

REMUNERATION REPORT 2018/19



BANG & OLUFSEN

REMUNERATION REPORT 2018/2019

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This remuneration report (the “**Report**”) provides an overview of the total remuneration received by each member of the Board of Directors (“**Board**”) and of the Executive Management Board (“**EMB**”) of Bang & Olufsen a/s, CVR no. 41257911, (“**B&O**” or the “**Company**”) during the 2018/2019 financial year with comparative figures for the past five financial years. The EMB means the members of the executive management board of B&O registered as such with the Danish Business Authority.

The remuneration of the Board and EMB during the past financial year has been provided in accordance with the remuneration policy and incentive guidelines of B&O adopted by the Annual General Meeting on 13 September 2017 and available on the Company’s website, www.bang-olufsen.dk, (jointly, the “**Remuneration Policy**”). The overall objective of the remuneration is to attract, motivate and retain qualified members of the Board and the EMB, to align the

interests of the Board and the EMB with the interests of the shareholders and other stakeholders as well as to support B&O’s strategic goals and promote value creation for the benefit of the shareholders.

The Report has been prepared in accordance with section 139b of the Danish Companies Act (the “**DCA**”) and the draft European Commission Guidelines on the standardized presentation of the remuneration report under Directive 2007/36/EC, as amended by Directive (EU) 2017/828 as regards the encouragement of long-term shareholder engagement (the “**Guidelines**”).

The information included in the Report has been derived from the audited annual reports of the Company for the financial years 2015/2016 - 2018/2019 available on the Company’s website, www.bang-olufsen.com. All amounts are included in DKK, gross.

INTRODUCTION

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

During 2018/2019 there has been the following changes in the EMB:

1. Anders Aakær Jensen, CFO have resigned (left 30 November 2018)
2. Stefan Kenth Persson, COO have resigned (left 1 August 2018)
3. Snorre Kjesbu, EVP - Product Creation & Fulfilment, have joined (from 1 March 2019)
4. Nikolaj Wendelboe, CFO, have joined (from 1 May 2019)

OVERVIEW FINANCIAL PERFORMANCE

Group revenue declined by 13.6% to DKK 2,838 million. A slower transformation of the monobrand and multibrand distribution channel setup coupled with fewer product launches were the main reasons for the decline. High inventory at retail level resulted in lower sales to both monobrand stores and the multibrand network. EBIT was DKK 59 million against DKK 122 million last year, equivalent to an EBIT margin of 2.1% and 3.7% respectively. The margin decline reflects the lower revenue and higher capacity costs partly offset by a higher gross margin and lower depreciation and amortisation charges. The free cash

flow was negative at DKK 272 million against a positive free cash flow of DKK 85 million in 2017/2018.

The financial performance of 2018/2019 is directly reflected in the Cash Bonus of the financial year. Bonuses for the fiscal year 2018/19 is paid out in September 2019.

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REMUNERATION BOARD OF DIRECTORS

Fixed Annual Fee

Members of the Board receive a fixed annual base fee approved by the Annual General Meeting. The Chairman and the Deputy Chairman each receive a multiplier of the annual base fee of 3 and 1.5, respectively, for their extended duties. Members of the Board who are also members of a Board committee receive an additional fixed fee as remuneration for their committee work. No member of the Board is entitled to receive any share-based incentive, other variable remuneration or pension contribution.

The following fees for 2018/2019 financial year were approved at the Annual General Meeting on 23 August 2018:

TABLE 1: BOARD FEE

	Board	Audit Committee	Nomination Committee	Remuneration Committee	Technology Committee
Member	DKK 300,000 (base fee)	DKK 75,000	DKK 75,000	DKK 75,000	DKK 75,000
Chairman	DKK 900,000 (3x base fee)	DKK 150,000	DKK 75,000	DKK 75,000	DKK 75,000
Deputy Chairman	DKK 450,000 (1.5x base fee)	DKK 75,000	DKK 75,000	DKK 75,000	DKK 75,000

Members of the Board may be entitled to additional fees as set out in the Remuneration Policy, including for undertaking specific ad hoc tasks outside the scope of the ordinary tasks of the Board, reasonable travel allowance and participation in relevant training.

Shareholding Requirement

With a view to align the interests of the Company's shareholders and

the members of the Board, each shareholder-elected member of the Board are required to invest in B&O shares for an amount of no less than the annual base fee paid to an ordinary member of the Board according to the most recent annual report and to keep such shareholding for as long as the individual is member of the Board.

TABLE 2: REMUNERATION OF BOARD (DKK) FOR 2018/2019 (2017/2018)

Name and position		Annual fee	Committee fees	Travel allowance	Benefits	Extra-ordinary items	Total remuneration
Ole Andersen , Chairman Chair of the Nomination Committee and the Remuneration Committee	2018/19	900,000	150,000	0	0	0	1,050,000
	2017/18	900,000	150,000	0	0	0	1,050,000
Juha Christensen , Deputy Chairman Chair of the Technology Committee, member of the Remuneration Committee	2018/19	450,000	150,000	0	0	0	600,000
	2017/18	300,000	223,970	0	0	0	523,970
Albert Bensoussan , Board member Member of the Audit Committee	2018/19	300,000	75,000	0	0	0	375,000
	2017/18	300,000	75,000	0	0	0	375,000
Kai Lap Tong , Board member Member of the Audit Committee	2018/19	300,000	75,000	0	0	0	375,000
	2017/18	300,000	75,000	0	0	0	375,000
Mads Nipper , Board member Member of the Nomination Committee	2018/19	300,000	75,000	0	0	0	375,000
	2017/18	300,000	75,000	0	0	0	375,000
Jesper Jarlbæk , Board member Chair of the Audit Committee, member of the Nomination Committee and Technology Committee	2018/19	300,000	300,000	0	0	0	600,000
	2017/18	300,000	274,657	0	0	0	574,657
Anders Colding Friis , Board member Member of the Audit Committee (from 23 August 2018)	2018/19	232,337	58,084	0	0	0	290,421
	2017/18	0	0	0	0	0	0
Majken Schultz , Board member Member of the Remuneration Committee	2018/19	300,000	75,000	0	0	0	375,000
	2017/18	300,000	75,000	0	0	0	375,000
Geoffrey Glen Martin , Board member Employee representative	2018/19	300,000	0	0	0	0	300,000
	2017/18	300,000	0	0	0	0	300,000
Brian Bjørn Hansen , Board member Employee representative	2018/19	300,000	0	0	0	0	300,000
	2017/18	300,000	0	0	0	0	300,000
Søren Balling , Board member Employee representative	2018/19	300,000	0	0	0	0	300,000
	2017/18	250,000	0	0	0	0	250,000
Total 2018/2019		3,982,337	958,084	0	0	0	4,940,421
Total 2017/2018		3,550,000	948,627	0	0	0	4,498,627

REMUNERATION EXECUTIVE MANAGEMENT BOARD

Members of the EMB are entitled to an annual remuneration in accordance with the Remuneration Policy which may consist of the following fixed and variable remuneration components:

- (a) fixed base salary, including pension contribution (“annual base salary”),
- (b) short-term incentive remuneration consisting of an non-share based annual cash bonus, and/or long-term share based remuneration,
- (c) termination and severance payments, and
- (d) customary non-monetary employment benefits.

The choice of these components create a well-balanced remuneration package reflecting (i) individual performance and responsibility of the members of the EMB in relation to established financial and non-financial targets, both in the short and the longer term, and (ii) the Company’s overall performance.

The composition of the remuneration of each individual manager is determined with a view to contribute to the Company’s ability to attract and retain competent key employees while, at the same time, ensuring that the EMB has an incentive to create added value for the benefit of the Company’s shareholders through variable remuneration.

The EMB’s terms of employment and remuneration are agreed between the individual manager and the Board.

Fixed Base Salary

The annual fixed base salary is intended to attract and retain competent key employees with a view to contribute to the Company’s ability to obtain its short- and long-term financial and non-financial targets.

In addition to the fixed base salary, members of the EMB (excluding CEO) are entitled to receive a pension contribution of up to 12% of the fixed base salary.

Annual Cash Bonus

Individual members of the EMB may receive an annual bonus which cannot

exceed 38.5% of that member’s gross salary for the relevant year. However, the CEO may receive an annual bonus which cannot exceed 100% of the CEO’s gross salary for the relevant year.

This cash bonus is intended to ensure achievement of the Company’s short-term objectives. The payment of the bonus and the size thereof will therefore depend on the achievement of the objectives agreed from year to year. These objectives will primarily relate to the achievement of the Company’s financial performance and individual performance criteria which reflect and support the Company’s short term objectives. As a consequence of this years results the CEO and the EVP, Brand & Markets have waived their right to Cash Bonus for the financial year 2018/2019.

TABLE 3: REMUNERATION OF EMB (DKK) FOR 2018/2019 (2017/2018)

Name and position		Fixed remuneration			Variable remuneration		Extraordinary items ³	Pension contribution	Total remuneration
		Base salary	Other fees	Benefits	Cash bonus	Matching Shares ²			
Henrik Clausen , President & CEO ¹	2018/19	6,427,200	303,000	4,000	0		0	0	6,734,200
	2017/18	6,240,000	300,000	3,242	3,804,840		0	0	10,348,082
Nikolaj Wendelboe , CFO (from 1 May 2019)	2018/19	229,167	250	19,195	0		0	27,500	276,112
Anders Aakær Jensen , CFO (until 30 November 2018)	2018/19	1,560,450	0	70,973	600,773	2,492,346	0	187,254	4,911,796
	2017/18	3,030,000	0	141,768	978,842		0	363,600	4,514,210
Snorre Kjesbu , Head of Product Creation & Fulfilment, Executive Vice President (from 1 March 2019)	2018/19	991,667	131,417	1,000	350,000 ⁴		0	19,833	1,493,917
	2017/18	4,570,000	344,000	2,800	0		0	548,400	5,465,200
John Mollanger , Executive Vice President Brand & Markets ¹	2018/19	3,999,996	246,000	2,742	1,076,600		0	494,400	5,819,738
	2017/18	419,208	21,500	467	128,529	1,409,182	0	50,305	2,029,191
Stefan Kenth Persson , COO (until 1 August 2018)	2018/19	2,515,250	126,000	2,742	771,176		0	301,830	3,716,998
	2017/18	2,515,250	126,000	2,742	771,176		0	301,830	3,716,998
Total 2018/2019		14,197,692	800,167	98,435	1,079,302	3,901,528	0	833,292	20,910,416
Total 2017/2018		15,785,246	672,000	150,494	6,631,458	0	0	1,159,830	24,399,028

¹ Waives his right to bonus for 2018/2019

² Value of matching shares vested in oct. 2018

³ i.e. non-recurring remuneration awarded or due (sign-on fee, retention bonus, redundancy payment, compensation for relocation, severance payments, etc.).

⁴ Sign-on for joining early

The annual bonus which may be granted to the CEO must be divided so that 75% of the bonus may be paid if certain ordinary bonus objectives determined at the

discretion of the Board in accordance with the criteria described above have been fulfilled, whereas the remaining 25% of the bonus may be paid if certain

extraordinary bonus objectives determined at the discretion of the Board in accordance with the criteria described above have been fulfilled.

TABLE 4: KPI FOR CASH BONUS TO EMB FOR 2018/2019

Name and position	Description of KPI	Relative weighting of KPIs	KPI performance threshold	Minimum and maximum award min - max %	Actual award (DKK)
Henrik Clausen , President & CEO ¹	Group Net Sales	20%	Quantitative intervals	0% - 20%	
	Group EBIT	20%	Quantitative intervals	0% - 20%	
	Successful Execution of GTM Transformation	10%	Qualitative Intervals	0% - 10%	
	Improve and professionalize product roadmap planning and product innovation & development	10%	Qualitative Intervals	0% - 10%	
	Drive brand position to luxury lifestyle	10%	Qualitative Intervals	0% - 10%	
	Step-up internal communication to clarify and anchor strategic direction and sense of purpose in the organisation	10%	Qualitative Intervals	0% - 10%	
	Employee Survey	10%	Quantitative intervals	0% - 10%	
	Discretionary Board evaluation on leadership performance	10%	Qualitative Intervals	0% - 10%	
Nikolaj Wendelboe , CFO (from 1 May 2019)	NA	NA	NA	NA	0
Anders Aakær Jensen , CFO (until 30 November 2018)	By discretionary Board evaluation at time of resignation				600,773
Snorre Kjesbu , Head of Product Creation & Fulfilment & Executive Vice President (from 1 March 2019)	Sign-on for joining early				350,000
John Mollanger , Executive Vice President Brand & Markets ¹	Group Net Sales	15%	Quantitative intervals	0% - 15%	
	Group EBIT	15%	Quantitative intervals	0% - 15%	
	Group free cash flow	15%	Quantitative intervals	0% - 15%	
	Drive brand position to luxury lifestyle	10%	Qualitative Intervals	0% - 10%	
	Successful Execution of GTM Transformation	15%	Qualitative Intervals	0% - 10%	
	Build Brand Strength (average Global brand awareness)	10%	Quantitative intervals	0% - 10%	
	Employee Survey	10%	Quantitative intervals	0% - 10%	
	Discretionary Board evaluation on leadership performance	10%	Qualitative Intervals	0% - 10%	
Stefan Kenth Persson , COO (until 1 August 2018)	By discretionary Board evaluation at time of resignation				128,529

¹ Waives his right to bonus for 2018/2019

Matching Shares Programs

Individual members of the EMB may at the discretion of the Board be offered to participate in Matching Shares Programs. Participating members are offered the opportunity to acquire shares in B&O at their own cost, which after three years provides the participants the right to receive between 1 and 4 Matching Shares per investment share,

depending on fulfillment of certain conditions.

Participation in the Matching Share Programs is offered to members of the EMB as an element of remuneration in order to ensure that the EMB stays focused on value creation and achievement of the Company's short- and long-term targets. The entitlement to receive

Matching Shares is determined based on the number of B&O shares acquired, the participant's continued employment with the Company, and the achievement of targets determined by the Board with respect to the Company's financial and non-financial targets consistent with the Company's short- and long-term targets.

The maximum number of B&O shares which the participating member may transfer to a Matching Shares Program will be determined at the discretion of the Board, but may in no event exceed 30% for the CEO's and 25% for additional members' annual base salary.

TABLE 5: MATCHING SHARES PROGRAMS OF EMB

Name and position	Program	Performance period	Award date	Vesting date	Maximum number of Matching Shares	Value of award (DKK) (1 June 2018)	Value of award (DKK) (31 May 2019)	Matching Shares vested	Value at time of vesting (DKK)
Henrik Clausen, President & CEO	2017/2018	01.06.2017- 31.05.2020	01.11.2017	31.10.2020	13,234	4,545,879	0	Program vest Oct. 2020	Program vest Oct. 2020
	2016/2017	01.06.2016- 31.05.2019	06.11.2016	05.10.2019	23,980	11,531,982	2,165,394	Program vest Oct. 2019	Program vest Oct. 2019
	2015/2016 2014/2015								
Nikolaj Wendelboe, CFO (from 1 May 2019)	2017/2018								
	2017/2018 (Bad Leaver)								
	2016/2017 (Bad Leaver)								
Anders Aakær Jensen, CFO (until 30 November 2018)	2015/2016 ¹	01.06.2015- 31.05.2018	28.10.2015	05.10.2018	8,394			16,788	2,492,346
	2014/2015	01.06.2014- 31.05.2017	30.10.2014	10.08.2017	7,200	0	0	0	0
Snorre Kjesbu, Head of Product Creation & Fulfilment & Executive Vice President (from 1 March 2019)	2017/2018								
	2017/2018	01.06.2017- 31.05.2020	01.11.2017	31.10.2020	7,069	2,428,202	0	Program vest Oct. 2020	Program vest Oct. 2020
	2016/2017 2015/2016 2014/2015								
John Mollanger, Executive Vice President Brand & Products	2017/2018 (Bad Leaver)								
	2016/2017 (Bad Leaver)								
Stefan Kenth Persson, COO (until 1 August 2018)	2015/2016 ¹	01.06.2015- 31.05.2018	28.10.2015	05.10.2018	4,746			9,492	1,409,182
	2014/2015	01.06.2014- 31.05.2017	30.10.2014	10.08.2017	3,000	0	0	0	0

¹ Program was cash settled with 2 shares (shareprice 148.46)

TABLE 6: KPI FOR MATCHING SHARES PROGRAM

Matching Shares Program	Description of KPI	Relative weighting of KPIs	KPI performance thresholds	Total Matching Shares vested	Total value at time of vesting
2017/2018	Stay- on FY 17/18, 18/19, 19/20	25%	Employed for all 3 financial years in the program		Vest in Oct. 2020
	Acc. Net sales FY 17/18, 18/19, 19/20	25%	Quantitative intervals		Vest in Oct. 2020
	Acc. EBITDAC % FY 17/18, 18/19, 19/20	25%	Quantitative intervals		Vest in Oct. 2020
	Acc. Free Cash flow FY 17/18, 18/19, 19/20	25%	Quantitative intervals		Vest in Oct. 2020
2016/2017	Stay- on FY 16/17, 17/18, 18/19	25%	Employed for all 3 financial years in the program		Vest in Oct. 2019
	Acc B&O PLAY Net Sales FY 16/17, 17/18, 18/19*	25%	Quantitative intervals		Vest in Oct. 2019
	Acc EBITDAC % FY 16/17, 17/18, 18/19	25%	Quantitative intervals		Vest in Oct. 2019
	Acc Bang & Olufsen Net Sales FY 16/17, 17/18, 18/19	25%	Quantitative intervals		Vest in Oct. 2019
2015/2016	Stay- on FY 15/16, 16/17, 17/18	25%	Employed for all 3 financial years in the program	1	1,950,764
	Acc B&O PLAY Net Sales FY 15/16, 16/17, 17/18*	25%	Quantitative intervals	1	1,950,764
	Acc EBITDAC % FY 15/16, 16/17, 17/18	25%	Quantitative intervals	0	0
	Acc Bang & Olufsen Net Sales FY 15/16, 16/17, 17/18	25%	Quantitative intervals	0	0
2014/2015	Stay- on FY 14/15, 15/16, 16/17	25%	Employed for all 3 financial years in the program	0	0
	CSI improvement per year	25%	Quantitative intervals	0	0
	Acc EBITDAC % FY 14/15, 15/16, 16/17	25%	Quantitative intervals	0	0
	Acc Net Sales FY 14/15, 15/16, 16/17	25%	Quantitative intervals	0	0

* Following the merger of the B&O PLAY and Bang & Olufsen business units, this KPI has been recalibrated into an On-the-go KPI.

Termination and Severance Payments

Employment agreements with members of the EMB may be ongoing (i.e. without a fixed term) and are subject to a maximum notice of termination of 24 months for CEO and for other members of EMB the maximum notice of termination is 12 months.

Non-Monetary Benefits

Members of the EMB are offered customary non-monetary employment benefits such as company car, insurance, newspaper, telephony and internet access as approved by the Board.

Claw-Back

The Company may decide to reclaim incentive remuneration in full or in part in cases where a cash bonus, Matching Shares (or the right to receive such shares) or other incentive remuneration have been provided to a member of the EMB on the basis of data or accounts

which subsequently prove to have been misstated. In the 2018/2019 financial year, no incentive remuneration was reclaimed.

REMUNERATION COMPARATIVE OVERVIEW

TABLE 7: COMPARISON OF REMUNERATION AND COMPANY PERFORMANCE OVER THE PAST FIVE FINANCIAL YEARS

	2018/2019	2017/18	2016/17	2015/16	2014/15
Financial Performance					
Net result mDKK (EBIT)	59	122	-129	-202	-807
EMB - remuneration (DKK)					
Henrik Clausen, CEO	6,734,200	10,348,082	9,496,162		
Nikolaj Wendelboe, CFO (from 1 May 2019)	276,112				
Anders Aakær Jensen, CFO (until 30 November 2018)	4,911,796	4,514,210	3,201,859	3,063,801	2,335,844
Snorre Kjesbu, Executive Vice President (from 1 March 2019)	1,493,917				
John Mollanger, Executive Vice President	5,465,200	5,819,738	577,283		
Stefan Kenth Persson, COO (until 1 August 2018)	2,029,191	3,716,998	3,348,657	2,855,929	1,626,830
Board - remuneration (DKK)					
Ole Andersen, Chairman	1,050,000	1,050,000	925,000	1,250,000	825,000
Juha Christensen, Deputy Chairman	600,000	523,970	215,595	0	0
Albert Bensoussan, Board member	375,000	375,000	325,000	325,000	219,375
Kai Lap Tong, Board member	375,000	375,000	223,489	0	0
Mads Nipper, Board member	375,000	375,000	325,000	341,339	219,375
Jesper Jarlbæk, Board member	600,000	574,657	425,000	425,000	412,500
Anders Colding Friis, Board member (from 23 August 2018)	290,421	0	0	0	0
Majken Schultz, Board member	375,000	375,000	325,000	325,000	325,000
Geoffrey Glen Martin, Board member (employee representative)	300,000	300,000	275,000	198,695	0
Brian Bjørn Hansen, Board member (employee representative)	300,000	300,000	275,000	198,695	0
Søren Balling, Board member (employee representative)	300,000	250,000	0	0	0
Average remuneration of B&O Employees (DKK)					
B&O Employees	565,500	NA	NA	NA	NA

COMPLIANCE WITH THE REMUNERATION POLICY

The remuneration of the Board and EMB for the 2018/2019 financial year complies with the framework provided by the Remuneration Policy. There has been no deviation or derogation from the framework provided by the Remuneration Policy.

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