	
	Number of options	Avg. exercise price per option (DKK)	Number of options	Avg. exercise price per option (DKK)
Outstanding at 1 June	3,037,285	77	2,882,254	82
Granted	271,104	0	1,022,962	81
Exercised	(134,411)	48	(24,652)	47
Expired	(1,023,731)	78	(562,490)	121
Forfeited	(22,457)	71	(280,789)	63
<b>Outstanding 31 May</b>	<b>2,127,790</b>	<b>58</b>	<b>3,037,285</b>	<b>77</b>



## SECTION 4

## CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

## 4.7 SHARE-BASED PAYMENT (CONTINUED)

Further information about the outstanding stock options:

	2014/15			2013/14		
	Number of options	Avg. exercise price per option (DKK)	Remaining term to maturity (months)	Number of options	Avg. exercise price per option (DKK)	Remaining term to maturity (months)
Outstanding programme 2008/09	-	-	-	119,010	103	2
Outstanding programme 2009/10	58,339	58	2	72,446	58	14
Outstanding programme 2010/11	172,364	47	14	244,842	47	26
Outstanding programme 2010/11	-	-	-	416,667	77	3
Outstanding programme 2010/11	416,667	86	3	416,667	86	15
Outstanding programme 2011/12	-	-	-	535,880	67	3
Outstanding programme 2012/13	261,911	81	3	275,972	81	15
Outstanding programme 2013/14	665,000	60	15	665,000	60	27
Outstanding programme 2013/14	282,405	55	15	290,801	55	27
Matching shares 2014/15	271,104	-	29			
<b>Outstanding 31 May</b>	<b>2,127,790</b>	<b>-</b>		<b>3,037,285</b>	<b>69</b>	

The value of the share-based payment expresses the group income statement effect of allocated share options. 134,411 share options have been exercised in the year with an average exercise price of DKK 48.

The share option agreements entitle Bang & Olufsen to demand cash settlement of the share options. 84,041 share options were settled with cash settlement and total payment amounted to DKK 0.9 million.

The remaining options have not been, and may never be exercised.



## SECTION 4

### CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

#### 4.7 SHARE-BASED PAYMENT (CONTINUED)

	Options granted in 2013/14
Weighted average fair value (DKK per option)	15
The expense recognition according to the Monte Carlo option pricing formula has been based on the following assumptions:	
Weighted average share price (DKK per option)	55
Expected volatility, first grant	40.0%
Risk-free interest rate, first grant	0.41%

In 2013/14 an average dividend addition for the Bang & Olufsen a/s share of 0.00% has been used in the calculation.

The expected maturity is fixed to be the end of the vesting period.

The volatility is based on one year's historical data and five years' historical data respectively.

##### **Matching shares**

As stated in company announcement 14.11 from 15 September 2014 the Board of Directors has implemented a matching share programme (MSP) to replace the stock option programmes previously used as a variable component in compensation offered to Executive Management and selected other 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 the number of investment shares acquired and the performance of the Bang & Olufsen Group.

The fair value of Matching shares is 46 DKK per option based on the share price at the time of grant.

Staff cost recognized in the income statement in relation to share-based payments were DKK 4.6 million of which DKK 0.8 million relates to matching shares (2013/14; DKK 4.2 million).



# 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)	2014/15	2013/14
Change in other liabilities	7.0	(29.0)
Financial income	(24.8)	(5.6)
Financial costs	30.9	34.5
Result of investments in associates after tax	(10.5)	(3.2)
Gain/loss on sale of non-current assets	1.8	(11.7)
Gain/loss on sale of business	(643.0)	-
Tax on earnings for the year	8.7	5.8
Other adjustments	(32.4)	(4.8)
<b>Total adjustments</b>	<b>(662.3)</b>	<b>(13.9)</b>



# SECTION 5

## OTHER NOTES

(DKK million)

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### 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.

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.



## SECTION 5

## OTHER NOTES

(DKK million)

## 5.2 DISCONTINUED OPERATIONS (CONTINUED)

	2014/15	2013/14
Revenue	647.1	714.5
Expenses	(421.7)	(451.4)
<b>Earnings before tax</b>	<b>225.4</b>	<b>263.1</b>
Tax	(53.0)	(64.5)
<b>Earnings for the year discontinued operations</b>	<b>172.4</b>	<b>198.6</b>
Gains/losses on sale of assets and businesses	643.0	-
Tax	(151.1)	-
<b>Gains/losses on sale of assets and businesses after tax</b>	<b>491.9</b>	<b>-</b>
<b>Total earnings from discontinued operations</b>	<b>664.3</b>	<b>198.6</b>
Earnings per share of discontinued operations	15.5	5.1
Diluted earnings per share of discontinued operations	15.5	5.1
Cash flow from operating activities	283.3	273.2
Cash flow used for investing activities	1,063.2	(102.6)
Cash flow from financing activities	-	-
<b>Net cash flow from discontinued operations</b>	<b>1,346.5</b>	<b>170.6</b>
<b>Balance sheet items comprise*:</b>		
Development projects	34.4	252.6
Plant & machinery	0.2	44.4
Other equipment and assets under construction	1.1	2.5
Inventories	9.1	56.2
Trade receivables	18.9	87.9
Other receivables	12.0	19.5
Prepayments	1.8	28.2
Cash	0.1	0.2
<b>Assets held for sale</b>	<b>77.6</b>	<b>491.5</b>
Trade payables	8.4	36.2
Provisions	1.8	0.3
Corporation tax payable	3.3	6.5
Other liabilities	2.8	15.1
<b>Liabilities associated with assets held for sale</b>	<b>16.3</b>	<b>58.1</b>

\* Balance sheet items cannot be reconciled to the consolidated balance sheet individually.



# SECTION 5

## OTHER NOTES

(DKK million)

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### 5.3 BUSINESS COMBINATIONS

#### **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.

No business combinations took place in 2014/15





## SECTION 5

## OTHER NOTES

(DKK million)

## 5.3 BUSINESS COMBINATIONS (CONTINUED)

**Richcom**

As of 1 June 2013 Bang & Olufsen acquired 20 shops from the previous master dealer Richcom in China (including Beijing and Shanghai).

2013/14

The fair value of acquired assets and liabilities is as follows:

Acquired rights	10.9
<b>Intangible assets</b>	<b>10.9</b>
Other equipment	2.4
Leasehold improvements	1.7
Tangible assets in course of construction and prepayments for tangible assets	0.9
<b>Tangible assets</b>	<b>5.0</b>
<b>Total non-current assets</b>	<b>16.0</b>
Inventories	20.0
Trade receivables	2.8
Cash	1.1
<b>Total current assets</b>	<b>23.9</b>
Provisions	3.3
<b>Total non-current liabilities</b>	<b>3.3</b>
Other liabilities	7.6
<b>Total current liabilities</b>	<b>7.6</b>
<b>Total liabilities</b>	<b>11.0</b>
<b>Acquired net assets</b>	<b>28.8</b>
The purchase price is as follows:	
Cash	41.0
<b>Total purchase price</b>	<b>41.0</b>
<b>Goodwill</b>	<b>12.2</b>



## SECTION 5

## OTHER NOTES

(DKK million)

**5.4 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS****Accounting policies**

A sale and leaseback transaction involves the sale of an asset and leaseback of the same asset. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved. When the lease is deemed to be an operating lease and the sale transaction is established at fair value, any gain or loss on the sales transaction is recognized in profit/loss immediately. The leaseback is recognized as other operating leases, cf. accounting policies for operating leases.

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.

	2014/15	2013/14
Leasing commitments:		
Plant and machinery etc.	29.1	30.2
Shops	222.0	201.3
Office and factory property	191.7	180.0
<b>Total</b>	<b>442.8</b>	<b>411.5</b>
Maturity:		
Due within 1 year	111.9	111.6
Due 1 - 5 years	207.3	207.2
Due after 5 years	123.6	92.7
<b>Total</b>	<b>442.8</b>	<b>411.5</b>
Rental and lease payments, net for the year	148.1	126.0
Minimum rental and lease payments	148.1	126.0

No contingent rental or lease payments have been recognised in the income statement in 2014/15 or 2013/14.

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 sublease.

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

**Guarantees**

Total guarantees as at 31 May	2.4	3.4
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DKK 0 million (2013/14; DKK 1.3 million) relate to associates.

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



## SECTION 5

### OTHER NOTES

(DKK million)

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#### 5.4 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

##### **VAT and other taxes**

The Danish companies in the Group are jointly registered and are jointly and severally liable for VAT and other taxes of a total of DKK 24.1 million (2013/14; DKK 17.0 million)

##### **Mortgages and securities**

Land and buildings and investment property have been mortgaged in the amount of DKK 265.1 million (2013/14; DKK 265.1 million) as security for DKK 199.5 million of the Group's mortgage and bank debt (2013/14; DKK 206.1).

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 113.1 million (2013/14; DKK 147.3 million). No intangible assets, financial assets or inventories are pledged as security for liabilities.

As security for all receivables and payables with Danske Bank and Nordea a statement had been made to the effect that no shares in the subsidiaries of Bang & Olufsen a/s can be sold or pledged as security without the consent of the banks.

##### **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.

##### **Sale of Automotive**

In connection with the transfer of the Automotive assets to a subsidiary of Harman International Industries, Incorporated ("Harman"), the company and certain of its subsidiaries has made customary representations and warranties to Harman. The company is not aware of any material breach of such representations and warranties.



# SECTION 5

## 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 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 and the Bang & Olufsen Group also comprise the associate John Bjerrum Nielsen A/S, in which Bang & Olufsen a/s has significant influence.

Bang & Olufsen's share in subsidiaries and associates is shown on page 105.

#### **Board of Directors, Board of Management and other key management personnel**

Except from what follows from the employment and shareholdings, if any, there have been no transactions with the Board of Directors, Executive Management and other key management personnel. Remuneration and share option programmes are shown in notes 2.2 and 4.7.

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

#### **Associated companies**

The transactions with the associates have included the following:

	2014/15	2013/14
Purchase of raw materials	(27.0)	(27.7)
Rental income	-	2.1

The Group has a net payable with associated companies of DKK 4.7 million (2013/14; DKK 1.9 million, net receivable). The outstanding balances carry interest. Terms of payment on outstanding balances for purchase of goods are current month + 30 days. All receivables fall due within 1 year.

The fair value of the payables are DKK 4.7 million (2013/14; DKK 1.9 million, net receivable). The book value is expected to be a reasonable approximation of the fair value.

There are no securities regarding the outstanding balances. There has been no need for write-down of outstanding balances, and no actual losses have been incurred in 2014/15 and 2013/14.

#### **Other transactions**

No other transactions have taken place with related parties.



## SECTION 5

### OTHER NOTES

(DKK million)

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#### 5.6 EVENTS AFTER THE BALANCE SHEET DATE

No significant events have occurred after the balance sheet date.

#### 5.7 APPROVAL OF THE ANNUAL REPORT FOR PUBLICATION

At the Board meeting held on 13 August 2015 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 Thursday 10 September 2015.



## SECTION 5

## OTHER NOTES

(DKK million)

## 5.8 COMPANIES IN THE BANG &amp; OLUFSEN GROUP

Company name	Domicile	Currency	Share capital local currency	Bang & Olufsen Group's share	Number of undisclosed subsidiaries
<b>Bang &amp; Olufsen a/s</b>	Struer, DK	DKK	431,974,780		
<b>Bang &amp; Olufsen Operations a/s</b>	Struer, DK	DKK	156,000,000	100 %	
<b>Scandinavia</b>					
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 %	
<b>Central Europe</b>					
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 %	
<b>United Kingdom/Benelux</b>					
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 %	
<b>Rest of Europe</b>					
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 %	
<b>North America</b>					
Bang & Olufsen America Inc.	Deerfield, IL, USA	USD	34,000,000	100 %	3
<b>Asia</b>					
Bang & Olufsen Asia Pte Ltd.	Singapore, SG	SGD	2	100 %	
Bang & Olufsen Hong-Kong Pty Ltd	Hong Kong, HK	HKD	1,000,000	100 %	1
Bang & Olufsen Trading (Shanghai) Ltd	Shanghai, CN	RMB	67,000,000	100 %	
Bang & Olufsen Wholesale Pty Ltd*	Armadale, AUS	AUD	6,000,001	100 %	3
<b>Middle East</b>					
Bang & Olufsen Middle East FZ-LLC	Dubai, UAE	EUR	113,116	100 %	
<b>Other</b>					
Bang & Olufsen Expansion a/s	Struer, DK	DKK	7,000,000	100 %	
<b>Bang &amp; Olufsen s.r.o</b>					
<b>B&amp;O PLAY a/s</b>	Koprivnice, CZ	CZK	187,800,000	100 %	
<b>Bang &amp; Olufsen ICEpower a/s</b>	Struer, DK	DKK	7,500,000	100 %	
<b>Bang &amp; Olufsen OÜ</b>	Lyngby Taarbæk, DK	DKK	1,939,750	100 %	
	Tallin, EE	EEK	40,000	100 %	
<b>Associates</b>					
John Bjerrum Nielsen A/S	Bramming, DK	DKK	10,000,000	33 %	

Dormant companies have not been included

\* Sold as of 27 May 2015



# SECTION 5

## OTHER NOTES

(DKK million)

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### 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)



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# BANG & OLUFSEN A/S – MANAGEMENT REPORT

## Main activities

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

## Revenue

Bang & Olufsen a/s generated revenue of DKK 123.4 million which is a decrease of DKK 329 million compared to the 2013/14 financial year. The revenue is generated in Denmark and the decrease compared to last year is attributable to royalty income from the 100 per cent owned subsidiary Bang & Olufsen Operations a/s. The royalty income was DKK 45 million compared to DKK 375 million last year. The calculation method used is unchanged year-on-year, and the decrease in royalty is therefore a result of a general decrease in earnings.

## Gross margin

The gross margin in Bang & Olufsen a/s in the financial year 2014/15 was negative 86.2 per cent compared to positive 55.3 per cent last year. The decrease is due to the decrease in royalty, which has no associated cost of sales.

## Capacity costs

Bang & Olufsen a/s's capacity costs increased by DKK 121 million from DKK 422 million last year to DKK 544 million which was caused by non-recurring items of DKK 50 million and increase in development costs. Administrative expenses amounted to DKK 86 million compared to DKK 80 million. Development costs recognized as an expense, incl. amortization were DKK 375 million against DKK 271 million last year.

Earnings before interest and tax for the 2014/15 financial year were negative DKK 650 million against negative DKK 173 million last year.

Earnings before tax were negative DKK 640 million against negative DKK 187 million last year. Bang & Olufsen a/s incurred financial items of net positive DKK 8 million mainly due to exchange rate gains.

## Development in balance sheet items and cash flow

Free cash flow in the financial year 2014/15 was positive DKK 912 million against negative DKK 75 million in the 2013/14 financial year. The significant improvement is due to sale of non-current assets DKK 1,111 million from the Automotive transaction.

At the end of the 2014/15 financial year Bang & Olufsen's net working capital was negative DKK 448 million compared to positive DKK 51 million at the end of the 2013/14 financial year. The decrease compared to last year is primarily caused by a decrease in net amount receivables from other group companies.

Net interest-bearing deposit increased to DKK 720 million against debt DKK 373 million at the end of the 2013/14 financial year. The increase compared to last year is caused by the Automotive transaction.

Equity increased from DKK 1,341 million to DKK 1,543 million which was due to the capital increase in June 2014.

## Research and development

For information about Bang & Olufsen a/s's research and development activities, please refer to the section on Innovation as described on pages 18-20 of the Group Report.

**CSR and Corporate Governance**

For information on Bang & Olufsen a/s's work with CSR and Corporate Governance, please refer to pages 20-23 and pages 37-40 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 pages 32 of the Group Report.

**Subsequent events**

No significant events have occurred after the balance sheet date.



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

(DKK million)	Notes	2014/15	2013/14
<b>Revenue</b>	3	<b>123.4</b>	<b>451.9</b>
Production costs	4	(229.8)	(202.0)
<b>Gross profit</b>		<b>(106.4)</b>	<b>249.9</b>
Development costs	4, 5	(374.6)	(270.6)
Distribution and marketing costs	4	(83.0)	(72.3)
Administration costs	4	(86.0)	(79.5)
<b>Operating profit (EBIT)</b>		<b>(650.0)</b>	<b>(172.5)</b>
Dividend from subsidiaries		1.9	2.9
Financial income	6	37.9	18.5
Financial expenses	6	(30.0)	(36.0)
Financial items, net		7.9	(17.5)
<b>Earnings before tax (EBT)</b>		<b>(640.2)</b>	<b>(187.2)</b>
Income tax	7	148.8	37.7
Earnings for the year - continued operations		(491.4)	(149.5)
Earnings for the year - discontinued operations	18	439.6	(68.4)
<b>Earnings for the year</b>		<b>(51.8)</b>	<b>(218.0)</b>
<b>Total comprehensive income for the year</b>		<b>(51.8)</b>	<b>(218.0)</b>



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

(DKK million)	Notes	31/5/15	31/5/14
Goodwill		3.2	3.2
Acquired rights		7.1	13.3
Completed development projects		312.0	400.8
Development projects in progress		80.3	294.7
<b>Intangible assets</b>	8	<b>402.6</b>	<b>711.9</b>
Land and buildings		51.7	59.7
Plant and machinery		1.2	3.3
Other equipment		2.3	5.1
Leasehold improvements		1.0	1.2
Tangible assets in course of construction and prepayments of tangible assets		1.8	1.6
<b>Tangible assets</b>	9	<b>58.0</b>	<b>71.0</b>
<b>Investment property</b>	10	<b>61.4</b>	<b>87.6</b>
Investments in subsidiaries	12	651.6	726.1
Investments in associates		-	7.7
Other financial receivables		97.1	4.7
<b>Financial assets</b>		<b>748.6</b>	<b>738.5</b>
<b>Deferred tax assets</b>		<b>74.3</b>	<b>124.5</b>
<b>Total non-current assets</b>		<b>1,344.9</b>	<b>1,733.4</b>
<b>Inventories</b>		<b>0.1</b>	<b>0.3</b>
Trade receivables		0.6	-
Receivables from subsidiaries	20	480.4	1,406.5
Corporation tax receivable		0.7	0.2
Other receivables		7.1	6.2
Prepayments		9.7	10.7
<b>Total receivables</b>		<b>498.5</b>	<b>1,423.7</b>
<b>Cash</b>		<b>1,129.9</b>	<b>52.6</b>
<b>Assets held for sale</b>		<b>74.5</b>	<b>-</b>
<b>Total current assets</b>		<b>1,703.1</b>	<b>1,476.6</b>
<b>Total assets</b>		<b>3,048.1</b>	<b>3,210.1</b>



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

(DKK million)	Notes	31/5/15	31/5/14
Share capital	13	432.0	392.7
Retained earnings	13	1,111.0	948.2
<b>Total equity</b>		<b>1,543.0</b>	<b>1,340.9</b>
Provisions		0.4	0.8
Mortgage loans	14	191.1	197.8
Other non-current liabilities		148.7	-
<b>Total non-current liabilities</b>		<b>340.2</b>	<b>198.7</b>
Mortgage loans	14	8.4	8.2
Loans from banks	14	210.0	220.0
Overdraft facilities		-	68.5
Provisions		0.6	0.4
Trade payables		68.2	56.7
Debt to subsidiaries	18	776.3	1,255.3
Other liabilities		101.4	61.2
<b>Total current liabilities</b>		<b>1,164.8</b>	<b>1,670.5</b>
<b>Total liabilities</b>		<b>1,505.1</b>	<b>1,869.1</b>
<b>Total equity and liabilities</b>		<b>3,048.1</b>	<b>3,210.1</b>



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

(DKK million)	Notes	2014/15	2013/14
Earnings for the year - continued operations		(491.4)	(149.5)
Earnings for the year - discontinued operations		439.6	(68.4)
Amortisation, depreciation and impairment losses		326.4	259.5
Adjustments for non-cash items	16	(704.5)	28.2
Change in receivables		925.7	(208.3)
Change in inventories		0.2	-
Change in trade payables etc		(427.4)	377.1
<b>Cash flow from operations</b>		<b>68.6</b>	<b>238.5</b>
Interest received		17.8	18.5
Interest paid		(9.8)	(36.0)
Income tax paid		(0.0)	0.1
<b>Cash flow from operating activities</b>		<b>76.5</b>	<b>221.1</b>
Purchase of intangible non-current assets		(195.7)	(299.7)
Purchase of tangible non-current assets		(3.2)	(5.4)
Purchase of investment property		(0.5)	(0.6)
Investment in subsidiary		-	0.7
Sales of investments in associates		7.7	-
Sales of tangible non-current assets		1,110.8	1.7
Received reimbursements, intangible non-current assets		9.2	7.4
Change in financial receivables		(92.4)	-
<b>Cash flow from investing activities</b>		<b>835.9</b>	<b>(295.9)</b>
<b>Free cash flow</b>		<b>912.4</b>	<b>(74.8)</b>
Repayment of long-term loans		(6.6)	(6.8)
Proceeds from short-term borrowings		(10.0)	70.0
Capital increase		248.3	-
Sale of own shares		2.6	1.2
Settlement of share options		(0.9)	-
<b>Cash flow from financing activities</b>		<b>233.4</b>	<b>64.4</b>
<b>Change in cash and cash equivalents</b>		<b>1,145.8</b>	<b>(10.5)</b>
Cash and cash equivalents, 1 June		(15.9)	(5.4)
Exchange rate adjustment, cash and cash equivalents		-	-
<b>Cash and cash equivalents, 31 May</b>		<b>1,129.9</b>	<b>(15.9)</b>
<b>Cash and cash equivalents:</b>			
Cash		1,129.9	52.6
Current overdraft facilities		-	(68.5)
<b>Cash and cash equivalents 31 May</b>		<b>1,129.9</b>	<b>(15.9)</b>



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

(DKK million)	Shareholders of the parent company		Total
	Share capital	Retained earnings	
<b>Equity 1 June 2014</b>	<b>392.7</b>	<b>948.2</b>	<b>1,340.9</b>
Earnings for the year	-	(51.8)	(51.8)
Other comprehensive income, net of tax	-	-	-
Comprehensive income for the year	-	(51.8)	(51.8)
Capital increase	39.3	219.9	259.2
Costs relating to capital increase	-	(10.9)	(10.9)
Grant of share options	-	3.8	3.8
Purchase of own shares	-	-	-
Settlement of share options	-	(0.9)	(0.9)
Sale of own shares	-	2.6	2.6
<b>Equity 31 May 2015</b>	<b>432.0</b>	<b>1,111.0</b>	<b>1,543.0</b>
<b>Equity 1 June 2013</b>	<b>392.7</b>	<b>1,160.3</b>	<b>1,553.0</b>
Earnings for the year	-	(218.0)	(218.0)
Other comprehensive income, net of tax	-	-	-
Comprehensive income for the year	-	(218.0)	(218.0)
Grant of share options	-	4.7	4.7
Sale of own shares	-	1.2	1.2
<b>Equity 31 May 2014</b>	<b>392.7</b>	<b>948.2</b>	<b>1,340.9</b>



# NOTES

(DKK million)

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## 1 ACCOUNTING PRINCIPLES

The financial statements for 2014/15 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 from investments in subsidiaries and associates is recognised, when the final right to receive the dividend is established.

### **Dividend**

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)

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

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 392.3 million as at 31 May 2014 (DKK 695.4 million as at 31 May 2014).

### **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 74.3 million as at 31 May 2015 (DKK 123.8 million as at 31 May 2014).



## NOTES

(DKK million)	2014/15	2013/14
<b>3 REVENUE</b>		
Geographical split:		
Denmark	123.4	451.9
Rest of world	0.0	0.0
<b>Total</b>	<b>123.4</b>	<b>451.9</b>
Functional split:		
Sale of goods	-	-
Sale of services	-	0.1
Royalty	45.0	375.0
Rental income	78.4	76.8
<b>Total</b>	<b>123.4</b>	<b>451.9</b>
<b>4 STAFF COSTS</b>		
Wages and salaries etc.	240.7	243.9
Share-based payment	3.4	2.5
Pensions	17.3	18.6
Other social security costs	4.9	1.8
<b>Total</b>	<b>266.2</b>	<b>266.7</b>
Expensed as follows:		
Production costs	87.4	84.3
Development costs	115.1	118.5
Distribution and marketing costs	27.7	29.2
Administration costs	36.1	34.8
<b>Total</b>	<b>266.2</b>	<b>266.7</b>
Average number of full-time employees	472	517

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

(DKK million)	2014/15	2013/14
<b>5 DEVELOPMENT COSTS</b>		
Incurring development costs before capitalisation	295.8	303.0
Herof capitalised	(159.2)	(213.8)
Incurring development costs after capitalisation	136.6	89.2
<i>Capitalisation (%)</i>	53.8%	70.6%
Total amortisation charges and impairment losses on development projects	238.6	181.4
<b>Total</b>	<b>374.6</b>	<b>270.6</b>

## 6 FINANCIAL ITEMS

Interest income from banks	0.7	0.0
Interest income from subsidiaries	10.3	17.0
Gain from sale of subsidiaries	4.8	-
Exchange rate gains, net	21.9	1.5
<b>Financial income</b>	<b>37.7</b>	<b>18.5</b>
Interest costs on bank loans	9.5	7.3
Interest costs on mortgage loans	7.2	10.0
Interest costs to subsidiaries	8.7	15.1
Other financial costs	4.6	3.6
<b>Financial costs</b>	<b>30.0</b>	<b>36.0</b>

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)	2014/15	2013/14
<b>7 TAXATION</b>		
<b>Income statement and other comprehensive income</b>		
Tax recognised in income statement		
Corporate tax, continuing operations	148.8	37.7
Corporate tax, discontinued operations	(135.0)	22.2
	13.8	59.9
Current tax charge/credit	6.0	-
Adjustment to prior periods, current tax	(70.0)	0.1
	(64.0)	0.1
Change in deferred tax	(20.6)	(68.2)
Adjustment of deferred tax prior years	71.7	(0.7)
Adjustments from change in tax rate	(0.9)	9.0
	50.2	(59.9)
<b>Total taxation charge in the income statement</b>	<b>(13.8)</b>	<b>(59.8)</b>
Tax recognised in:		
Income statement	(13.8)	(59.8)
Other comprehensive income	-	-
	(13.8)	(59.8)

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

	2014/15		2013/14	
Tax calculated on earnings before tax	23.5%	(15.3)	24.5%	(68.1)
Non-deductible costs and non-taxable income	(1.6%)	1.1	(0.4%)	1.0
Adjustments to prior periods	(2.7%)	1.7	0.2%	(0.7)
Changes in tax rates	1.4%	(0.9)	(3.2%)	9.0
Non-taxable dividends/profit from subsidiaries and associates	2.4%	(1.6)	0.3%	(0.9)
Other	(1.7%)	1.2	0.1%	(0.1)
Annual effective tax rate/taxation charge in income statement	21.3%	(13.8)	21.5%	(59.8)

Income tax paid including on-account payments for the jointly-taxed Danish companies amounts to DKK 0.1 million (2013/14; DKK 0.1 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 74.3 million as at 31 May 2015 (DKK 124.5 million as at 31 May 2014).

	Non-current assets	Receivables	Provisions	Tax loss carry-forwards	Other	Total
<b>Deferred tax assets</b>						
Deferred tax assets 1 June 2013	8.3	-	0.9	120.1	(0.2)	129.1
Adjustment to Joint taxation	33.6	-	-	(98.0)	-	(64.4)
Changes in tax rates	(3.8)	-	(0.1)	(5.1)	-	(9.0)
Recognised in the income statement	(8.6)	-	-	77.2	0.2	68.8
Deferred tax assets 31 May 2014	29.5	-	0.8	94.2	-	124.5
Adjustment to Joint taxation	4.0	-	-	(75.7)	-	(71.7)
Changes in tax rates	1.9	-	(2.6)	1.6	-	0.9
Recognised in the income statement	(22.1)	-	9.7	0.4	32.6	20.6
<b>Deferred tax assets 31 May 2015</b>	<b>13.3</b>	<b>-</b>	<b>7.9</b>	<b>20.5</b>	<b>32.6</b>	<b>74.3</b>

In 2014/15 a deferred tax assets of DKK 20.5 million has been recognised in the jointly-taxed Danish companies based on tax loss carry-forwards, which can be indefinitely carried forward (2013/14; DKK 94.2 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 392.3 million as at 31 May 2015 (DKK 695.5 million as at 31 May 2014).

	Goodwill	Acquired rights	Completed development projects	Development projects in progress	Total
<b>Cost</b>					
At 1 June 2013	3.2	155.5	1,283.8	159.3	1,601.8
Additions in the year	-	2.9	72.7	224.1	299.7
Reimbursements received	-	-	-	(7.4)	(7.4)
Disposals in the year	-	(3.5)	(374.3)	-	(377.8)
Completed development projects	-	-	81.3	(81.3)	-
At 31 May 2014	3.2	154.9	1,063.5	294.7	1,516.3
Additions in the year	-	0.5	80.2	115.0	195.7
Reimbursements received	-	-	-	(9.2)	(9.2)
Disposals in the year	-	-	(162.7)	-	(162.7)
Disposals in the year from sale of businesses	-	(3.1)	(302.3)	(104.9)	(410.3)
Completed development projects	-	-	215.3	(215.3)	-
<b>At 31 May 2015</b>	<b>3.2</b>	<b>152.3</b>	<b>894.0</b>	<b>80.3</b>	<b>1,129.8</b>
<b>Amortisation and impairment</b>					
At 1 June 2013	-	(135.6)	(801.2)	-	(936.8)
Amortisation during the year	-	(6.8)	(235.8)	-	(242.6)
Reversed amortisation on disposals	-	0.8	374.3	-	375.1
At 31 May 2014	-	(141.6)	(662.7)	-	(804.3)
Amortisation during the year	-	(6.1)	(250.6)	-	(256.7)
Reversed amortisation on disposals	-	-	162.7	-	-
Reversed amortisation on disposals from sale of businesses	-	2.5	199.3	-	-
Impairment losses during the year	-	-	(30.7)	-	(30.7)
<b>At 31 May 2015</b>	<b>-</b>	<b>(145.2)</b>	<b>(582.0)</b>	<b>-</b>	<b>(727.2)</b>
<b>Net book value</b>					
<b>At 31 May 2015</b>	<b>3.2</b>	<b>7.1</b>	<b>312.0</b>	<b>80.3</b>	<b>402.6</b>
At 31 May 2014	3.2	13.3	400.8	294.7	712.0

	2014/15	2013/14
<b>Amortisation and impairment losses</b>		
Production costs	3.4	3.2
Development costs	238.6	185.0
Administration costs etc.	-	-
<b>Total</b>	<b>241.4</b>	<b>188.2</b>

Impairment losses of DKK 30.7 million have been recognised in 2014/15 related to development projects for terminated products (2013/14 DKK 0 million).



# NOTES

(DKK million)

## 9 TANGIBLE ASSETS

	Land and buildings	Plant and machinery	Other equipment	Leasehold improvements	Tangible assets in course of construction	Total
<b>Cost</b>						
At 1 June 2013	181.7	25.3	129.9	2.4	0.9	340.2
Additions in the year	2.3	0.8	0.9	0.2	1.2	5.4
Completed assets	0.5				(0.5)	-
Disposals in the year	(2.6)		(1.3)			(3.9)
At 31 May 2014	181.9	26.1	129.5	2.6	1.6	341.7
Additions in the year	0.9	0.1	0.8	0.1	1.3	3.2
Completed assets	0.2		0.3		(0.7)	(0.2)
Disposals in the year			(2.0)		(0.3)	(2.3)
Disposals in the year from sale of Business		(3.8)	(4.6)		(0.1)	(8.5)
<b>At 31 May 2015</b>	<b>183.0</b>	<b>22.4</b>	<b>124.0</b>	<b>2.7</b>	<b>1.8</b>	<b>333.9</b>
<b>Amortisation and impairment</b>						
At 1 June 2013	(117.4)	(21.0)	(122.6)	(1.1)	-	(262.1)
Depreciation during the year	(5.1)	(1.8)	(3.1)	(0.3)	-	(10.3)
Reversed depreciation on disposals	0.3		1.3		-	1.6
At 31 May 2014	(122.2)	(22.8)	(124.4)	(1.4)	-	(270.8)
Depreciation during the year	(5.0)	(1.0)	(2.1)	(0.3)	-	(8.4)
Reversed depreciation on disposals			1.6		-	1.6
Impairment losses during the year	(4.1)	-	(0.3)	-	-	(4.4)
Reversed amortisation on disposals from sale of Business		2.6	3.5			6.1
<b>At 31 May 2015</b>	<b>(131.3)</b>	<b>(21.2)</b>	<b>(121.7)</b>	<b>(1.7)</b>	<b>-</b>	<b>(275.9)</b>
<b>Net book value</b>						
<b>At 31 May 2015</b>	<b>51.7</b>	<b>1.2</b>	<b>2.3</b>	<b>1.0</b>	<b>1.8</b>	<b>58.0</b>
At 31 May 2014	59.7	3.3	5.1	1.2	1.6	70.9

There are no contractual obligations regarding purchase of tangible assets.

	2014/15	2013/14
<b>Depreciation and impairment losses</b>		
Production costs	4.2	3.4
Development costs	8.6	6.9
Administration costs etc.	0.0	0.0
<b>Total</b>	<b>12.8</b>	<b>10.3</b>



## NOTES

(DKK million)

**10 INVESTMENT PROPERTY****Cost**

At 1 June 2013	269.1
Additions	0.6
Disposals	-
At 31 May 2014	269.7
Additions	0.5
Completed assets	0.2
<b>At 31 May 2015</b>	<b>270.4</b>

**Depreciation and impairment**

At 1 June 2013	(175.5)
Depreciation during the year	(6.6)
At 31 May 2014	(182.1)
Depreciation during the year	(6.5)
Impairment losses during the year	(20.4)
<b>At 31 May 2015</b>	<b>(209.0)</b>

**Net book value**

<b>At 31 May 2015</b>	<b>61.4</b>
At 31 May 2014	87.6

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.

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 48.7 million has been received from the investment property in 2014/15 (2013/14; DKK 53.5 million), and directly attributed operating expenses were DKK 23.7 million (2013/14; DKK 29.1 million).

Investment properties are let to the subsidiaries on operating leases with a lease term of 3-46 months. According to the existing operating leases rental income of DKK 10.9 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

Impairment losses of DKK 30 million have been recognised in 2014/15 related to development projects for terminated products (2013/14 DKK 0 million).

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 10.0 per cent (7.6 per cent after tax) (2013/14; 10.0 per cent/7.6 per cent).

### Goodwill

No impairment losses have been recognised on cash-generating units which include goodwill in 2014/15 og 2013/14 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 2014/15 or 2013/14.

## 12 INVESTMENTS IN SUBSIDIARIES

### Cost

At 1 June 2014	726.1
Transfer to assets held for sale	(74.5)
<b>At 31 May 2015</b>	<b>651.6</b>

Refer to note 5.7 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%	2.1	9.4	17.4	26.8
Floating rate loans, interest rate level 2.0 - 3.0 %	6.3	25.4	138.9	164.3
<b>Book value 31 May 2015</b>	<b>8.4</b>	<b>34.8</b>	<b>156.3</b>	<b>191.1</b>
Fixed rate loans, interest rate 4.1 %	2.0	9.0	18.3	27.3
Floating rate loans, interest rate level 2.0 - 3.0 %	6.2	25.2	145.3	170.5
Book value 31 May 2014	8.2	34.2	163.6	197.8

The fair value of the parent company's mortgage loans amounts to DKK 199.9 million (2013/14; DKK 207.4 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 current draw of DKK 210.0 million (2013/14; DKK 220.0 million) on the committed facility with Nordea. This is also the fair value. This is an ongoing line of credit.

**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 0.6 million of the total expense of DKK 4.0 million relates to subsidiaries (2013/14; DKK 1.4 million of DKK 4.8 million).

**16 NON-CASH ITEMS**

	2014/15	2013/14
Financial income	(37.7)	(18.5)
Financial costs	29.8	36.0
Gain/loss on sale of non-current assets	(650.6)	3.3
Tax on earnings for the year	(13.8)	(59.9)
Other adjustments	(32.2)	67.2
<b>Total adjustments</b>	<b>(704.5)</b>	<b>28.2</b>



# 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

	2014/15		2013/14	
	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	97.1	97.1	4.7	4.7
Receivables from subsidiaries	480.4	480.4	1,406.5	1,406.5
Other receivables	7.1	7.1	6.2	6.2
<b>Loans receivable and other receivables</b>	<b>584.6</b>	<b>584.6</b>	<b>1,417.4</b>	<b>1,417.4</b>
Mortgage loans	199.5	199.9	206.1	207.4
Loans from banks	210.0	210.0	220.0	220.0
Overdraft facilities	0.0	0.0	68.5	68.5
Payables to subsidiaries	776.3	776.3	1,255.3	1,255.3
Trade payables	68.2	68.2	56.7	56.7
Other payables	101.4	101.4	61.2	61.2
<b>Financial liabilities valued at amortized cost</b>	<b>1,355.4</b>	<b>1,355.8</b>	<b>1,867.9</b>	<b>1,869.2</b>

No receivables in the parent company are overdue at 31 May 2015 (2013/14; 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 2014/15 or 2013/14.



## 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.

Discontinued business in Bang & Olufsen A/S mainly constitute expenses related to administration and development cost related to the former business area Automotive and ICEpower. And the gain from the sale of Automotive business area.

	2014/15	2013/14
Revenue	-	-
Expenses	(76.0)	(90.6)
<b>Earnings before tax</b>	<b>(76.0)</b>	<b>(90.6)</b>
Tax	17.9	22.2
<b>Earnings for the year discontinued operations</b>	<b>(58.1)</b>	<b>(68.4)</b>
Gains/losses on sale of assets and businesses	650.6	-
Tax	(152.9)	-
<b>Gains/losses on sale of assets and businesses after tax</b>	<b>497.7</b>	<b>-</b>
Cash flow from operating activities	(41.1)	(27.2)
Cash flow used for investing activities	1,064.9	(83.0)
Cash flow from financing activities	-	-
<b>Net cash flow from discontinued operations</b>	<b>1,023.8</b>	<b>(110.2)</b>
<b>Balance sheet items comprise:</b>		
Development projects	-	224.4
Investments in subsidiaries	74.5	74.5
Other receivables	-	1.0
<b>Assets held for sale</b>	<b>74.5</b>	<b>299.9</b>
Other liabilities	-	0.8
<b>Liabilities associated with assets held for sale</b>	<b>-</b>	<b>0.8</b>



# 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.

	2014/15	2013/14
Leasing commitments:		
Plant and machinery etc.	32.6	42.9
Office and factory property	11.2	18.3
<b>Total</b>	<b>43.8</b>	<b>61.1</b>
Maturity:		
Due within 1 year	18.1	20.0
Due 1 - 5 years	25.7	41.2
Due after 5 years	-	-
<b>Total</b>	<b>43.8</b>	<b>61.1</b>
Rental and lease payments, net for the year	33.1	32.6
Minimum rental and lease payments	33.1	32.6

No contingent rental or lease payments have been recognised in the income statement in 2014/15 or 2013/14.

### Guarantees

Total guarantees as at 31 May	-	1.3
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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 4.7 in the consolidated financial statements.

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

### Associates and subsidiaries

Transactions with subsidiaries and associates have included the following:

	2014/15	2013/14
Purchase of services - subsidiaries	55.6	92.2
Sale of services - subsidiaries	-	-
Rental income - subsidiaries	78.4	(1.9)
Royalty income - subsidiaries	115.0	375.0
Purchase of services - associated companies	-	-
Rental income - associated companies	-	1.9



# NOTES

(DKK million)

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## 20 RELATED PARTIES (CONTINUED)

The parent company has a net payable to subsidiaries of DKK 295.9 million at 31 May (2013/14; net receivable DKK 151.2 million).

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

The fair value of the intercompany receivables and payables are DKK 480.4 million and DKK 776.3 million respectively (2013/14; DKK 1,406.5 million and DKK 1,235.3 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 2014/15 and 2013/14.

### **Other transactions**

Bang & Olufsen a/s has received DKK 1.9 million in dividend from its subsidiaries (2013/14; DKK 2.9 million). No dividend has been received from its associates in 2014/15 or 2013/14.

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 EVENTS AFTER THE BALANCE SHEET DATE

No events have occurred after the balance sheet date.



# STATEMENTS





# MANAGEMENT'S STATEMENT

The Board of Directors and Executive Management have today considered and approved the annual report of Bang & Olufsen A/S for the financial year 1 June 2014 – 31 May 2015.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

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 2015 as well as of

their financial performance and their cash flow for the financial year 1 June 2014 – 31 May 2015.

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, 13 August 2015

## Executive Management:

Tue Manton  
President & CEO

Anders Aakær Jensen  
Executive Vice President & CFO

Stefan Persson  
Executive Vice President & COO

## Board of Directors:

Ole Andersen  
Chairman

Jim Hagemann Snabe  
Deputy Chairman

Jesper Jarlbæk

Majken Schultz

Albert Bensoussan

Mads Nipper

Knud Olesen

Jesper Olesen

Per Østergaard Frederiksen



# INDEPENDENT AUDITOR'S REPORT

## To the shareholders of Bang & Olufsen a/s

### Independent auditors' report on the consolidated financial statements and the parent company financial statements

We have audited the consolidated financial statements and the parent company financial statements of Bang & Olufsen a/s for the financial year 1 June 2014 – 31 May 2015, which comprise income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement 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 financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

### Management's responsibility for the consolidated financial statements and the parent company financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies and for such internal control that 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.

### Auditors' responsibility

Our responsibility is to express an opinion on the consolidated financial statements and the parent company financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements and the parent company financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and the parent company financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial

statements and the parent company financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of consolidated financial statements and parent company financial statements that give a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and the parent company financial statements.

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

Our audit has not resulted in any qualification.

### Opinion

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 2015 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 June 2014 – 31 May 2015 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

### Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and the parent company financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the consolidated financial statements and the parent company financial statements.

Copenhagen, 13 August 2015

### ERNST & YOUNG

Godkendt Revisionspartnerselskab

Steen Skorstengaard  
State Authorised  
Public Accountant

Niels-Jørgen Andersen  
State Authorised  
Public Accountant



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