BANG & OLUFSEN A/S GROUP

ANNUAL REPORT 2015/16

01 JUNE 2015 – 31 MAY 2016

BANG & OLUFSEN

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ABOUT BANG & OLUFSEN

The Bang & Olufsen Group develops high-quality, innovative audio and visual solutions for its customers by striving for the perfect, uncompromising combination of iconic design, beautiful sound and seamless integration.

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 longstanding 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 epitomises seamless media experiences in the home and on the move.

At the end of the financial year, Bang & Olufsen employed 1,734 people and the company's products are currently sold in more than 70 countries across the world. Bang & Olufsen's shares are listed on NASDAQ Copenhagen A/S.

Core competencies
Bang & Olufsen recognises the importance of identifying 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. Some of these areas have been identified as the company's core areas of expertise, such as sound and acoustics, design, and craftsmanship, as well as system integration.

Business segments
Bang & Olufsen operates within two business segments; Bang & Olufsen and B&O PLAY complemented by brand licensing partnerships.

The Bang & Olufsen segment comprises audio and video products sold exclusively in more than 600 Bang & Olufsen stores around the world. B&O PLAY delivers headphones and portable audio systems distributed through Bang & Olufsen stores and third party retailers as well as online.

LETTER TO OUR SHAREHOLDERS

2015/16 was an eventful year for Bang & Olufsen. Revenue grew by 12 per cent and EBIT improved significantly, although still not yet to a satisfactory level. During the year, Bang & Olufsen took a number of important steps to position the company for the future and improve earnings. Especially the strategic technology partnership with LG Electronics regarding development and production of Bang & Olufsen's future TVs will be important to stay at the forefront of innovation and deliver profitable growth.

The revenue for the Group increased by 12 per cent in the 2015/16 financial year. The growth was driven by strong growth in B&O PLAY (58 per cent), whereas revenue in the Bang & Olufsen segment showed a moderate decline (5 per cent). Significantly growing B&O PLAY and focusing on improving the long-term profitability in the Bang & Olufsen segment is in line with the strategy launched last year.

The earnings before interest and tax (EBIT) for the underlying business in the 2015/16 financial year was negative DKK 69 million or negative 2.6 per cent of the Group's total revenue (adjusted for costs previously allocated to Automotive) compared to negative DKK 323 million in the underlying business last year, corresponding to an improvement of DKK 254 million.

The company took an important step to address the negative EBIT result as well as enabling Bang & Olufsen to deliver innovative and high performing TVs in the future with the signing of a strategic technology partnership with LG Electronics regarding development and production of Bang & Olufsen's future TVs. The agreement entails that Bang & Olufsen will achieve technological capabilities and optimise cost spend needed to improve the long-term profitability of the company. The partnership will allow Bang & Olufsen to focus on core competencies, while further optimising the company's supply chain, development, production and service.

During the spring, Bang & Olufsen completed the divestiture of the non-core business ICEpower thereby allowing the company to focus solely on building the two consumer brands Bang & Olufsen and B&O PLAY, complemented by a targeted brand license business for both brands.

New and innovative products

Bang & Olufsen launched a number of new and innovative products during 2015/16, which have been well received in the market and once again confirmed Bang & Olufsen's strong position as an innovation leader in the field of acoustics. The new products all build on Bang & Olufsen's core competencies.

The Bang & Olufsen speaker portfolio was expanded with the pioneering and award-winning BeoLab 90. The company's new flagship loudspeaker offers an unprecedented level of control of the acoustic behaviour and performance, making BeoLab 90 one of the most innovative speakers on the market. The innovation and know-how gained from the development of BeoLab 90 will be used in future Bang & Olufsen products, and ensure that Bang & Olufsen remains at the forefront of the technological development within acoustics.

The Group also launched the BeoLink Multiroom functionality. This new functionality is integrated in all the latest network connected products across the Bang & Olufsen and B&O PLAY portfolios.

B&O PLAY expanded the product portfolio with five new and innovative products during the year and introduced several new features and functionality enhancements and a number of new colour variants as well as software updates. Key launches included the powerful Beoplay A6 music system, the Beoplay H7 wireless headphones and the Beoplay A1 which sets new standards for portable Bluetooth speakers on sound dispersion, volume and bass characteristics. These products have received numerous excellent press reviews and have been strong drivers of growth in B&O PLAY.

In order to further enhance the Group's high level of innovation, it has been decided to establish a new Innovation Lab in Struer. The goal is to create a world-class innovation environment in order to retain Bang & Olufsen's leading position within innovative acoustical solutions. The Innovation Lab will be built during 2016/17 and be in operation from Summer 2017.

The retail network

During the year, the net number of B1 and shop-in-shop stores declined by 40, partly as a result of the focus on improving the quality and profitability of the retail network. The net development was a consequence of 69 store closings and 29 openings. One of the key focus areas for the year has been to continue the strengthening of the in-store customer experience, i.e. creating the same visual expression in selected B1 stores. B&O PLAY revenue through third party channels and e-commerce increased by 111 per cent in 2015/16. This increase was driven by strong demand for new B&O PLAY products and an increase in the number of third party stores, which totalled 5,692 stores at the end of the financial year. The expansion is expected to continue in the coming years, especially in the US. In addition, focus will be on 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 third party stores has also enhanced the brand awareness and the knowledge of the company's core competencies.

Employees and organisation

Bang & Olufsen's employees are an essential part of the company's success and continued development. During the year, the company took steps to build stronger competencies and processes as well as strengthen general management capabilities, continue to focus on optimising the global footprint and create a smaller, less complex organisation. At the end of the 2015/16 financial year, Bang & Olufsen had 1,734 full time employees worldwide compared to 2,015 at the end of the previous financial year.

Changes in management

Changes occurred to the Board of Directors and Executive Management Board during the year. At the Annual General Meeting in September, Brian Bjørn Hansen and Geoff Martin joined the Board as new members elected by the employees, replacing Knud Olesen and Per Østergaard Frederiksen.

On 1 July 2016, Henrik Clausen joined the company as new CEO replacing Tue Mantoni. Henrik Clausen has extensive international leadership experience, and he comes from the Telenor group where he was Executive Vice President for strategy and digital for Telenor globally and advisor to the group CEO.

Dividend policy and capital structure

Due to the negative 2015/16 result, historical earnings volatility and the fact that the performance has not yet reached its full potential, the Board of Directors intend to recommend to the General Meeting that no dividend is paid to the shareholders.

The company is currently undergoing a significant transformation. When the new strategy starts to gain traction and delivers positive earnings and free cash-flow, the Board of Directors will define and implement a long term capital structure, which will lead to a re-consideration of distributing capital and/or dividends to the shareholders.

The future

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.

The focus for the Bang & Olufsen segment will be to capitalise on the TV technology partnership with LG Electronics and thereby improve profitability. B&O PLAY will continue to broaden the headphones and portable audio portfolio by building on the success of the existing products, the core competencies, and continued use of outsourcing partners, while aggressively expanding distribution especially in the US. The consumer business will be supported by the existing and new brand licensing partnerships. The existing brand partnerships are progressing according to plan and are expected to drive significant value.

Based on the increased level of innovation, the growth momentum in B&O PLAY, the sharper strategic focus and the strategic partnership with LG Electronics and HARMAN, the board believes that the company is now very well positioned to achieve the financial targets and drive profitable growth in the Bang & Olufsen Group.

Best regards,

Ole Andersen	Henrik Clausen
Chairman	President & CEO

BeoLab 90

BeoLab 90 is a state-of-the-art loudspeaker for the uncompromising sound enthusiast. The loudspeaker contains a number of technologies that adjust for the impact of the room, the furniture, the placement of the loudspeakers and the location of the listener.

KEY FIGURES

Bang & Olufsen a/s – Group (DKK million)	2015/16	2014/15	2013/14	2012/13	2011/12
Income statement:					
Revenue	2,633	2,356	2,162	2,814	3,008
Gross margin, %	36.1	24.6	38.4	38.9	40.4
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	(106)	(535)	(95)	(107)	99
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	46	(376)	81	144	379
Earnings before interest and tax (EBIT)	(202)	(807)	(261)	(187)	122
Financial items, net	(39)	(6)	(29)	(25)	(16)
Earnings before tax (EBT)	(242)	(803)	(286)	(210)	104
Earnings, continuing operations	(198)	(607)	(228)	(210)	104
Earnings, discontinued operations	(10)	664	199	-	-
Earnings after tax	(208)	57	(29)	(159)	73
Financial position:					
Total Assets	2,832	3,449	2,892	2,757	2,892
Share capital	432	432	393	393	362
Equity	1,725	1,921	1,604	1,640	1,626
Net interest-bearing deposit/(debt)	599	788	(374)	(273)	(248)
Net working capital	319	261	657	557	613
Cash flow:					
– from operating activities	(5)	55	184	127	225
– from investment activities	(182)	858	(285)	(328)	(380)
– acqusition of tangible assets	(46)	(83)	(82)	(84)	(121)
– free cash flow	(187)	913	(101)	(202)	(155)
– from financing activities	(223)	233	64	171	134
Cash flow for the period	(409)	1,146	(37)	(30)	(21)
Key figures:					
EBITDA-margin, %	1.8	(16.0)	3.8	5.1	12.3
EBIT-margin, %	(8.4)	(34.3)	(12.1)	(6.6)	4.1
NIBD/EBITDA ratio	-	-	4.6	1.9	0.7
Return on assets, %	(10.2)	(36.1)	(10.6)	(7.6)	5.2
Return on invested capital, excl. Goodwill, %	(4.1)	(41.5)	(0.9)	2.4	17.4
Return on equity, %	(11.4)	3.2	(1.8)	(9.7)	4.6
Full time employees at the end of the period	1,734	2,015	2,180	2,036	2,106
Stock related key figures:					
Earnings per share (EPS), DKK	(5)	1	(1)	(4)	2
Earnings per share from continuing operations (EPS), DKK	(5)	(14)	(6)	(4)	2
Earnings per share, diluted (EPS-D), DKK	(5)	1	(1)	(4)	2
Earnings per share from continuing operations, diluted (EPS-D), DKK	(5)	(14)	(6)	(4)	2
Price/Earnings	(13)	44	(84)	(13)	30

For definitions refer to section 5.8.

Beolit 15

Beolit 15 is a portable Bluetooth speaker with True360 omnidirectional sound, 240 watts of peak power and up to 24 hours of continuous playtime from a single battery charge. Beolit 15 is designed by Danish award-winning designer Cecilie Manz.

FINANCIAL REVIEW

Bang & Olufsen realised revenue of DKK 2,633 million in the 2015/16 financial year, corresponding to an increase of 12 per cent compared to last year, which was the company's highest growth rate in 10 years. EBIT improved significantly compared to last year, but earnings were still unsatisfactory, resulting in a negative DKK 69 million in the underlying business. The strategic initiatives, partnerships and restructuring activities launched over the past 18 months, will positively impact the 2016/17 financial year and contribute to the continued building of a profitable, growing company.

Revenue

In 2015/2016, revenue in the Bang & Olufsen Group was DKK 2,633 million, which is DKK 277 million higher than last year. This corresponds to an increase of 12 per cent (9 per cent in local currency), which was in line with guidance for the year. B&O PLAY showed a strong growth of 58 per cent in the financial year (56 per cent in local currency), whereas revenue in the Bang & Olufsen segment showed a moderate decline of 5 per cent (negative 7 per cent in local currency).

The Bang & Olufsen segment generated revenue of DKK 1,663 million in the 2015/16 financial year against DKK 1,743 million last year corresponding to a decline of 5 per cent. Revenue in the Bang & Olufsen segment in the first three quarters of the financial year was on par with last year, but as fourth quarter resulted in a decline due to lower TV sales, full year revenue was adversely impacted.

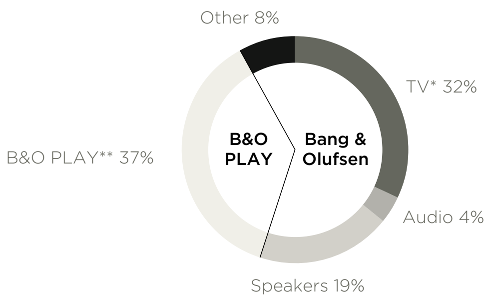
The TV category generated 32 per cent of the Group revenue compared to 47 per cent in 2014/15. The decline was mainly due to the growth of B&O PLAY and generally lower TV sales, especially in Europe.

The Audio category accounted for 4 per cent of the revenue compared to 5 per cent in 2014/15. This corresponded to a 3 per cent decline in turnover within the Audio category. The Audio category is generally under pressure due to changes in consumer behaviour, but going forward the multiroom functionality is expected to positively contribute to the revenue generated by this category.

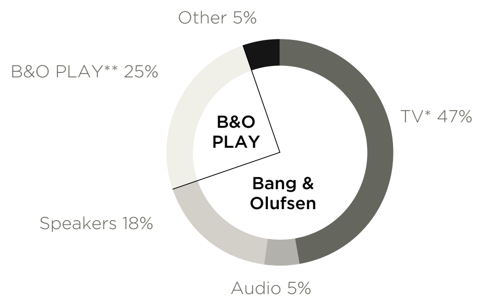
Revenue from the Speaker category increased 26 percent compared to last year. Thereby, the share of revenue from the Speaker category was unchanged at 18 per cent compared to last year. Speaker sales were positively impacted by the launch of Bang & Olufsen's new flagship speaker, BeoLab 90 which has been very well received in the market.

During the 2015/16 financial year, B&O PLAY generated revenue of DKK 970 million against DKK 613 million last year corresponding to a growth of 58 per cent. The growth was driven by new and innovative products, as well as expansion of the distribution channels. B&O PLAY showed strong growth through third party channels and e-commerce, which grew by 111 per cent

Share of revenue 2015/16 (%)



Share of revenue 2014/15 (%)



** The Beoplay V1 is included in the TV revenue*

compared to previous financial year, while revenue through the B1 and shop-in-shop channel increased by 10 per cent. The overall growth was driven by a number of new product launches, and the Beoplay H8, Beoplay A2 and Beolit 15 performing well, combined with a significant growth in the number of third party stores.

Gross margin

The Group's underlying gross margin in the 2015/16 financial year was 38 per cent, compared to 37 percent for the underlying business last year. Both the Bang & Olufsen and the B&O PLAY gross margins improved compared to last year, but the Group's gross margin only improved slightly compared to last year, due to the relatively higher B&O PLAY revenue share. Furthermore, the improvement of the Group's gross margin has materialised slower than expected.

The underlying gross margin for the Bang & Olufsen segment in the financial year was 39 per cent compared to a gross margin in the underlying business of 35 per cent in the previous financial year. The considerable improvement in gross margin is primarily a result of the restructuring process in the Bang & Olufsen segment announced in March 2015 and the launch of BeoLab 90 as the Speaker category has a higher gross margin than other product categories.

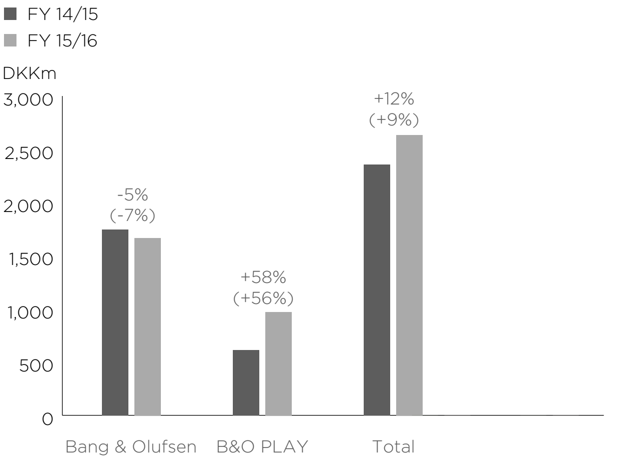
The gross margin for B&O PLAY in the 2015/16 financial year was 32 per cent compared to 30 per cent last year. The improvement in gross margin mainly relates to higher volumes and supply chain optimisations.

The non-recurring and aperiodic items impacting the gross profit in 2015/16 totalled DKK 7 million and were mainly related to inventory write-off.

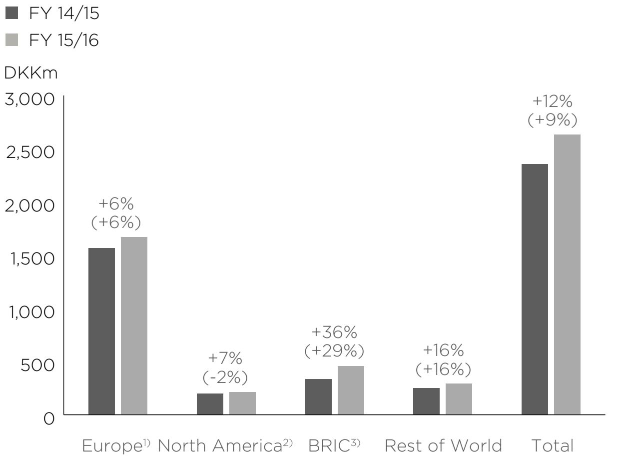
Capacity costs

Capacity costs for the Group were DKK 1,159 million in 2015/16, compared to DKK 1,387 million last year. The capacity costs were adversely affected by non-recurring and aperiodic items of DKK 54 million, and by DKK 40 million related to shared functions previously allocated to the discontinued operations, for the 2015/16 financial year. The underlying capacity costs were DKK 1,066 million, compared to DKK 1,198 million last year, a decline of 8 per cent, mainly related to lower distribution, marketing and development costs.

Revenue by segment
(growth in local currency in parenthesis)



Revenue by region
(growth in local currency in parenthesis)



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

The non-recurring and aperiodic costs of DKK 54 milion were mainly related to:

- Costs resulting from the dialogue regarding a potential launch of a takeover offer of DKK 9 million
- Costs related to announced changes in Executive Management Board of DKK 10 million.
- Increase in accrual relating to share-based payments as a result of changes in Executive Management Board - DKK 6 million.
- Impairment of assets in company-owned, company-operated stores of DKK 23 million
- Costs related to the restructuring in the Bang & Olufsen segment of DKK 6 million

Distribution and marketing costs amounted to DKK 740 million and DKK 717 million in the underlying business in the 2015/16 financial year compared to DKK 862 million in the underlying business last year. This corresponds to a decrease of DKK 145 million that mainly relates to decreased marketing and distribution costs in the Bang & Olufsen segment. The decrease was a result of general savings across the Group, optimised distribution and a decision to hold back selected marketing activities until the launch of upcoming new TV products in the 2016/17 financial year.

Administrative costs amounted to DKK 104 million and DKK 79 million in the underlying business, which was a slight increase of DKK 2 million compared to last year.

Development costs recognised as an expense (incl. amortisation and impairment losses) were DKK 315 million compared to DKK 449 million last year, and DKK 309 million compared to DKK 359 million in the underlying business last year. The company's expanded use of

Capitalised development costs and carrying amount
(DKK million)

2015/16	B2C
Capitalised, net	152
Carrying amount, net	383

2014/15	B2C
Capitalised, net	159
Carrying amount, net	392

technology partners allowed for increased productivity and continuous lift of innovation at lower development costs compared to the company's previous development processes.

The capitalised development costs were DKK 152 million for the continuing business in the financial year, compared to DKK 159 million last year, which corresponds to a capitalisation rate of 50.3 per cent compared to 43.1 per cent last year.

Total amortisation charges and impairment losses on development projects were DKK 165 million compared to DKK 238 million last year which included an impairment loss of DKK 31 million. The net effect on earnings before interest and tax (EBIT) of the continuing business, from amortisation and capitalisation was negative DKK 13 million compared to negative DKK 79 million last year.

Following the Automotive transaction, the company received payments and incurred costs related to services provided during the transition of the support functions. This has been booked as "other operating income and expenses" in the Group's consolidated income statement.

EBIT was negative DKK 202 million for the 2015/16 financial year compared to negative DKK 807 million last year. EBIT in the underlying business for the 2015/16 financial year were negative DKK 69 million compared to negative DKK 323 million in the underlying business last year, corresponding to an improvement of DKK 254 million.

Financial items, net for the year was negative DKK 39 million compared to negative DKK 6 million last year. The development mainly relates to non-cash exchange rate losses.

Tax on earnings for the year were positive DKK 44 million compared to DKK 195 million last year. Net earnings for the continued business for the 2015/16 financial year were negative DKK 198 million compared to negative DKK 607 million last year.

Net earnings from discontinued operations were negative DKK 9 million. The result was driven by the net accounting loss from the sale of the ICEpower business.

The net earnings for the Group were negative DKK 208 million for the 2015/16 financial year, compared to positive DKK 57 million last year, which included a gain of DKK 492 million from the sale of Automotive business.

Development in balance sheet items and cash flow
The investment in intangible assets in the continuing business was DKK 155 million, which mainly relates to development projects, corresponding to 6 per cent of revenue. Last year's investment level was 7 per cent (excl. Automotive and ICEpower). The investment in tangible assets was DKK 46 million compared to DKK 83 million last year.

At the end of the 2015/16 financial year the net working capital was DKK 319 million compared to DKK 261 million at the end of the financial year 2014/15. The change was mainly due to lower trade payables compared to last year.

Free cash flow in the 2015/16 financial year was negative DKK 187 million compared to negative DKK 211 million last year excl. the gain from sale of assets and businesses. This is mainly due to the negative earnings in the financial year and increased net working capital. Free cash flow was positivitly impacted by DKK 28 million from the sale of the shares in ICEpower A/S and sale of shares in an associated company.

At the end of the financial year, the company had a net interest bearing deposit of DKK 599 million, compared to a net interest bearing deposit of DKK 788 million at the end of 2014/15. The decline is primarily related to negative earnings for the year.

Group equity decreased to DKK 1,725 million from DKK 1,921 million last year due to negative earnings. The Group equity ratio was 61 per cent at the end of the 2015/16 financial year against 56 per cent at the end of the 2014/15 financial year.

Subsequent events

No significant subsequent events have occured after 31 May 2016.

RETAIL DEVELOPMENT

During the 2015/16 financial year, focus on creating a consistent, high-end customer experience and a strong, sustainable retail network continued. The rollout of the Sensory Store concept proceeded, along with upgrading retail training programmes, creating innovative retail merchandising and maintaining focus on the best and high-potential stores.

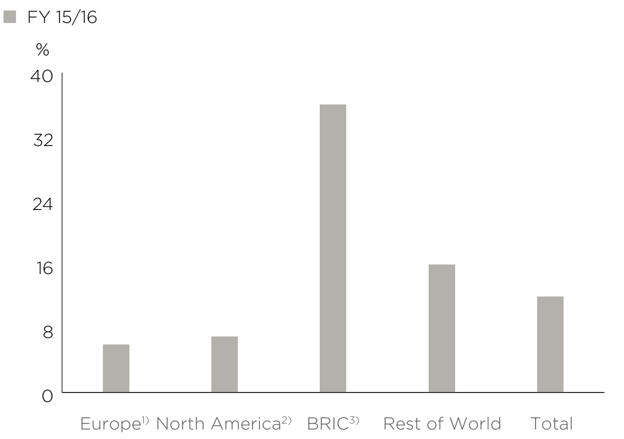
Retail strategy

In the 2015/16 financial year, work continued to attract new, high potential retail partners to create a strong and profitable network of stores. During the year, 29 new B1-stores and shop-in-shops opened or upgrated. This was however surpassed by the closure of 69 low performing stores during the year, as the focus on improving the overall quality and financial health of the retail network through attrition – especially in Europe and North America – continued. At the end of the 2015/16 financial year, the number of B1 stores and shop-in-shops was 657 compared to 714 last year.

One of the key focus areas for the year has been to continue the strengthening of the in-store customer experience by cooperating with the current network of retailers on increased training, best practice sharing, improving the sales process and in-store demonstrations, retail standards and visual merchandising.

During the year, the roll-out of the Sensory Store concept continued. The store design has a strong emphasis on Bang & Olufsen's core competencies and is designed to create a unique shopping experience for Bang & Olufsen's customers. The Sensory Store concept has proven to significantly lift the like-for-like sales of the upgraded stores.

Revenue growth by region



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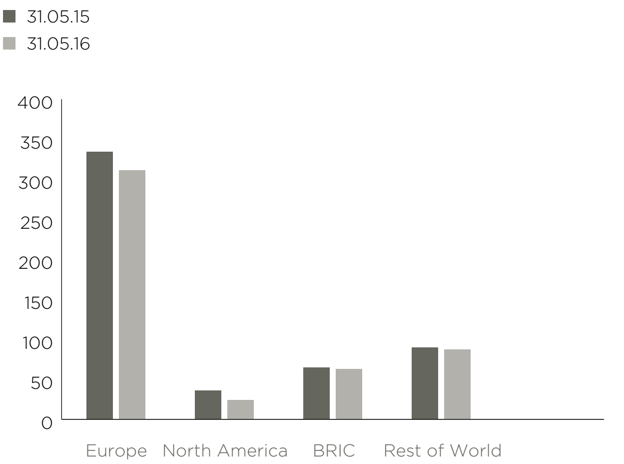
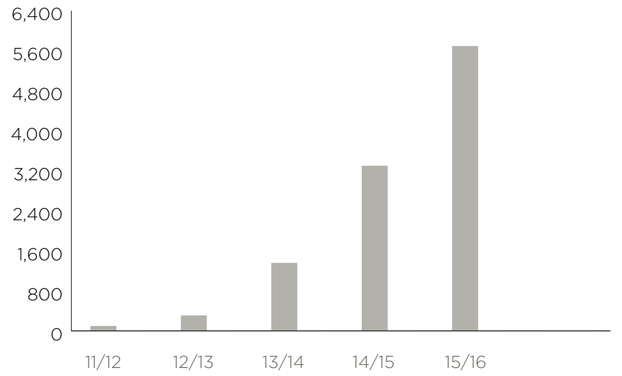
B1-shops per region



TPR stores



Another key focus area was also to increase B&O PLAY revenue through alternative distribution channels. The interest from third party retailers to market B&O PLAY products has been strong, and during the year a number of distribution agreements were signed with large distributors across the world.

B&O PLAY therefore increased the distribution to a total of 5,692 third party retail stores at the end of 2015/16 from 3,308 stores at the end of May 2015, 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.

Revenue development by region

During the 2015/16 financial year, the European region saw an increase in revenue of DKK 102 million from DKK 1,567 million to DKK 1,669 million, corresponding to 6 per cent (6 per cent in local currency). The growth was driven by a combination of a strong consumer demand for existing and new products as well as a continued expansion of the third party retailers, but the positive development was partly offset by a decline in TV sales.

Revenue in North America increased by DKK 14 million to DKK 214 million in the 2015/16 financial year, corresponding to an increase of 7 per cent (negative 2 per cent in local currency) compared to the 2014/15 financial year. Revenue in North America was negatively impacted by the restructuring of the B1 and shop-in-shop channel, where focus has been on improving profitability and customer experiences leading to the closure of 12 non-performing B1 stores during the 2015/16 financial year. The restructuring phase is now almost complete, and now focus will be on growing the B1 channel and working with custom installers and A/V consultants who have direct contact with the target customers. Focus in B&O PLAY will be to expand the distribution in North America to ensure a strong and broad brand presence in this key market.

BRIC revenue increased by DKK 121 million from DKK 338 million to DKK 459 million, corresponding to an increase of 36 per cent (29 per cent in local currency). The revenue in the BRIC markets was, however, adversely impacted by the financial crisis in Russia.

Revenue for the Rest of World increased by DKK 42 million to DKK 292 million in the 2015/16 financial year, corresponding to an increase of 16 per cent (16 per cent in local currency) compared to the 2014/15 financial year.

Revenue development by channel

Total revenue through the B1 and shop-in-shop channel was flat compared to the 2014/15 financial year. Revenue in stores which have been in operation for more than 24 months decreased by 4 per cent for B1 stores and 15 per cent for shop-in-shops. The development was explained by the performance of stores opened within the last 24 months, significantly out growing the mature stores in the retail network. This is in line with the strategy of improving the health of the retail network, by creating a network of fewer and stronger stores.

Revenue through third party retail and e-commerce increased by DKK 334 million from DKK 244 million to DKK 578 million, corresponding to an increase of 149 per cent compared to last year. The revenue through third party retailers was positively affected by the increase in the number of third party retail stores.

Distribution development (number of stores) from 2014/2015 to 2015/2016

	B1		Shop-in-shop		Third party retail	
	31/5/2016	31/5/2015	31/5/2016	31/5/2015	31/5/2016	31/5/2015
Europe	311	334	135	137	2,759	1,578
North America	24	36	1	8	824	631
BRIC	63	65	34	42	893	494
Rest of World	87	90	2	2	1,216	605
Total	**485**	**525**	**172**	**189**	**5,692**	**3,308**

INNOVATION

New and pioneering products launched in 2015/16 once again confirmed the Group's strong position in innovation. With the award-winning flagship speaker BeoLab 90, Bang & Olufsen introduced a number of unique technologies that offer customers exceptional flexibility and unparallelled sound performance. The wireless BeoLink Multiroom functionality also demonstrated the longevity and value of Bang & Olufsen products.

Bang & Olufsen launched many new, innovative products during the 2015/16 financial year, which clearly demonstrated Bang & Olufsen's core competencies within sound and acoustics, design and craftsmanship as well as system integration.

The Bang & Olufsen loudspeaker portfolio was expanded with the pioneering and award-winning BeoLab 90. The new flagship loudspeaker from Bang & Olufsen gives the customer an unprecedented level of control of acoustic behaviour and performance, making BeoLab 90 one of the most innovative speakers on the market. The technologies and know-how gained from the development of BeoLab 90 will be used in future Bang & Olufsen products, and ensure that Bang & Olufsen remains at the forefront of the technological development within the field of loudspeaker acoustics.

Technically, BeoLab 90 offers a number of unique approaches to great sound experiences including a radically accurate sound staging and exceptional flexibility in placement and compensation for a room's acoustical properties.

Active Room Compensation is a room compensation technology that makes up for the acoustical impact of the room's shape and construction, the placement of the loudspeakers and the location of the listening position.

BeoLab 90 offers the unique Beam Width Control feature, which enables the listener to change the width of the sound beam to suit different listening situations. The listening experience can easily be changed from a narrow beam for a single listening position to an omni or party setting, by the touch of a button. When family and friends are gathered for a film experience, the wide sound setting will provide a great cinematic experience. The combination of the Narrow Beam Width and Active Room Compensation makes BeoLab 90 a worthy competitor to any audiophile-level loudspeaker system on the market today.

BeoLab 90 also offers the option of moving the direction of the sound beam in five different directions thanks to the Beam Direction Control and a movable lens. The hairline thin LED emits light below the circular plate and visually indicates the direction of the sound beam.

During the 2015/16 financial year, the Group launched the BeoLink Multiroom functionality. This new functionality is integrated in all the latest network connected products across the Bang & Olufsen and B&O PLAY portfolios. Products communicate and work with each other in a common and seamless system providing an even better customer experience. BeoLink Multiroom makes it possible to play different music in different rooms – or have the same music playing at the same time in different rooms with a single touch.

The wireless BeoLink Multiroom takes basic operation of older products into account as well and ensures that new developments can become part of the basic BeoLink experience. In addition, the customer's products remain up-to-date through software updates that provide new features and functions, so the longevity and value of a Bang & Olufsen product is significantly enhanced.

In January 2016, Bang & Olufsen introduced the BeoSound 35, which is a high-end wireless speaker and all-in-one multiroom music system with an easy-to-use touch interface and integrated access to music and radio streaming services.

B&O PLAY expanded the product portfolio with many new and innovative products during the financial year and introduced several new features and functionality enhancements through software updates.

In August 2015, B&O PLAY added innovative wireless features to the Beoplay A2 Bluetooth speaker making it possible to wirelessly pair two Beoplay A2 speakers for an impressive stereo experience. This feature is also available in other B&O PLAY Bluetooth speakers thanks to software updates.

As of Spring 2016, all current and future B&O PLAY network speakers such as Beoplay A6 and Beoplay A9 have Google Cast built-in. Besides Google Cast, B&O PLAY's network speakers support Apple AirPlay, DLNA and Bluetooth, making it possible to choose between various streaming technologies.

In April 2016, B&O PLAY introduced Beoplay A1, which sets new standards for portable Bluetooth speakers on sound dispersion, volume and bass characteristics. Beoplay A1 comes with a rechargeable Li-Ion battery that provides up to 24 hours portable playtime during everyday use. This industry-leading standard is delivered by the inventive amp control. The Adaptive Power Management makes it possible to feed the exact amount of power needed by the amplifiers – and only when they need it. This means, that the power supply changes dynamically for increased battery life.

In order for the Group to further enhance the high level of innovation, it has been decided to establish a new Innovation Lab in Struer in the current Assembly Factory where most processes have been transferred to the factory in the Czech Republic. The goal is to create an Innovation Lab that can really inspire and motivate the employees to create the Bang & Olufsen products of the future. The settings will support a closer cooperation and a more agile way of working. It will also optimise the footprint in Struer.

Product launches in 2015/2016

Q1

BEOLINK MULTIROOM

August BeoLink Multiroom makes it possible to wirelessly play different music in different rooms – or have the same music playing at the same time in different rooms. This functionality is an inherent feature of all the latest network connected Bang & Olufsen products. Simply go to a product, touch it, and it will come to life, or use the BeoMusic App for smartphone or tablet to take full control of the BeoLink Multiroom system. BeoSound Moment, BeoSound Essence 2nd generation, Beoplay A9 2nd generation, Beoplay A6 and televisions can be included in a BeoLink Multiroom setup. Moreover, with a BeoLink Converter NL/ML box, it is possible to bridge older products in Master Link installations with the new BeoLink Multiroom products.

BEOPLAY A2 NEW TECHNOLOGY AND COLOUR

August B&O PLAY adds innovative wireless features to the Beoplay A2 Bluetooth speaker making it possible to wirelessly pair two Beoplay A2 speakers for an impressive stereo experience. Beoplay A2 is now also available in a new "Natural" colour edition.

BEOLIT 15 NEW TECHNOLOGY AND COLOUR

August B&O PLAY launches an updated version of the Beolit 15 portable Bluetooth speaker. New wireless technology provides outstanding Bluetooth stereo audio and streaming quality, and with the addition of a "Natural" colour edition Beolit 15 is now available in four colours.

Q2

BEOPLAY A6

September Beoplay A6 is a flexible and powerful music system designed to fit a modern lifestyle. The music system works with almost all streaming standards and features BeoLink Multiroom technology, which unites B&O PLAY and Bang & Olufsen products into one wireless system across multiple rooms. The custom-made textile on the front cover is the result of a collaboration with Kvadrat, one of Europe's leading manufacturers of design textiles.

BEOPLAY S3

September Beoplay S3 is a new, flexible Bluetooth speaker crafted from rigid polymer and targeting the consumers that want flexibility at home. Two Beoplay S3 speakers can form a wireless stereo pair, and it is even possible to connect up to four speakers. The speaker covers are also available in a variety of colours.

BEOPLAY H3 ANC

September Beoplay H3 ANC is an Active Noise Cancellation in-ear headphone crafted from lightweight metal. The rechargeable battery provides up to 20 hours of continuous playtime with Active Noise Cancellation turned on.

BEOPLAY H7

October Beoplay H7 is a wireless headphone combining the comfort of the Beoplay H6 over-ear headphone with the wireless technology of the Beoplay H8. Beoplay H7 has up to 20 hours of rechargeable battery lifetime and offers a combination of stylish aesthetics, luxurious materials, aluminium touch interface and superior sound.

BEOLAB 90

November BeoLab 90 is a state-of-the-art loudspeaker for the uncompromising sound enthusiast, and it delivers an ultimate sound experience no matter the circumstances. The loudspeaker contains a number of technologies such as Beam Width Control and Active Room Compensation, which adjusts for the impact of the room, the furniture, the placement of the loudspeakers and the location of the listener. Future Bang & Olufsen products will benefit from the innovation and know-how gained from the development of BeoLab 90.

Product launches in 2015/2016

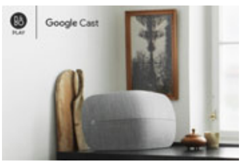
Q3

BEOSOUND 35

January BeoSound 35 is the new all-in-one wireless music system for a wide staged sound experience at home. It features an intuitive interface, distinct Bang & Olufsen design, several placement options, easy connectivity with mobile devices and integrated access to music streaming services. BeoSound 35 works as an independent music system with integrated access to e.g. TuneIn radio stations, Spotify and Deezer. It will integrate seamlessly as part of a BeoLink Multiroom system, and it also works with AirPlay, Bluetooth and DLNA based devices.

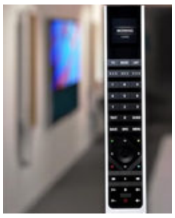
BEOHOME DESIGN APP

January The BeoHome Design App for iPad lets the user digitally visualise the different Bang & Olufsen products in any given space. Choose between all the speakers, sound systems and televisions in the portfolio and place them wherever the iPad camera is pointing. It is even possible to select and customise predefined floor plans and shapes, and subsequently add products and furniture.



B&O PLAY BRINGS GOOGLE CAST TO NETWORK SPEAKERS

January B&O PLAY brings Google Cast to B&O PLAY's in-market and future range of network speakers. All network speakers such as Beoplay A6 and Beoplay A9 will have Google Cast built-in and the technology will be available during Spring 2016. Besides Google Cast, B&O PLAY's network speakers support Apple AirPlay and Bluetooth, making it possible to choose between various streaming technologies.



BEOLINK SMARTHOME

February BeoLink SmartHome is a new and innovative way of connecting Bang & Olufsen products with all other technology products in the home. The BeoLink SmartHome solution offers full integration with some of the largest home integrators such as Crestron, Control4 and Savant.

Q4

BEOPLAY A9 SMOKED OAK

March B&O PLAY launches Beoplay A9 Special Edition "Smoked Oak" exclusively available to Bang & Olufsen branded stores and online on beoplay.com. Beoplay A9 Special Edition represents a luxurious fusion of materials, design and technology. The look is anchored in current Scandinavian interior design trends, and combines wood, wool and metal to bring nature into the home.

ENTERPRISE COLLABORATION

April Bang & Olufsen announces a collaboration with Gulf Craft, an Emirates-based yacht and boat manufacturer. Together, Gulf Craft and Bang & Olufsen add a premium audio-visual system as an option for the Majesty 110 luxury yacht, enabling guests to experience wireless sound flow throughout the yacht.

BEOPLAY A1

April B&O PLAY introduces the smallest and most adventurous member in its family of portable Bluetooth speakers, Beoplay A1. Designed for life on the go, the Beoplay A1 combines Danish design by award-winning Cecilie Manz, signature sound by Bang & Olufsen, speakerphone functionality for taking calls out loud and up to 24 hours of battery life.

BEOPLAY A6 OXIDISED BRASS

April B&O PLAY introduces the new Beoplay A6 Special Edition "Oxidised Brass" exclusively available to Bang & Olufsen branded stores and online on beoplay.com. Beoplay A6 features a new black cabinet, dark grey Kvadrat cover, anodised aluminium in oxidised brass colour and matching stitching.

BEOPLAY A2 OCEAN BLUE AND CHAMPAGNE GREY

April B&O PLAY announces two new colours of the ultra portable Bluetooth speaker Beoplay A2. The new colours Ocean Blue and Champagne Grey match the fashion trends.

BEOPLAY H6 CHAMPAGNE GREY

April B&O PLAY announces that the popular Beoplay H6 headphone is now available in a new colour variant called Champagne Grey.

BEOLAB 18 BLACK EDITION

May Bang & Olufsen launches BeoLab 18 in a black edition with smoked oak lamella. The new special edition of the wireless speaker represents a luxurious fusion of materials, design and technology. The look is anchored in current Scandinavian interior design trends, and combines raw wood and black anodised aluminium.

CORPORATE SOCIAL RESPONSIBILITY

Bang & Olufsen values CSR as a fundamental element and a key driver for achieving results in a sustainable way. As the business expands to new corners of the world, and thereby creating new partnerships, CSR is becoming even more important.

This section summarises Bang & Olufsen's CSR policy. A detailed description of Bang & Olufsen's CSR work is available in Bang & Olufsen's statement of corporate social responsibility on http://www.bang-olufsen.com/en/the-company/heritage/enviroment

The Bang & Olufsen CSR policy covers the common policy areas according to international standards. The policy is supported by the Supplier Code of Conduct as well as the Anti-Corruption policy, describing Bang & Olufsen's CSR requirements to suppliers and guideline to our employees. External audits of the suppliers, as well as their sub-suppliers, are carried out, if there is a concrete suspicion of breach.

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

Bang & Olufsen's CSR policy

Bang & Olufsen's CSR policy states the guidelines for the Corporate Social Responsibility activities within the framework of the Bang & Olufsen Group.

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

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

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

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

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

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

Bang & Olufsen is subject to serious criminal and civil penalties for breaches of applicable anti-corruption laws. Consequently, any Bang & Olufsen personnel and third party associates who breaches the Anti-Corruption policy may be subject to criminal and/or civil penalties, including imprisonment and very substantial fines, which will not be reimbursed by Bang & Olufsen. In addition, any Bang & Olufsen personnel who breaches the policy may be subject to disciplinary action by Bang & Olufsen, up to and including termination of their contract of employment.

Environment and climate
Bang & Olufsen has an integrated thinking with regard to the environmental consequences the production and products have on employees, customers and the environment. This means that the aspects of environment, working environment and product environment are included in the production and in the products. Environment covers the areas of work environment, product environment and external environment, and these areas are all integrated in the production.

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

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

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

The CSR effort, objectives and results

A detailed description of Bang & Olufsen's CSR effort and results in the 2015/16 financial year, as well as the activities and targets for the 2016/17 financial year, are available in Bang & Olufsen's statement for Corporate Social Responsibility (CSR). The reporting of the statement is in accordance with section 99a of the Financial Statements Act, and it is available in its entirety on the company's website. The statement also forms part of the Management Report in the Bang & Olufsen Annual Report for 2015/16. The effort, objectives, and results are summarised on page 24.

In 2016/17, Bang & Olufsen will continue the work of improving working environment and reducing the environmental impact of the Group's activities. Independent supplier audits will continue with re-audits of the suppliers with discovered deviations in relation to the Supplier Code of Conduct. Bang & Olufsen's CSR activities and targets for the 2016/17 financial year are summarised on page 25.

CSR activities, objectives and results for 2015/16 (refer to full report published on web for comments on deviations)

Policy area	Topic	Objective	Actual results
Human rights Labour	Collective agreement for employees (Suppliers and contractors)	Ensure compliance of suppliers, obtained by audits based on risk-assessment of suppliers.	Risk-assessment conducted of twelve suppliers. Based on satisfactory self-assessments ten suppliers required no further action, and two were subject to further assessment, due to overtime.
	Conflict minerals	Review and maintain processes and supplier agreements to avoid conflict minerals in any product. Conflict minerals refer to tantalum, tungsten, tin, and gold originated in the Democratic Republic of Congo and its adjoining countries	During 2015/2016 different standard procedures have been tested and evaluated to minimise risks and avoid conflict minerals in products.
Environment and climate	Accident and severity	Accident frequency must not exceed 2 (number of accidents per 1 million working hours). The level of severity in accidents must not exceed 0.095. (the number of hours of absence per 1,000 working hours)	The actual result is 2.6 The actual result is 0.214 Safety walks in Danish and Czech production facilities initiated. Tool to visualise accidents and near misses (safety cross) in Czech facility initiated Actions implemented for focus areas in the Environmental groups (cutting accidents, heavy lift, focus on own risk, ergonomic) Care conversation together with injured initiated to avoid long-term sickness absence
	Energy consumption in facilities	Energy reduction of least <0.34 kWh/total salary expense (The number of kWh adjusted for degree days/salary)	The actual result is 0.37 LED lights purchased in the Danish production facility Energy inspection conducted (external) in Danish facility - provides energy saving catalogue Low energy solutions at renewals
Anti-corruption	Policy review	Review policies and update to reflect actual business set-up.	In 2016, a thorough review of all policies was conducted a new Anti-Corruption policy was adopted which is in full compliance with the UK Bribery Act and the U.S. Foreign Corrupt Practices Act.
	Anti-corruption training	Conduct training for white collars in Procurement and Sales	Based on the newly adopted Anti-Corruption policy and Code of Business Conduct and Ethics, an on-line training program will be set up for all employees with commercial responsibility to receive training in anti-corruption laws and procedures.

Planned CSR activities and objectives in 2016/17

In 2016/17, Bang & Olufsen will continue the CSR effort to improve the working environment and reduce the environmental impact of activities through these newly established objectives.

CSR activities and objectives for 2016/17

Policy area	Topic	Objective
Code of conduct	Collective agreement for employees (suppliers and contractors)	Risk assessment of supplier base to identify audit needs. Conduct CSR audits and follow up accordingly.
	Employee health & life balance	Reduce number of long-term sickness cases (full and part time) caused by psychological work environment
Environment	Zero accidents	Accident frequency: 5% reduction compared to 2015/16 Accident severity: 5% reduction compared to 2015/16
	Energy savings in facilities	Energy optimisation projects with 59 tonnes CO_2 reduction equivalent to 204,684 kWh. Measured on project level (improvement)
Anti-corruption	Set up compliance programme for retail partners and other agents	The overall objective is that all retail partners and other agents certifies compliance with newly established Anti-Corruption policy. By the end of 2016/17, the target is to have 70% of the retail partners and other agents certified.
	Anti-corruption training	Establish online training programme for all employees with commercial responsibility. Ensure and track that all such employees conduct the training as planned

To read more about the CSR effort in Bang & Olufsen, please see the CSR report 2015/2016, which can be found at www.bang-olufsen.com/en/the-company/heritage/corporate-social-responsibility

THE BANG & OLUFSEN SHARE

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

IR Policy
It is Bang & Olufsen's objective to inform NASDAQ Copenhagen A/S, current and potential investors as well as equity analysts and brokers quickly and accurately about all relevant matters relating to the Group. The purpose of such information is to increase the knowledge of Bang & Olufsen among investors in Denmark as well as abroad and give investors structured, continuous and relevant information that meets the requirements for information when deciding on investments in Bang & Olufsen shares.

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

For further details regarding the Investor Relations Policy on www.bang-olufsen.com/investors.

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

The Bang & Olufsen share

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

	2015/16	2014/15
Closing price 31 May	64.0	58.0
Market Value 31 May (DKK million)	2,765	2,504
Nominal share value (DKK)	431,974,780	431,974,780
Nominal Value (DKK)	10	10
Issued shares	43,197,478	43,197,478
Own shares	29,999	29,999
Shares in circulation	43,167,479	43,167,479
Registered shareholders (approx.)	25,000	27,500
Hereof in Denmark (approx.)	24,100	26,500
Listed capital placed in Denmark*	55%	51%

** Percentage of owner registered capital*

The telephone conferences are subsequently available at www.bangolufsen.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 64.0 per share on 31 May 2016, corresponding to an increase of 10 per cent for the financial year. The OMXC Mid Cap index increased 3 per cent in the same period. The average daily turnover of the Bang & Olufsen share was DKK 10,932,637 in the 2015/16 financial year compared to DKK 8,518,066 in 2014/15.

Analyst coverage

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

- Carnegie Bank A/S
- Danske Markets Equities
- Nordea Markets
- Sydbank

Dividend

At the end of 2014/15, the company received significant proceeds from the Automotive transaction, which means that the company has a positive cash position. During the 2015/16 financial year, the company's financial performance has improved, but continues to be vulnerable, and key strategic initiatives taken over the past years, such as the Automotive partnership with HARMAN International Industries Limited and the technology partnership with LG Electronics, still have to take full effect. Therefore, the Board of Directors intends to recommend to the Annual General Meeting that no dividend is paid to the shareholders.

The chart below shows the development in share price from 1 June 2012 to 31 May 2016:

As at 31 May, 2016, the following individuals or legal entities hold 5 per cent or more of the company's capital or share capital's voting rights:

	Number of shares	Capital/ votes %
Sparkle Roll Group Limited, Po Box 3444, Tortola, British Virgin Islands	6,318,586	14.6%
Sparkle Roll Holdings Limited, Po Box 3444, Tortola, British Virgin Islands	2,404,186	5.6%
Arbejdsmarkedets Tillægspension, Kongens Vænge 8, 3400 Hillerød, Danmark	5,578,167	12.9%
Nordea Investment Funds SA Strandgade 2, 0900 København C	2,187,089	5.1%

The company is currently undergoing a significant transformation. When the strategy starts to gain traction, the Board of Directors will define and implement a long term capital structure, which will lead to a reconsideration of distributing capital and/or dividends to the shareholders.

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

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

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

Annual General Meeting
Bang & Olufsen a/s' Annual General Meeting will be held on Wednesday 14 September 2016 at Struer Statsgymnasium, Jyllandsgade 2, DK-7600 Struer.

Financial calendar

Annual General Meetings	
14 September 2016	Annual General Meeting 2016
13 September 2017	Annual General Meeting 2017
Financial statements	
4 October 2016	Interim report (1st quarter 2016/17)
13 January 2017	Interim report (2nd quarter 2016/17)
7 April 2017	Interim report (3nd quarter 2016/17)
10 August 2017	Annual report 2016/17
4 October 2017	Interim report (1st quarter 2017/18)

STRATEGY & OUTLOOK

BeoVision Avant 85

The majestic 85" version of BeoVision Avant delivers exquisite imagery and 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.

STRATEGY

Bang & Olufsen will continue the efforts to create profitable growth based on a strong portfolio of innovative products, the continued growth momentum in B&O PLAY, a lower cost base, and the strategic and structural steps taken to increase agility and flexibility. The financial targets for the strategy period remain unchanged.

During Spring 2016, Bang & Olufsen took important steps to increase agility, flexibility and reduce the cost base of the Bang & Olufsen segment. Following the divestiture of the Automotive business to HARMAN and the signing of an Automotive brand license agreement in the 2014/15 financial year, Bang & Olufsen announced the divestiture of the non-core business ICEpower during 2015/16.

Bang & Olufsen also announced a strategic technology partnership with LG Electronics regarding development and production of Bang & Olufsen's future TVs. The agreement will allow Bang & Olufsen to focus on its unique competencies within design, acoustics and smart home integration within TV development, and combine this with LG Electronic's technological leadership within OLED technology and leverage the economies of scale in LG Electronics's production setup.

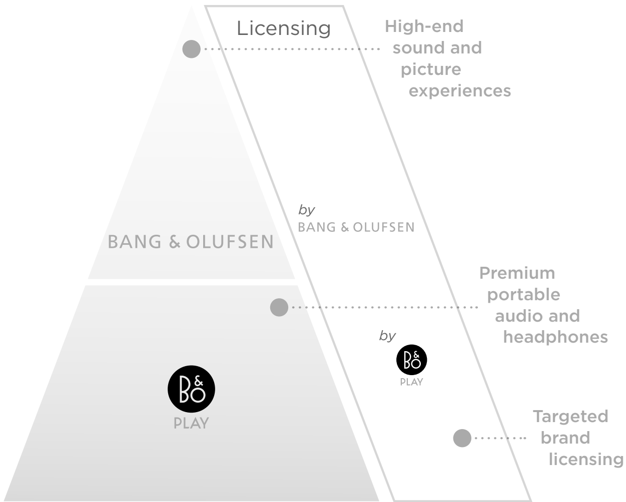
The partnership with LG Electronics will solve a key strategic challenge as Bang & Olufsen will achieve the technological capabilities and optimise the cost spend needed to improve the long-term profitability of the company. The first OLED TV produced by LG Electronics for Bang & Olufsen as a result of the partnership is expected to be launched in 2017. Further, the partnership involves collaboration in other areas such as license and product bundle activities.

Based on the partnership, Bang & Olufsen expects to improve gross margins and reduce capacity costs. The agreement has an annual savings potential of DKK 150-200 million when fully implemented over the next three years. The partnership is an important step towards achieving the financial targets set out for 2017/18 of an EBIT-margin of approximately 7 per cent and a positive free cash flow.

Focus on consumer brands and brand license business
With significant steps taken to address the company's challenges, 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 is built. The Bang & Olufsen brand will continue to be strengthened by utilising the company's core competencies. 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 B&O PLAY brand will be to continue to strengthen the young brand's premium positioning and further increase the global brand awareness and appeal, leveraging on the company's core competencies 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 of the Group. The high frequency of launching innovative, personal audio products and further expanding the distribution will continue with special focus on the US.



The long-term brand building of the company will be supported by brand licensing partnerships within selected complementary categories. 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. Other brand licensing activities derive from Bang & Olufsen's partnerships with Hewlett-Packard including Hewlett-Packard's PCs, tablets and accessories, and with LG Electronics on TVs, and accessorises to LG G5 smartphone.

Controlled growth in the Bang & Olufsen segment and sharpening of the high-end positioning
The focus for the Bang & Olufsen segment is to increase agility and flexibility in product development and continue to focus 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 competencies 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 the strategic partnership with LG Electronics.

Retail experiences
A key focus area is to continue to strengthen 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, optimising 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, focus will continue to be on growing the B1 channel and working with custom installers and A/V consultants who have direct contact with the target customers in this competitive market. 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 four 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 core competencies, 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 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 B&O PLAY distribution strategy and supports the overall growth of the brand through sales and increased brand awareness.

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

	Target
Revenue	Approx. 10 per cent CAGR with B&O PLAY as the primary growth driver for the Group
EBIT margin	Approx. 7 per cent EBIT margin before aperiodic and non-recurring items reached within the strategy period
Cash flow	Generate a positive free cash flow during the strategy period

A more lean and agile company

To turn around the Group and restore profitability, 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
- Creating innovative breakthrough products combining iconic design, beautiful sound and seamless integration
- Strong product life cycle management
- Optimised logistics, especially in 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

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 and the expected license revenues from the brand licensing business from 2017 are expected to drive a positive development going forward.

OUTLOOK FOR 2016/17

In the 2016/17 financial year, the key focus will be to continue the growth of B&O PLAY, while ensuring a continued strengthening of the profitability across the company.

Revenue

Revenue for the Group is expected to grow compared to 2015/16.

B&O PLAY is expected to continue to be the main growth driver with double-digit growth. New product launches, increased brand awareness, and continued expansion of the distribution is expected to be the main growth contributors in B&O PLAY.

In the Bang & Olufsen segment, the focus will be to continue strengthening the brand, launching new products, and improving the health and profitability of the business segment. Revenue in the Bang & Olufsen segment is expected to decline in the first quarter of the 2016/17 financial year compared to the same quarter last year, due to the postponed launch of new products. The revenue decline is expected to be at the level realised in the fourth quarter of 2015/16. However, due to a strong product pipeline, the Bang & Olufsen segment is expected to realise moderate growth for the financial year.

EBITDAC

Earnings before interest, tax, depreciation, amortisation and capitalisation for the underlying business (EBITDAC) is expected to improve compared to the EBITDAC of DKK 14 million in the underlying business (i.e. adjusted for non-recurring and aperiodic items and costs and license fees previously allocated to the Automotive business) in the 2015/16 financial year. This will be driven by continued revenue growth, higher gross margin as well as a lower capacity cost ratio measured to revenue.

As a consequence of the newly launched strategic technology partnership with LG Electronics, Bang & Olufsen will incur higher depreciations of the current TV product portfolio as well as lower capitalisations during the 2016/17 financial year. These items will adversely impact the EBIT of the 2016/17 financial year, but will not impact the company's free cash flow.

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

BeoSound 35

The new all-in-one wireless music system features an intuitive interface, distinct Bang & Olufsen design, several placement options, easy connectivity with mobile devices and integrated access to music streaming services. BeoSound 35 integrates seamlessly as part of a BeoLink Multiroom system.

BOARD OF DIRECTORS

Ole Andersen (1956)

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

Directorships and other offices:
Chr. Hansen Holding A/S (Chairman of the Board), Danske Bank A/S (Chairman of the Board), NASDAQ Nordic Ltd. (Member of the Nomination Committee), Committee on Corporate Governance (Member), Adjunct professor at CBS (Copenhagen Business School) and Member of the board of directors, DenmarkBridge.

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 (2014/2015: 84,650)

Jim Hagemann Snabe (1965)

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

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

This member is considered independent
Member of the Remuneration and Nomination Committees
Number of shares in Bang & Olufsen a/s at the end of the year:
11,740 (2014/2015: 11,740)

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), Basico 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 (Chairman), 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 Budgetting Institute P/S (Chairman), Smartshare systems A/S (Board Member), Business Angels Fond - London II A/S (Board Member), Bookboon Corporate A/S (Board Member, Lyngsoe systems holding A/S (Board Member), Fond Talsinki I-II-III-IV A/S (Chairman)

This member is considered independent
Chairman of the Audit Committee and member of the Nomination Committee
Number of shares in Bang & Olufsen a/s at the end of the year:
6,500 (2014/2015: 6,500)

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 (2014/2015: 5,300)

Albert Bensoussan (1959)

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

Sowind Group SA (Chairman), Boucheron Taiwan Ltd. (Chairman), Boucheron (Shanghai) Trading Limited (Chairman), Boucheron Holding SAS (Member), Boucheron Hong Kong Ltd. (Director), Boucheron Korea (Director), Boucheron Joaillerie (USA), Inc. (Director), Boucheron Suisse SA (Board Member), Luxury Timepieces & Jewellery outlets Limited (Director)

This member is considered independent
Member of the Audit Committee
Number of shares in Bang & Olufsen a/s at the end of the year :
0 (2014/2015: 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
Member of the Remuneration Committee
Number of shares in Bang & Olufsen a/s at the end of the year:
5,770 (2014/2015: 2,890)

Geoff Martin (1969)

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

Number of shares in Bang & Olufsen a/s at the end of the year:
728 (2014/2015: 728)

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 (2014/2015: 1,578)

Brian Bjørn Hansen (1972)

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

Number of shares in Bang & Olufsen a/s at the end of the year:
432 (2014/2015: 432)

EXECUTIVE MANAGEMENT BOARD

Henrik Clausen (1963)

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

Directorships*⁾
None

Number of shares in Bang & Olufsen a/s at the end of the year:
0 (2014/2015: 0)

Anders Aakær Jensen (1974)

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

Directorships*⁾
None

Number of shares in Bang & Olufsen a/s at the end of the year:
7,200 (2014/2015: 7,200)

Stefan Persson (1967)

Executive Vice President & COO
Employed since 1 september 2014
MSc 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 (2014/2015: 3,000)

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

CORPORATE GOVERNANCE

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

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

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

Pursuant to these rules, the company must apply the recommendations adopted based on the "comply-or explain" principle. In November 2014, NASDAQ Copenhagen A/S implemented revised recommendations for corporate governance. Bang & Olufsen a/s complies with all of these recommendations.

The Board of Directors of Bang & Olufsen a/s has prepared a report on corporate governance for the 2015/16 financial year. This report is available for review and download at www.bang-olufsen.com/investor/corporate-governance/uk. The report contains a description of Bang & Olufsen's approach to the "Recommendations for Corporate Governance" and a description of the management structure and the main elements of our internal control and risk management systems.

Management structure

Bang & Olufsen a/s' management structure comprises the Board of Directors and Executive Management Board. Further information is available in the abovementioned 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 summarised by an external consultant.

The results of the assessment process were presented to the Board of Directors in September 2015 by the Chairman. The report described a number of areas in which the board is both effective and well-functioning and gave an overall impression of a well performing Board of Directors. Based thereon, the assessment did not give rise to any substantial changes in the way the Board of Directors conducts its work. The report further showed that most areas for improvement which were identified in the previous board assessment had been addressed. The Chairman subsequently held 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		•		•	•	
Geoff Martin						•
Mads Nipper				•		
Majken Schultz			•			
Ole Andersen	•			•	•	
Brian Bjørn Hansen						•

For further information about the Board of Directors refer to the section 'Board of Directors' on pages 35-36.

Diversity

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

In 2013, the Board of Directors adopted 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 recognises the benefits of a diverse board in respect of experience, culture and gender.

In 2015, the Board of Directors set a new target for female representation according to which the company's goal is to have two female members of the Board of Directors elected by the General Meeting by 2018. There is currently one female member in the Board of Directors. Since the new target was set within the financial year 2015/16, there has not been any new elections to the Board of Directors since that time, and therefore no further women has been elected to the Board of Directors in this period.

The share of women in the senior management in the Bang & Olufsen Group has decreased from 11.1 per cent on 31 May 2015 to 10 per cent on 31 May 2016. Senior management is defined as Executive Management Board and the Director+ group. The total number of employees in this group at the end of May 2015 was 40 employees.

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

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

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

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

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

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

At the Annual General Meeting in September 2015 the Board of Directors was authorised in the period until 30 September 2016, to let the company acquire own shares up to a nominal value corresponding to 10 per cent of the company's share capital, provided that the share price does not deviate by more than 10 per cent from the most recently quoted market price for the shares on NASDAQ Copenhagen A/S at the time of the purchase.

Specific information concerning the possibilities of amending the articles of association can be found in the Ccmpany'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 four and eight 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 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 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 joined the Board of Director's after the Annual General Meeting in September 2015.

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

Remuneration etc.
Bang & Olufsen's share option programme extends to a number of the Group's executive directors and managers. As at 31 May 2016, the total pool of options amount to 1,023,011, 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 Executive 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 4.6 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 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

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

Bang & Olufsen's approach to risk management

Bang & Olufsen defines a risk as an event or development that can prevent the financial targets to be achieved, the strategy to be delivered or the license to operate to be maintained. In Bang & Olufsen the risk management system is designed to balance risk and reward throughout the operations, in alignment with the risk appetite, in order to generate the most value for the shareholders. The risks are divided into three main categories: strategic risks, operational risks and financial risks in accordance with international standards in risk management.

During 2015/16, Bang & Olufsen has launched initiatives to further systematise and strengthen the risk management activities of the company. Bang & Olufsen's approach to risk management is based on a top-down risk identification, where risks related to the company and its two brand divisions, Bang & Olufsen and B&O PLAY, are identified and assessed on a periodic basis. The identification and assessment of risks are conducted across the company's value chain within a number of significant business areas such as product development, sourcing, operations, sales and marketing, IT and finance. The identified risks are hereafter analysed and prioritised into a consolidated list of risks, assessed based on their potential effect. The risks are then categorised into either; 1) top risks and 2) other risks. For each of the top risks, a risk owner is appointed and tasked with the responsibility for managing the risk and report the development to the Executive Management Board. Risks prioritised as other risks are owned and managed by the natural owner in the organisation. The respective risk owners are accountable for managing the assigned risk as well as on a periodic basis reporting on the development of the risk and the mitigating activities to the Executive Management Board. The top risks are then reviewed and validated by the Executive Management Board, before they are presented to the Audit Committee and the Board of Directors. Based on the presentation from the Executive Management Board, the Board the Board of Directors evaluates whether all top risks are captured, whether they agree in the assessment and whether they find the mitigating activities adequate.

The Board of Directors is ultimately responsible for risk management in Bang & Olufsen. On their behalf, the Audit Committee is responsible for overseeing the efficiency and the effectiveness of the company's risk management system as well as reviewing the risk exposure of the company. The Executive Management Board is responsible for identifying and managing the most significant risks of the company as well as reviewing the development of the company risk profile on a periodic basis. The risk management function of the company is responsible for facilitating and coordinating the risk management activities of the company as well as ensuring that the company has an efficient and effective risk management system.

During next year, further initiatives will be taken to implement an even more diligent risk management process in the whole organisation.

Strategic risks

Macroeconomic developments
As Bang & Olufsen offers premium priced, high-end products, the revenue is sensitive to changing macroeconomic trends. The company's products are sold globally, with a predominant presence in the European market, indicating that the company is mostly sensitive to the general economic climate in Europe. To mitigate this risk and continue the company's expansion of sales globally, Bang & Olufsen will continue to focus on its growth in the Asian and North American markets as well as in emergent markets. In addition, the growth of the B&O PLAY brand will continue to be in focus, with the aim of attracting middle and high-end market shares to ensure the ongoing growth across the company's product offerings.

Brand recognition and consumer experience
As a Danish brand with a 90-year-old legacy of manufacturing high-end electronic design products, Bang & Olufsen has a strong presence in the European market, where the brand awareness currently is particularly high. In order to maintain and increase the brand awareness globally, Bang & Olufsen is, in selected countries and cities, distributing its products through a network of exclusive Bang & Olufsen franchise stores (called B1 stores). However, the reliance on these franchise stores, as a means to distribute its products, entails a dependency on the continuity of the current franchise takers as well as the company's ability to attract new franchise takers to sustain expected growth. Furthermore, it also entails a reliance on the franchise takers to appeal to and attract its target customer segment and to be able to manage and execute the brand experience. An impact of this risk could be that Bang & Olufsen's brand is unable to meet the expectations of its target customers, and thereby potentially causing the brand to dilute. To manage and mitigate this risk, Bang & Olufsen will continue focusing on building a strong network of franchise stores with dedicated in-store concept design, which can provide customers with the unique in-store Bang & Olufsen customer experiences. Furthermore, Bang & Olufsen has comprehensive customer service incentive programmes for the franchisers.

In addition, the risk of low brand recognition is being mitigated by B&O PLAY, which aims at broadening the company's existing customer base. Thereby, B&O PLAY products are targeted a younger customer segment than Bang & Olufsen's products, the urban professionals. The B&O PLAY products are distributed not only through the dedicated Bang & Olufsen franchise store network, but also via third party channels and e-commerce. This entails that the B&O PLAY brand receives wider exposure that heightens the brand awareness.

In order to be perceived as a high-end brand, it is important to deliver innovative products with the expected function, quality and design of a high-end brand. Bang & Olufsen will continue to focus on launching products in a frequency and with a function, quality and design, which is sufficient to attract and maintain the customers' recognition of the Bang & Olufsen brand as a high-end brand.

Innovation

Bang & Olufsen operates in the high-end electronics consumer industry, where customers emphasise unique design, high quality and high user-friendliness. The direct competition in this segment is deemed manageable, but in the past years, the electronics consumer industry has been influenced by the introduction of frequent disruptive technology launches, short product life cycles as well as changing consumer demands and expectations. There is a risk of severe indirect competition from introduction of disruptive technologies, which will have an impact on Bang & Olufsen's business. In order to manage this risk, Bang & Olufsen continues to work on its innovation strategy.

Thus, it is significant for Bang & Olufsen to be able to execute its innovation strategy. Lack of innovation due to level of innovation, cost of innovation or missing speed in innovation, will lead to dilution of the Bang & Olufsen brand. Therefore, Bang & Olufsen has high focus on execution of its innovation strategy by setting high ambitions, ensuring that innovation is embedded across the whole organisation and monitoring the development of new technologies. Bang & Olufsen continually works to maintain and expand its leading position in design and functionality by developing innovative and unique solutions based on key insights into new consumer preferences and expectations, technological developments and other key trends, shaping future customer demands in order to meet these in a timely manner. Furthermore, Bang & Olufsen manages this by focusing internal resources and competencies on core business and on the specialised design and functional characteristics differentiating Bang & Olufsen products from those of other manufacturers. The efficiency of internal development resources is constantly optimised through advanced tools, ensuring strict quality management, an unyielding attention to innovative design features and an ongoing focus on priority projects.

A part of innovation is outsourced to partners. For example, the technical development of future components and technologies within the company's TV area, Bang & Olufsen entered into a strategic partnership alliance with LG Electronics in 2015/16. If Bang & Olufsen fails to maintain its core values in combination with joining partnership, it will have an impact on Bang & Olufsen's business. To mitigate this risk Bang & Olufsen is focused on building an organisation, which is able to maintain value-adding partnerships and at the same time able to focus on core business competences.

Strategic partner alliances

Meeting customer demands for innovative solutions and foreseeing the future technological choices is a risk present for all companies in the electronic consumer industry. As Bang & Olufsen is a small volume producer in a market dominated by a few major corporations, the challenge of maintaining its market position as well as preserving competences in all areas is an ever present risk. Therefore, Bang & Olufsen manages this risk via strategic partner alliances on standard technologies.

The use of strategic partners, however, also poses a risk to Bang & Olufsen, as the company thus depends on the third party organisations, e.g. to gain access to technical innovation and product components or as distribution channels, which, if imbedded, could negatively affect Bang & Olufsen's ability to supply the market. To manage this risk, Bang & Olufsen has ensured that all partnerships and alliances are built on strong contractual protection and strong management, which will foster a sound corporation as well as clear accountability in the relationship between Bang & Olufsen and the third party organisations.

Operational risks

Functionality of manufacturing facilities for Bang & Olufsen products

The main manufacturing and assembling of Bang & Olufsen products is done in the company's own production facilities located in the Czech Republic and Denmark, respectively. Thereby, Bang & Olufsen is reliant on the continued performance of these production facilities in order to supply its products to the market. Related to this, Bang & Olufsen face the risk of discontinued operations at its two facilities, due to the unlikely event of disasters, such as fires or natural hazards. This risk is mitigated through procedures, such as business continuity plans, to ensure that production can sustain even in the unlikely event that the risk should occur.

Outsourced production of B&O PLAY products
The manufacturing of most B&O PLAY products is outsourced to carefully selected contract manufacturers. Although highly flexible, this setup also entails a number of inherent risks related to the dependency on timely deliveries, consistent product quality and the compliance with high ethical standards at the manufacturing partners. Failing to meet market demands and quality/ethical expectations may lead to B&O PLAY's loss of sales and brand value. In order to manage and mitigate this risk, partners are required to document that the company's high standards on product quality end ethics be adhered to. Furthermore, the company aims to ensure continuous dialogues with main contract manufacturers to monitor that they have business continuity plans, to minimise the potential impact of business interruptions.

Key suppliers
Bang & Olufsen and B&O PLAY both depend on suppliers for timely delivery of critical materials and components, which have to meet the company's high quality standards. Key suppliers failure to comply with quality measures or agreed deadlines for deliverables, may negatively affect the company's ability to supply the market demand for Bang & Olufsen and B&O PLAY products. To mitigate this risk, Bang & Olufsen and B&O PLAY, where possible, pursue a dual sourcing strategy, aimed at ensuring that the company is able to source the same type of component from at least two different suppliers. For certain unique suppliers, other measures have been implemented to reduce the risk, such as higher inventory buffers, dual sets of production equipment and other initiatives.

Patents and trademarks
Bang & Olufsen operates in a highly innovative industry with increased focus on technologies and software, enabling superior sound processing, user-friendly product integrations and wireless connectivity. This business context entails a risk that Bang & Olufsen's protected technologies may be infringed by competitors, and that desired solutions may be restricted by patent barriers or may force Bang & Olufsen to pay royalties. These risks are managed via systematic reviews by a competent IPR organisation enabling Bang & Olufsen to defend itself against infringement claims and by a strong patent portfolio protecting valuable Bang & Olufsen innovations.

System and data security
Bang & Olufsen operates in a business environment where information technology is becoming increasingly vital for the daily operations and for business decisions. Security breaches on key systems or databases could potentially lead to business interruption or disclosure of business-critical, confidential data, affecting Bang & Olufsen's competitive position or damaging the company's reputation.

Bang & Olufsen actively works to minimise these risks through a range of measures, such as technical security test and controls, various process monitoring controls and internal employee awareness campaigns on IT security, data security and confidentiality.

Ethics and compliance
Operating in a global context Bang & Olufsen is facing various challenges related to ensuring high quality products while maintaining good and ethical business practices. This entails a particular focus on countries where the risk of fraud or corruption might be high. To mitigate this, Bang & Olufsen operates with internal control systems in order to minimise the risk of staff

being involved in illegal or unethical activities. This also entails that employees are encouraged to use the company's whistleblower system, if they experience or suspect irregularities of any kind. Furthermore, Bang & Olufsen strives to comply with all international and national legislation, regulation and guidelines within each of the countries, where the company operates. To manage this risk, Bang & Olufsen recognises the UN and ILO declarations on human rights, labour rights, the environment and anti-corruption. Through the UN Global Compact, the company works to ensure sound and good business operations.

Company assets

Bang & Olufsen seeks to minimise any financial consequences of damage to company assets, including operating losses, which may arise from physical damage. Security and surveillance systems are installed to prevent and minimise damage, should it arise. Risks, which cannot be adequately minimised, are mitigated by appropriate global and local insurance policies.

Group Management reviews the insurance policies on an annual basis, and is continuously briefed on developments in identified risks.

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,
- 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, the financial management is solely directed towards managing financial risks in relation to operations and financing. The company's main credit risk relates to trade receivables from franchise B1 owners. The company continuously works on improving the credit management policy and processes in order to mitigate potential future credit risk as well as for relevant areas seek insurance coverage to mitigate effect from potential losses.

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

FINANCIAL STATEMENTS

CONTENTS – GROUP

CONSOLIDATED INCOME STATEMENT 1 JUNE – 31 MAY

(DKK million)	Notes	2015/16	2014/15
Revenue	2.1	**2,633.4**	**2,356.5**
Production costs	2.2	(1,681.5)	(1,776.2)
Gross profit		**951.9**	**580.3**
Development costs	2.2, 2.3	(314.8)	(448.5)
Distribution and marketing costs	2.2	(740.3)	(861.7)
Administration costs	2.2, 2.4	(104.3)	(77.1)
Other operating income		42.0	-
Other operating expenses		(36.8)	-
Operating profit (EBIT)		**(202.2)**	**(807.0)**
Share of result after tax in associated companies		(0.4)	10.5
Financial income	4.2	1.6	24.8
Financial expenses	4.2	(40.5)	(30.9)
Financial items, net		(38.9)	(6.1)
Earnings before tax (EBT)		**(241.6)**	**(802.7)**
Corporation tax	2.5	43.8	195.4
Earnings for the year - continuing operations		(197.8)	(607.3)
Earnings for the year - discontinued operations	5.2	(9.9)	664.3
Earnings for the year		**(207.7)**	**57.0**
Earnings per share			
Earnings per share (EPS) DKK		(4.8)	1.3
Diluted earnings per share (EPS-D) DKK		(4.6)	1.3
Earnings per share (EPS) from continuing operations, DKK		(4.8)	(14.2)
Diluted earnings per share (EPS-D) from continuing operations, DKK	2.6	(4.6)	(14.2)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME 1 JUNE – 31 MAY

(DKK million)	Notes	2015/16	2014/15
Earnings for the year		**(207.7)**	**57.0**
Items that will be reclassified subsequently to the income statement:			
Exchange rate adjustment of investment in foreign subsidiaries		(3.5)	12.1
Change in fair value of derivative financial instruments used as cash flow hedges		1.9	(8.8)
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:			
Transfer to revenue		6.3	(8.2)
Transfer to production costs		(0.5)	12.4
Income tax on items that will be reclassified to the income statement:	2.5	(1.7)	1.1
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/(losses) on defined benefit plans		0.8	(4.2)
Income tax on items that will not be reclassified to the income statement:	2.5	(0.2)	0.9
Other comprehensive income for the year, net of tax		**3.1**	**5.3**
Total comprehensive income for the year		**(204.6)**	**62.3**

CONSOLIDATED BALANCE SHEET AT 31 MAY

(DKK million)	Notes	31/5/16	31/5/15
Goodwill		66.4	70.2
Acquired rights		6.1	8.0
Completed development projects		231.2	312.1
Development projects in progress		151.6	80.3
Intangible assets	3.1	**455.2**	**470.6**
Land and buildings		97.8	104.6
Plant and machinery		63.5	68.9
Other equipment		18.9	26.8
Leasehold improvements		21.8	44.9
Tangible assets in course of construction and prepayments for tangible assets		7.7	9.1
Tangible assets	3.2	**209.7**	**254.2**
Investment property	3.3	**16.5**	**17.2**
Investments in associates		-	5.9
Other financial receivables	3.4	30.6	123.3
Financial assets		**30.6**	**129.3**
Deferred tax assets	2.5	**209.0**	**187.5**
Total non-current assets		**921.0**	**1,058.8**
Inventories	3.5	**498.0**	**533.1**
Trade receivables	3.5	430.5	456.6
Other financial receivables	3.4	93.1	-
Corporation tax receivable		32.0	33.5
Other receivables		48.9	71.5
Prepayments		17.0	19.9
Total receivables		**621.4**	**581.5**
Cash		**788.5**	**1,198.0**
Assets held for sale	5.2	**2.9**	**77.6**
Total current assets		**1,910.8**	**2,390.2**
Total assets		**2,831.8**	**3,449.0**

CONSOLIDATED BALANCE SHEET AT 31 MAY

(DKK million)	Notes	31/5/16	31/5/15
Share capital	4.5	432.0	432.0
Translation reserve		21.1	24.6
Reserve for cash flow hedges		2.5	(3.5)
Retained earnings		1,269.3	1,468.3
Total equity		**1,724.9**	**1,921.4**
Pensions	3.6	14.8	17.1
Deferred tax	2.5	11.5	10.6
Provisions	3.7	43.4	44.8
Mortgage loans	4.1	181.1	191.1
Other non-current liabilities		1.1	1.6
Deferred income	3.8	136.7	148.7
Total non-current liabilities		**388.6**	**414.0**
Mortgage loans	4.1	8.5	8.4
Loans from banks	4.1	-	210.0
Provisions	3.7	24.8	25.4
Trade payables	3.5	365.4	443.1
Corporation tax payable		9.3	33.7
Other liabilities		270.5	309.1
Deferred income		39.8	67.7
Other current liabilities		**718.3**	**1,097.4**
Liabilities associated with assets held for sale		**-**	**16.3**
Total liabilities		**1,106.9**	**1,527.6**
Total equity and liabilities		**2,831.8**	**3,449.0**

CONSOLIDATED CASH FLOW STATEMENT 1 JUNE – 31 MAY

(DKK million)	Notes	2015/16	2014/15
Earnings for the year - continuing operations		(197.8)	(607.3)
Earnings for the year - discontinued operations		(9.9)	664.3
Amortisation, depreciation and impairment losses		248.4	430.8
Adjustments for non-cash items	5.1	(9.1)	(662.3)
Change in receivables		64.9	10.6
Change in inventories		30.2	78.5
Change in trade payables etc		(127.7)	155.8
Cash flow from operations		**(0.8)**	**70.3**
Interest received and paid, net		(9.3)	(6.1)
Income tax paid		5.1	(9.2)
Cash flow from operating activities		**(5.0)**	**55.0**
Purchase of intangible non-current assets		(165.8)	(209.2)
Purchase of tangible non-current assets		(46.0)	(82.9)
Sales of tangible non-current assets		1.7	-
Proceeds from sale of associated companies		5.5	12.5
Proceeds from sale of businesses		23.0	1,110.8
Received reimbursements, intangible non-current assets		-	12.5
Change in financial receivables		-	14.0
Cash flow from investing activities		**(181.6)**	**857.7**
Free cash flow		**(186.7)**	**912.7**
Repayment of long-term loans		(219.8)	(6.5)
Proceeds from short-term borrowings		-	(10.0)
Capital increase		-	248.2
Sale of own shares		-	2.6
Settlement of share options		(3.0)	(0.9)
Cash flow from financing activities		**(222.8)**	**233.4**
Change in cash and cash equivalents		**(409.5)**	**1,146.1**
Cash and cash equivalents, 1 June		1,198.0	51.9
Exchange rate adjustment, cash and cash equivalents		-	-
Cash and cash equivalents 31 May		**788.5**	**1,198.0**
Cash and cash equivalents:			
Cash		788.5	1,198.0
Cash and cash equivalents 31 May		**788.5**	**1,198.0**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY 1 JUNE – 31 MAY

(DKK million)	Share capital	Translation reserve	Reserve for cash flow hedges	Retained earnings	Total
Equity 31 May 2015	**432.0**	**24.6**	**(3.5)**	**1,468.3**	**1,921.4**
Earnings for the year	-	-	-	(207.7)	(207.7)
Other comprehensive income	-	(3.5)	7.7	0.8	5.0
Other comprehensive income, tax	-	-	(1.7)	(0.2)	(1.9)
Comprehensive income for the year	-	(3.5)	6.0	(207.1)	(204.6)
Grant of share based payment	-	-	-	11.1	11.1
Settlement of share options	-	-	-	(3.0)	(3.0)
Equity 31 May 2016	**432.0**	**21.0**	**2.5**	**1.269.3**	**1,724.9**
Equity 1 June 2014	**392.7**	**12.5**	**0.0**	**1,199.3**	**1,604.4**
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)
Equity 31 May 2015	**432.0**	**24.6**	**(3.5)**	**1,468.3**	**1,921.4**

SECTION 1

BASIS OF REPORTING

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

1.1 BASIS OF REPORTING

Basic principles

The consolidated financial statements of the Bang & Olufsen Group and the financial statements for 2015/16 for Bang & Olufsen a/s have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish requirements for the presentation of financial statements for listed companies (class D entities) cf. the Statutory Order on Adoption of IFRS (the Danish announcement on Adoption of IFRS) issued in accordance with the Danish Financial Statements Act.

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

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

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

Consolidation

The consolidated financial statements comprise the parent company, Bang & Olufsen a/s, and the companies (subsidiaries), which are controlled by the parent company. The parent company is presumed to have control when it directly or indirectly holds more than 50 per cent of the voting rights or in other ways can exercise or is exercising controlling influence. Companies in which the Group directly or indirectly holds between 20 per cent and 50 per cent of the voting rights and has a significant influence but not control are regarded as associates.

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

Translation of foreign currency

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

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 that are regarded as being part of the total investment in the associate are written down by the remaining negative net asset value. Trade receivables and other receivables are written down to the extent they are assessed to be irrecoverable.

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

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

Production costs
Production costs comprise wages, consumption of stock and indirect costs, (including salaries, depreciation/amortisation and impairment losses) that are incurred with the purpose of achieving the net turnover for the year.

Distribution and marketing costs
Distribution and marketing costs comprise costs relating to sales and distribution of the Group's products. These include salaries for sales personnel, advertising and exhibition costs, depreciation/amortisation and impairment losses. Costs in subsidiaries, which are responsible exclusively for the sale of the Group's products, are also allocated to distribution and marketing costs.

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

SECTION 1

BASIS OF REPORTING

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

Adoption of new or amended IFRS
Bang & Olufsen has adopted all new, amended standards, revised accounting standards, and interpretations (IFRIC) as endorsed by the EU and effective for the financial year 1 June 2015 - 31 May 2016.

Based on an assessment of new or amended and revised accounting standards and interpretations ('IFRS') issued by IASB and IFRS endorsed by the EU effective on or after 1 January 2015, it has been assessed that the application of these new IFRS has not had a material impact on the consolidated financial statements in 2016, and management does not anticipate any significant impact on future periods from the adoption of these new IFRS.

New or amended EU endorsed accounting standards
IASB has issued a number of new standards, amendments to existing standards and bases for conclusions that have not yet come into force, but which will become effective in financial years after 2016/17. New and revised standards are expected to be implemented on the effective date. The following standards are in general expected to change current accounting regulation most significantly:

- IASB has issued IFRS 9 'Financial Instruments', with effective date 1 January 2018. 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 of financial assets and measurement of financial instruments and hedging requirements.
- IASB has issued IFRS 15 'Revenue from contracts with customers', with effective date 1 January 2017. 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 IFRS 16 "Leasing", with effective date 1 January 2019. The change in lease accounting requires capitalisation of the majority of the Group's operational lease contracts.

Management has not made a thorough analysis of the effect of the implementation of IFRS 16 "Leases". Based on the operational lease commitment as of 31 May 2016, Bang & Olufsen has a minimum lease obligation of DKK 312 million, corresponding to 11 per cent of the total balance that will be recognised in the Group's assets with a corresponding impact on liabilities. IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers" are not expected to have any significant impact on recognition and measurement.

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

SECTION 1

BASIS OF REPORTING

1.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

When applying the Group's accounting principles, it is necessary that management makes a number of accounting assessments and estimates as well as makes assumptions about the carrying amount of certain assets and liabilities and the recognised revenue and costs, which cannot be deduced directly from other sources. Significant judgements are made when assessing provisions, development projects, trade receivables, inventories and deferred tax assets.

Management bases its estimates and assumptions on historical experience and other relevant factors that are believed to be reasonable under the given circumstances. The actual outcome can differ from these estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

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

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

SECTION 2

RESULTS FOR THE YEAR

This section contains notes relating to earnings for the year including operating segments, development and staff costs and taxes for the year. A detailed description of the results for the year is given in the Financial Review on page 10.

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 products. Bang & Olufsen is made of the core business and sold through Bang & Olufsen's B1 stores and through shop-in-shops. B&O PLAY products are sold through the traditional Bang & Olufsen distribution channels and through third party distribution and e-commerce.

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

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

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

SECTION 2

RESULTS FOR THE YEAR

2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

The Group's geographical areas are:

- Europe
- North America
- BRIC
- Rest of World

BRIC includes Brasil, 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 situated in 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)

	2015/16			
	Bang & Olufsen	B&O PLAY	Unallocated	Total
Revenue, Group	**1,663.2**	**970.2**	**-**	**2,633.4**
Gross profit, Group	**645.5**	**306.4**	**-**	**951.9**
Gross margin-%	**38.8**	**31.6**	**-**	**36.1**
Amortisation, depreciation and impairment losses	(203.0)	(28.3)		(231.3)
Other non-allocated capacity costs	-	-	(922.9)	(922.9)
Share of result after tax in associated companies	-	-	(0.4)	(0.4)
Financial income	-	-	1.6	1.6
Financial expenses	-	-	(40.5)	(40.5)
Earnings before tax	**-**	**-**	**(962.2)**	**(241.6)**
Completed development projects	212.8	18.4	-	231.2
Development projects in progress	148.6	3.0	-	151.6
Total segment assets	361.4	21.4	-	382.8
Unallocated assets	-	-	2,449.0	2,449.0
Total assets, Group	**361.4**	**21.4**	**2,449.0**	**2,831.8**
Denmark	876	49	-	925
Rest of world	889	33	-	922
Average number of full-time employees, Group	**1,765**	**82**	**-**	**1,847**

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

	2014/15			
	Bang & Olufsen	B&O PLAY	Unallocated	Total
Revenue, Group	**1,743.0**	**613.5**	**-**	**2,356.5**
Gross profit, Group	**461.4**	**167.1**	**(48.2)**	**580.3**
Gross margin-%	**26.5**	**27.2**	**-**	**24.6**
Amortisation, 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)
Earnings before tax	**-**	**-**	**(1,107.7)**	**(802.7)**
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
Total assets, Group	**397.8**	**25.3**	**3,025.9**	**3,449.0**
Denmark	1,043	31	-	1,074
Rest of world	981	15	-	996
Average number of full-time employees, Group	**2,024**	**46**	**-**	**2,070**

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

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.1 OPERATING SEGMENT INFORMATION (CONTINUED)

	Total non-current assets		Total revenue	
	2015/16	2014/15	2015/16	2014/15
Geographical information				
Europe	621.2	701.1	1,668.7	1,566.9
North America	4.6	8.7	214.1	200.4
BRIC	57.1	38.1	458.9	337.6
Rest of world	0.8	-	291.7	251.6
Total	**683.7**	**747.9**	**2,633.4**	**2,356.5**
Denmark	570.2	597.5	354.2	312.4
Rest of world	113.5	150.4	2,279.2	2,044.1
Total	**683.7**	**747.9**	**2,633.4**	**2,356.5**

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

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

The Group's total revenue is almost exclusively derived from the sale of goods (98.8 per cent in 2015/16 and 99.9 per cent in 2014/15).

SECTION 2

RESULTS FOR THE YEAR

(DKK million)	2015/16	2014/15
2.2 STAFF COSTS		
Wages and salaries etc.	622.6	732.9
Share-based payment	11.1	4.3
Pensions	36.6	45.6
Other social security costs	53.2	41.3
Total	**723.5**	**824.1**
Expensed as follows:		
Production costs	352.5	405.8
Development costs	91.0	118.7
Distribution- and marketing costs	197.4	238.1
Administration costs	82.7	61.5
Total	**723.5**	**824.1**
Average number of full-time employees	**1,847**	**2,070**

	2015/16			2014/15		
Whereof to:	Board of Directors	Executive Mgt. Board	Other key employees	Board of Directors	Executive Mgt. Board	Other key employees
Wages, salaries and fees	4.2	19.7	8.6	3.7	9.4	14.1
Pensions	-	0.6	0.9	-	0.4	1.6
Bonus	-	0.4	0.9	-		2.2
Total	4.2	20.7	10.2	3.7	9.8	17.9
Share-based payment	-	8.7	1.3	-	2.1	1.5
Total remuneration	**4.2**	**29.4**	**11.5**	**3.7**	**11.9**	**19.4**

In 2015/16, there were six members of staff in the group ‘Other key employees’ (2014/15; eight members).

Specified as follows:	2015/16	2014/15
Remuneration of Executive Management Board:		
Tue Mantoni	23.0	7.3
Anders Aakær Jensen	3.4	2.4
Stefan Persson	3.0	1.5
Henning Bejer Beck	-	0.8
Total	**29.4**	**11.9**

Remuneration to Tue Mantoni includes costs related to severance pay of DKK 15.4 million of which DKK 6.1 is related to share based payment.

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

SECTION 2

RESULTS FOR THE YEAR

(DKK million)	2015/16	2014/15

2.2 STAFF COSTS (CONTINUED)

Remuneration of the Board:		
Ole Andersen (chairman)	1.2	0.9
Jim Hagemann Snabe (deputy chairman)	0.8	0.6
Jesper Jarlbæk	0.4	0.4
Majken Schultz	0.3	0.3
Albert Bensoussan (appointed 10.09.2014)	0.3	0.2
Mads Nipper (appointed 10.09.2014)	0.3	0.2
Jesper Olesen	0.3	0.3
Brian Bjørn Hansen (appointed 10.09.15)	0.2	-
Geoff Martin (appointed 10.09.15)	0.2	-
Per Østergaard Frederiksen (resigned 10.09.15)	0.1	0.3
Knud Olesen (resigned 10.09.2015)	0.1	0.3
André Loesekrug-Pietri (resigned 10.09.2014)	-	0.1
Rolf Eriksen (resigned 10.09.2014)	-	0.1
Total	**4.2**	**3.7**

2.3 DEVELOPMENT COSTS

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

Incurred development costs before capitalisation	302.1	369.7
Hereof capitalised	(152.0)	(159.2)
Incurred development costs after capitalisation	150.1	210.5
Capitalisation (%)	*50.3*	*43.1*
Total amortisation charges and impairment losses on development projects	164.7	238.0
Total	**314.8**	**448.5**

2.4 FEES TO AUDITORS APPOINTED AT THE ANNUAL GENERAL MEETING

Statutory audit	2.3	2.2
Other assurance services	-	0.2
Tax services	1.1	1.1
Other services	2.2	3.0
Total	**5.6**	**6.5**

EY were re-appointed as auditors at the Annual General Meeting on 10 September 2015.

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.5 TAXATION

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

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

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

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

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

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

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

Deferred tax assets, including the tax value of any tax loss carryforwards, are recognised in the balance sheet at the value of which the asset is expected to be realised either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date, it is assessed if it is probable that sufficient taxable income will exist in the future so that the deferred tax asset can be utilised.

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

Critical accounting estimates and judgements
Deferred tax assets are recognised in the balance sheet at the value at which the asset is expected to be realised either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date, it is assessed if it is probable that sufficient taxable income will exist in the future, so that the deferred tax asset can be utilised. This assessment is based on the details specified in the Strategy section on page 30 in the management review. The deferred tax assets amount to DKK 209 million as at 31 May 2016 (DKK 187.5 million as at 31 May 2015).

SECTION 2

RESULTS FOR THE YEAR

(DKK million)	2015/16	2014/15

2.5 TAXATION (CONTINUED)

Income statement and other comprehensive income

	2015/16	2014/15
Tax recognised in Income statement		
Corporation tax, continuing operations	(43.8)	(195.4)
Corporation tax, discontinued operations	7.4	204.1
	(36.4)	8.7
Current tax charge/credit	(8.0)	18.1
Adjustment for prior periods, current tax	(6.0)	(6.3)
	(14.0)	11.8
Change in deferred tax	(23.1)	(10.3)
Adjustment of deferred tax prior years	0.8	8.8
Adjustments from change in tax rate	1.6	(2.7)
	(20.7)	(4.2)
Total taxation charge in the income statement	**(34.7)**	**7.6**
Tax recognised in:		
Income statement	(36.4)	8.7
Other comprehensive income	1.7	(1.1)
Total	**(34.7)**	**7.6**

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 Danish corporation tax is reconciled to the actual tax charge as follows:

	2015/16		2014/15	
	%	DKKm	%	DKKm
Tax calculated on earnings before tax	22.0	(53.7)	23.5	16.2
Non-deductible costs and non-taxable income	(0.7)	1.6	0.6	0.4
Deviating tax rates in foreign subsidiaries	2.4	(5.8)	4.7	2.7
Changes in tax rates	(0.7)	1.6	(3.8)	(2.7)
Adjustments to prior periods	2.1	(5.2)	3.6	2.5
Non-capitalised and write-down tax loss carryforwards	(8.0)	19.6	(15.6)	(10.7)
Foreign withholding tax	(0.1)	0.2	0.2	0.2
Non-taxable dividends / profit from subsidiaries and associates	(2.8)	6.9	(0.6)	(0.4)
Other	0.6	(1.6)	0.6	0.5
Annual effective tax rate/taxation charge in income statement	**14.9**	**(36.4)**	**13.2**	**8.7**

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.5 TAXATION (CONTINUED)

Balance sheet

Deferred tax assets	Non-current assets	Inventories	Receiv-ables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax assets 1 June 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
Deferred tax assets 31 May 2015	73.7	(0.4)	9.0	18.0	44.3	42.9	187.5
Changes in tax rates	-	-	0.1	-	1.5	-	1.6
Recognised in the income statement	(11.5)	3.8	(0.6)	(2.4)	28.0	2.6	19.9
Deferred tax assets 31 May 2016	**62.2**	**3.4**	**8.5**	**15.6**	**73.8**	**45.5**	**209.0**

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

”In “Other” in deferred tax assets includes a tax asset of DKK 30.0 million from deferred income.

In 2015/16, a deferred tax asset of DKK 32.0 million has been recognised in the jointly-taxed Danish companies based on tax loss carryforwards, 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 five years.

In 2015/16, Bang & Olufsen US tax assets of DKK 19.6 million has been non-capitalised and write-down regarding tax losses carried forward. The recognition is based on the expectations to future earnings in Bang & Olufsen US. Unrecognised deferred tax assets amount to DKK 29.8 million. The basis for the unrecnognised deferred tax assets includes tax losses of DKK 164.9 million. The tax losses can be carried forward for a period of 1 - 20 years

SECTION 2

RESULTS FOR THE YEAR

(DKK million)

2.5 TAXATION (CONTINUED)

Deferred tax liabilities	Non-current assets	Inventories	Receiv-ables	Provisions	Tax loss carry-forwards	Other	Total
Deferred tax liabilities 1 June 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
Deferred tax liabilities 31 May 2015	13.1	(0.2)	(1.0)	(0.2)	(0.8)	(0.3)	10.6
Recognised in the income statement	(1.0)	0.1	1.5	0.2	0.8	(0.8)	0.8
Deferred tax liabilities 31 May 2016	**12.1**	**(0.1)**	**0.5**	**-**	**-**	**(1.1)**	**11.5**

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

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

2014/15	Basic	Diluted
Earnings for the year - continuing 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 - continuing operations	(14.2)	(14.2)
Earnings per ordinary share	1.3	1.3

SECTION 3

OPERATING ASSETS AND LIABILITIES

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

3.1 INTANGIBLE ASSETS

Accounting policies

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

SECTION 3

OPERATING ASSETS AND LIABILITIES

3.1 INTANGIBLE ASSETS (CONTINUED)

Critical accounting estimates and judgements
Development costs are capitalised only after technical and commercial feasibility of the projects have been established. In connection with the capitalisation of development costs, the expected useful life of the product is to be determined. Management has assessed that the amortisation period is usually two to six years. Management also makes assumptions when assessing the possible impairment of development projects. The applied principles are unchanged from the 2014/15 financial year. Development projects amount to DKK 382.8 million as at 31 May 2016 (DKK 392.4 million as at 31 May 2015). The main additions in the 2015/16 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
Cost					
At 31 May 2014	66.2	164.1	1,105.6	317.6	1,653.5
Exchange rate adjustment	4.3	-	-	-	4.3
Additions	2.8	1.1	81.1	124.2	209.2
Reimbursements received	-	-	-	(9.2)	(9.2)
Disposals	(2.1)	-	(167.9)	(1.3)	(171.3)
Transfer to asset held for sale	-	(1.5)	(44.3)	(24.3)	(70.1)
Disposals in the year from sale of business	-	(3.8)	(302.3)	(104.9)	(411.0)
Completed development projects	-	-	221.8	(221.8)	-
At 31 May 2015	71.2	159.9	894.0	80.3	1,205.4
Exchange rate adjustment to year-end rate	(0.5)	-	-	-	(0.5)
Additions	-	2.9	47.7	104.2	154.8
Disposals	(4.3)	-	(203.4)	-	(207.7)
Completed development projects	-	-	32.9	(32.9)	-
At 31 May 2016	**66.4**	**162.8**	**771.2**	**151.6**	**1,152.0**
Amortisation and impairment					
At 1 June 2014	(2.7)	(149.6)	(699.4)	-	(851.7)
Exchange rate adjustment	(0.4)	-	-	-	(0.4)
Amortisation		(6.4)	(253.2)	-	(259.6)
Impairment losses	-	-	(30.7)	-	(30.7)
Reversed amortisation on disposals	2.1	-	167.9	-	170.0
Reversed amortisation on asset transfed to held for sale	-	1.5	34.2	-	35.7
Reversed amortisation on disposals from sale of business	-	2.6	199.3	-	201.9
At 31 May 2015	(1.0)	(151.9)	(581.9)	-	(734.8)
Exchange rate adjustment	(0.1)	-	3.2	-	3.1
Amortisation	-	(4.8)	(164.7)	-	(169.5)
Reversed amortisation on disposals	1.1	-	203.4	-	204.5
At 31 May 2016	**-**	**(156.7)**	**(540.0)**	**-**	**(696.7)**
Net book value					
At 31 May 2016	**66.4**	**6.1**	**231.2**	**151.6**	**455.2**
At 31 May 2015	70.2	8.0	312.1	80.3	470.6

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 the Netherlands. DKK 20.0 million relate to the take over of 20 stores from the previous master dealer Richcom in China. The goodwill is allocated to the cash-generating unit, which includes the activities in BRIC. The goodwill relates in its entirety to the business Bang & Olufsen segment. No impairment losses have been recognised on cash-generating units which include goodwill in 2015/16 or 2014/15 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 both expected future cash flows according to the company's strategy, specified in the Strategy section in management review on page 30, as well as forecasts for the coming two financial years. The terminal value is determined on the assumption of a growth of 2.0 per cent (2014/15; 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) (2014/15; 9 per cent/6.9 per cent).

Development projects
The assessment of the recoverable amount of the intangible assets excl. goodwill is based on calculations of value in use of the assets. The value in use is calculated based on expected future cash flows from the assets based on the budgets approved by management over the expected lifetime of the assets, and a discount rate before tax of 10 per cent (2014/15; 10.0 per cent).

	2015/16	2014/15
Amortisation and impairment losses		
Production costs	2.6	4.3
Development costs	165.3	283.8
Distribution- and marketing costs	1.4	2.0
Administration costs	0.2	0.2
Total	**169.5**	**290.3**

No impairment losses has been recognosed in 2015/16 (2014/15 DKK 30.7 million)

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.2 TANGIBLE ASSETS

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

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

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

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

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

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

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

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.2 TANGIBLE ASSETS (CONTINUED)

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

If the asset does not generate cash flows independently of other assets, the recoverable amount is determined for the smallest cash generating unit that includes the asset. The assessment is based on the details specified in the Strategy section in the management review on page 30.

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

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

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

Impairment losses of DKK 13.6 million have been recognised in relation to tangible assets during 2015/16 (2014/15 DKK 17.4 million).

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.2 TANGIBLE ASSETS (CONTINUED)

	Land and buildings	Plant and machinery	Other equipment	Leasehold improve-ments	Tangible assets in course of construction	Total
Cost						
At 1 June 2014	381.6	1,250.3	207.7	79.8	29.8	1,949.2
Exchange rate adjustment	0.8	(0.1)	5.5	10.4	0.2	16.8
Additions	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	(3.6)	(20.8)	(13.0)	(11.5)	(0.4)	(49.3)
Transfer asset held for sale	-	(136.6)	(16.2)	(8.9)	(4.0)	(165.7)
Disposals from sale of business	-	(2.1)	(6.3)	(0.9)	(1.1)	(10.4)
At 31 May 2015	386.8	1,144.1	194.5	89.0	9.1	1,823.5
Exchange rate adjustment	(0.1)	-	(2.5)	(4.3)	-	(6.9)
Additions	1.2	23.5	6.8	11.2	7.3	50.0
Completed assets	1.6	5.1	0.6	1.4	(8.7)	-
Disposals	-	(51.2)	(18.0)	(11.7)	-	(80.9)
Transfer asset held for sale	-	-	(2.9)	-	-	(2.9)
At 31 May 2016	**389.5**	**1,121.5**	**178.5**	**85.6**	**7.7**	**1,782.8**
Amortisation and impairment						
At 1 June 2014	(266.9)	(1,126.8)	(180.9)	(40.3)	-	(1,614.9)
Exchange rate adjustment	(0.3)	-	(3.1)	(4.1)	-	(7.5)
Depreciation	(10.8)	(60.2)	(11.3)	(18.0)	-	(100.3)
Impairment losses	(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 business	-	100.4	11.0	7.6	-	119.0
Reversed depreciation on assets transfered to held for sale	-	1.8	5.2	0.9	-	7.9
At 31 May 2015	(282.2)	(1,075.2)	(167.7)	(44.1)	-	(1,569.2)
Exchange rate adjustment	0.1	(3.5)	1.0	1.7	-	(0.7)
Depreciation	(9.6)	(27.3)	(8.6)	(14.5)	-	(60.0)
Impairment losses	-	-	-	(13.6)	-	(13.6)
Reversed depreciation on disposals	-	48.0	15.7	6.7	-	70.4
At 31 May 2016	**(291.7)**	**(1,058.0)**	**(159.6)**	**(63.8)**	**-**	**(1,573.1)**
Net book value						
At 31 May 2016	**97.8**	**63.5**	**18.9**	**21.8**	**7.7**	**209.7**
At 31 May 2015	104.6	68.9	26.8	44.9	9.1	254.3

There are no contractual obligations regarding purchase of tangible assets.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)	2015/16	2014/15

3.2 TANGIBLE ASSETS (CONTINUED)

Depreciation and impairment losses		
Production costs	47.3	84.5
Development costs	4.7	7.6
Distribution- and marketing costs	21.3	25.0
Administration costs etc.	0.3	0.6
Total	**73.6**	**117.7**

Impairment losses of DKK 13.6 million have been recognised in relation to tangible assets during 2015/16 (2014/15 DKK 17.4 million).

3.3 INVESTMENT PROPERTY

Accounting policies

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

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

No impairment losses have been recognised in relation to investment property during 2015/16 (2014/15 DKK 20.2 million).

Cost	
At 1 June 2014	79.9
At 31 May 2015	79.9
Disposals in the year	(1.3)
At 31 May 2016	**78.6**
Depreciation and impairment	
At 1 June 2014	(41.2)
Depreciation during the year	(1.3)
Impairment losses during the year	(20.2)
At 31 May 2015	(62.8)
Depreciation during the year	(0.5)
Reversed depreciation on disposals	1.1
At 31 May 2016	**(62.1)**
Net book value	
At 31 May 2016	**16.5**
At 31 May 2015	17.2

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

External rental income of DKK 2.4 million has been received from the investment property in 2015/16 (2014/15; DKK 2.5 million), and directly attributed operating expenses were DKK 1.0 million (2014/15; DKK 1.5 million).

The properties are leased on operating leases with a remaining duration of 34 months. According to the existing operating leases, a rental income of DKK 2.5 million will be received in 2016/17.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.4 OTHER FINANCIAL RECEIVABLES

Cost	
At 1 June 2014	54.5
Exchange rate adjustment	3.2
Changes in the year	89.0
At 31 May 2015	146.7
Exchange rate adjustment	(0.4)
Changes in the year	(16.9)
At 31 May 2016	**129.5**
Impairment	
At 1 June 2014	(10.3)
Exchange rate adjustment	(1.1)
Impairment reversals/losses	(12.0)
At 31 May 2015	(23.4)
Exchange rate adjustment	0.2
Impairment reversals/losses	17.2
At 31 May 2016	**(6.1)**
Net book value	
At 31 May 2016	**123.4**
At 31 May 2015	123.3

The fair value of other financial receivables in the Group amounts to DKK 123.4 million (DKK 123.3 million in 2014/15) of which DKK 30.6 million in non-current. The fair value is calculated as the present value of the future expected cash flows from the receivables.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.5 WORKING CAPITAL

Accounting policies

Inventories

Inventories are measured at the lower of cost price according to the FIFO principle and net realisable value. The cost price of raw materials, consumables and purchased goods comprises the acquisition price including delivery costs. The cost price of finished goods and work in progress comprises costs of materials and direct labour plus indirect production costs.

Indirect production costs include indirect materials and wages, maintenance and depreciation on plant and machinery, factory buildings and other equipment used in the production process as well as costs of factory administration and management.

The net realisable value of inventories is calculated as the expected selling price less costs of completion and costs necessary to make the sale.

Receivables

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

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

Prepayments

Prepayments comprise incurred costs related to the following financial years. The prepayments are measured at cost.

Other financial liabilities

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

Deferred income

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

Critical accounting estimates and judgements

Trade receivables

Specific estimates of trade receivables are made on an assessment of the dealer's historical ability to pay and the current situation. The applied principles are unchanged from the 2014/15 financial year. The trade receivables amount to DKK 430.5 million as at 31 May 2016 (DKK 456.6 million as at 31 May 2015).

Inventories

A specific assessment of the need for write-downs for obsolescence of inventories is made based on an assessment of the future sales potential. During the assessment the expected technological developments and the expected service periods are taken into account. The applied principles are unchanged from the 2014/15 financial year. Inventories amount to DKK 498.0 million as at 31 May 2016 (DKK 533.1 million as at 31 May 2015).

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)	2015/16	2014/15

3.5 WORKING CAPITAL (CONTINUED)

3.5.1 Inventories

Raw materials	128.7	132.8
Work in progress	28.5	30.4
Spare parts	69.7	75.1
Finished goods	271.1	294.8
Total 31 May	**498.0**	**533.1**

It is Group policy that spare parts should be available for a number of years after sale of the product. Accordingly, DKK 35.2 million (2014/15; DKK 38.2 million) is expected to be realised after more than 12 months.

Other disclosures:

Inventory movement recognised in production costs	1,389.0	1,654.0
Impairment of inventories recognised in production costs	37.4	60.0
Reversal of impairment of inventories recognised in production costs	-	1.9

3.5.2 Trade receivables

Trade receivables at 31 May (gross)	509.8	577.3
Impairment 1 June	(120.7)	(97.2)
Exchange rate adjustment to year-end rate	2.3	0.1
Change in impairment during the year	(26.4)	(59.8)
Actual losses during the year	65.5	36.2
Impairment 31 May	(79.3)	(120.7)
Trade receivables at 31 May (net)	**430.5**	**456.6**

All trade receivables fall due within one year.

Financial income of DKK 0.2 million (2014/15; DKK 4.2 million) has been recognised in the Group relating to impaired trade receivables.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.5 WORKING CAPITAL (CONTINUED)

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

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

	2015/16	2014/15
Maturity analysis:		
Amounts not due	378.7	388.3
Overdue up to 30 days	2.0	6.2
Overdue between 30 and 60 days	7.2	8.7
Overdue between 60 and 90 days	7.4	9.2
Overdue between 90 and 120 days	5.9	13.4
Overdue more than 120 days	29.2	30.8
Trade receivables at 31 May (net)	**430.5**	**456.6**

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

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.6 PENSIONS

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

Under **defined contribution plans** the Group recognises the pension contributions that can either be a fixed amount of a fixed percentage of the monthly salary in the income statement as they are paid to independent pension insurance companies. Any unpaid contributions are recognised in the balance sheet as a liability in other liabilities. Once the contributions have been paid the Group has no further obligations and the individual employee carries the risk for the value of the pension insurance at retirement. All pension plans in Denmark and most pension plans in the foreign subsidiaries are defined contribution plans.

Under **defined benefit plans** the Group has an obligation to pay a fixed amount or a fixed percentage of the salary at retirement. This means that the Bang & Olufsen carries the risk of any changes in the actuarially calculated capital value of the pension plans. Bang & Olufsen currently operates with defined benefit plans in Germany and in Norway.

Annual actuarial calculations are made of the present value of the future benefits that the employees are entitled to. The present value is calculated based on a number of assumptions relating to the future development in salary levels and interest-, inflation-, and mortality rates. The present value of the defined benefit obligation net of the fair value of the plan assets is recognised in the balance sheet as a pension asset or a pension liability.

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

If the defined benefit plan is a net asset, the asset is recognised only if it corresponds to, or is lower than, the sum of unrecognised actuarial losses, unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. Changes to the benefits that 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)	2015/16	2014/15
3.6 PENSIONS (CONTINUED)		
Amounts recognised in the income statement:		
Defined contribution plans	35.9	47.8
Defined benefit plans	0.7	1.1
Total pension amount charged to the income statement	36.6	48.9
Amounts recognised in the balance sheet:		
Wholly unfunded defined benefit plans	3.3	3.3
Wholly or partly funded defined benefit plans	25.8	28.2
Present value of defined benefit obligation 31 May	29.1	31.5
Fair value of plan assets	(12.8)	(13.8)
Unrecognised actuarial (gains) and losses	-	-
Defined benefit plans obligation 31 May	16.3	17.7
Actual return on plan assets	0.1	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	
	2015/16	2014/15	2015/16	2014/15
Actuarial assumptions:				
Calculation rate p.a.	1.6%	1.6%	2.3%	2.3%
Expected salary increase p.a.	1.5%	1.5%	2.5%	2.75%
Expected rate of return p.a.	1.6%	1.6%	2.3%	2.3%

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.6 PENSIONS (CONTINUED)

	2015/16	2014/15
Germany:		
Present value of future payments	20.3	20.9
Fair value of plan assets	(8.3)	(8.3)
Actuarially calculated net obligation	12.0	12.6
Norway:		
Present value of future payments	5.6	7.3
Fair value of plan assets	(4.5)	(5.5)
Actuarially calculated net receivable	1.1	1.8
Net obligation	13.0	14.4
Wholly unfunded defined benefit plans	3.3	3.3
Defined benefit plans 31 May, net	**16.3**	**17.7**

5 year overview:	2015/16	2014/15	2013/14	2012/13	2011/12
Present value of defined benefit obligation	29.1	31.5	28.2	27.2	26.2
Fair value of plan assets	(12.8)	(13.8)	(14.8)	(14.6)	(14.9)
Deficit, defined benefit plans	16.3	17.7	13.4	12.6	11.3
Experience-based adjustments of defined benefit obligation	-	4.2	1.2	1.4	1.7
Experience-based adjustments of plan assets for defined benefit plans	0.3	(0.6)	0.6	(0.0)	(0.1)

3.7 PROVISIONS

Accounting policies

Provisions comprise provisions for warranty, provisions for fairness and other provisions. Provisions for warranty are obligations to repair products within the warranty period, whereas provisions for fairness are obligations to repair products after the end of the warranty period.

Provisions are recognised when the Group has a legal or constructive obligation as a result of events in the financial year or previous years, and it is probable that an outflow of financial resources will be required to settle the obligation.

Provisions are measured on basis of past experience with warranty repairs employee anneversary benefits and other obligations. Provisions that are expected to fall due more than one year after the balance sheet date are measured at present value.

SECTION 3

OPERATING ASSETS AND LIABILITIES

(DKK million)

3.7 PROVISIONS (CONTINUED)

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

The future repairs and returns can differ from the historical pattern, but management assesses that the estimate of the provisions is reasonable and appropriate.

The Group provides 2-5 years of warranty on certain products and is therefore committed to repairing or replacing products which do not function satisfactorily. Some products are repaired after the end of the warranty period, and a provision is made regarding this potential fairness claim.

Provisions for warranty and fairness of DKK 60.3 million have been recognised as at 31 May 2016 (2014/15; DKK 58.8 million) to cover expected warranty and fairness claims. The size and timing of the provisions are based on previous experience of the level and timing of repairs and returns. The principles are unchanged from the 2014/15 financial year. The decrease in the provision is due to a reduction in repair costs and a changed product mix within the warranty period. No reimbursements will be received from third parties to cover the provisions.

	Warranty and fairness	Employee anniversary benefits	Other obligations	Total
At 1 June 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)
At 31 May 2015	58.8	2.9	8.6	70.2
Exchange rate adjustment to year-end rate	(1.1)	-	-	(1.1)
Provisions in the year	49.6	0.5	-	50.1
Provisions used in the year	(32.1)	(0.8)	(0.1)	(33.0)
Provisions reversed in the year	(14.9)	-	(3.2)	(18.1)
At 31 May 2016	**60.3**	**2.6**	**5.3**	**68.1**
Falls due 1-5 year	35.9	2.2	5.3	43.4
Falls due after 5 years	-	-	-	-
Non-current provisions	35.9	2.2	5.3	31.7
Falls due within one year	24.4	0.4	-	24.8
At 31 May 2015	**60.3**	**2.6**	**5.3**	**68.2**

3.8 DEFERRED INCOME

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

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

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

4.1 MORTGAGE LOANS AND LOANS FROM BANKS

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

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

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

4.1.1 Mortgage loans

	Falls due within 1 year	Falls due 1-5 years	Falls due after 5 years	Falls due after 1 year, total
Fixed rate loans, interest rate 4.1%	2.2	9.8	13.1	23.0
Floating rate loans, interest rate level 0.5 - 1.0%	6.3	27.4	130.6	158.0
Book value 31 May 2016	**8.5**	**37.2**	**143.7**	**181.0**
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
Book value 31 May 2015	**8.4**	**34.8**	**156.3**	**191.1**

The fair value of the Group's mortgage loans amounts to DKK 189.5 million (2014/15; DKK 199.9 million). All loans are in DKK.

4.1.2 Loans from banks

The Group has no current loans from banks (In 2014/15; DKK 210.0 million).

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.2 FINANCIAL ITEMS

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

	2015/16	2014/15
Interest income from banks	0.9	0.8
Exhchange rate gains, net	-	19.5
Other financial income	0.7	4.5
Financial income	**1.6**	**24.8**
Interest costs on bank loans etc	(3.3)	(9.6)
Interest costs on mortgage loans	(7.6)	(7.2)
Exhchange rate losses, net	(11.3)	-
Other financial costs	(18.2)	(14.1)
Financial costs	**(40.5)**	**(30.9)**

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

	2015/16		2014/15	
	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	123.7	123.7	123.3	123.3
Trade receivables	430.5	430.5	456.6	456.6
Other receivables	48.9	48.9	71.5	71.5
Loans receivable and other receivables	**603.1**	**603.1**	**651.4**	**651.4**
Mortgage loans	189.6	190.5	199.5	199.9
Loans from banks	-	-	210.0	210.0
Trade payables	365.4	365.4	443.1	443.1
Other liabilities	270.5	273.4	309.1	309.1
Financial liabilities measured at amortised cost	**825.5**	**829.3**	**1,161.7**	**1,162.1**
Derivative financial instruments relating to hedging of forecasted future transactions included in other payables	(4.1)	(4.1)	(4.5)	(4.5)
Derivatives for hedging purposes	**(4.1)**	**(4.1)**	**(4.5)**	**(4.5)**

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

Foreign exchange derivatives are measured at fair value in the balance sheet. The fair value is based on observable market data and is part of level 2 in the fair value hierarchy and in the category financial assets and liabilites used as hedging instruments. The fair value is negative DKK 4.1 million (2014/15; negative DKK 4.5 million).

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange rate risk
In 2015/16, 91 per cent of the Group's turnover was in foreign currency (2014/15; 90 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 inflows 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 negative net DKK 32.8 million (2014/15; DKK 244.3 million), with a fair value of negative DKK 4.1 million (2014/15; negative DKK 4.5 million).

Foreign exchange derivatives, net sales and purchases.

	31 May 2016		31 May 2015	
	Contractual value	Fair value	Contractual value	Fair value
USD	(227.5)	1.5	(339.3)	1.2
GBP	109.8	(7.3)	-	-
CHF	89.4	1.8	161.0	(5.5)
CZK	(23.7)	(0.1)	(66.0)	(0.2)
Other	19.2	0.0	-	-
Total	**(32.8)**	**(4.1)**	**(244.3)**	**(4.5)**

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.3 FINANCIAL INSTRUMENTS (CONTINUED)

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

	EBIT		Equity	
	2015/16	2014/15	2015/16	2014/15
USD	(2.4)	(9.8)	(1.8)	(7.5)
GBP	10.0	8.4	7.7	6.4
CHF	7.0	8.4	5.4	6.4
Other	(1.2)	-	-	0.8
Total	**13.4**	**7.0**	**11.3**	**6.1**

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 788.5 million (2014/15; DKK 1198.0 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 3.9 million in 2015/16 (2014/15; DKK 0.6 million).

At the end of the financial year, the Group's interest-bearing debt totaled DKK 189.6 million (2014/15; DKK 409.5 million) corresponding to 6.7 per cent of the balance sheet total (2014/15; 11.7 per cent).

Of the interest-bearing debt DKK 143.7 million falls due after five years (2014/15; DKK 156.3 million). Further information is provided in note 4.1.

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

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

At the end of the financial year, the Group sold its products through 657 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 2015/16 financial year, DKK 65.5 million was expensed as losses on trade receivables (2014/15; DKK 36.2 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 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
2015/16				
Long-term bank loans		60.7	186.0	246.7
Short-term bank loans	16.4	-	-	16.4
Trade payables	365.4	-	-	365.4
Total non-derivative financial liabilities	381.8	60.7	186.0	628.5
Total financial liabilities	**381.8**	**60.7**	**186.0**	**628.5**

	Less than one year	Between one and five years	More than five years	Total
2014/15				
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
Total financial liabilities	**661.5**	**60.3**	**202.3**	**924.1**

Specification of net interest-bearing debt

	2015/16	2014/15
Cash and cash equivalents	788.5	1,198.0
Bank loans, non-current liabilities	(181.1)	(191.1)
Bank loans, current liabilities	(8.5)	(218.4)
Total	**598.9**	**788.5**

Defaults or breaches on loans
No loan agreements have been defaulted or breached in 2015/16 or 2014/15.

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.4 CAPITAL STRUCTURE

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. The second phase of the strategy still requires substantial investments in R&D and other strategic inititiaves, driving the company towards a profitable growth and positive cash flow. Therefore, based on the company's result and to have sufficient funds to support the strategic initiatives, the Board of Directors proposes to the Annual General Meeting that no dividend be paid out for the 2015/16 financial year. It is the intention of the Board of Directors to resume dividend payments as soon as the financial results can justify it.

4.5 SHARE CAPITAL

Accounting policies

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

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)	
	2015/16	2014/15	2015/16	2014/15
1 June	43,197,478	39,270,435	432.0	392.7
Capital increase	-	3,927,043	-	39.3
31 May	**43,197,478**	**43,197,478**	**432.0**	**432.0**

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

	2015/16	2014/15	2013/14	2012/13	2011/12
Specification of movements in the share capital:					
Share capital	432.0	392.7	392.7	362.4	362.4
Capital increase	-	39.3	-	30.3	-
Share capital	432.0	432.0	392.7	392.7	362.4

Own shares

	Number		Nominal value (DKKm)		% of share capital	
	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
1 June	22,999	77,369	0.2	0.8	0.1	0.2
Used in connection with employee share option programmes	-	(54,370)	-	(0.5)	-	(0.1)
31 May	**22,999**	**22,999**	**0.2**	**0.2**	**0.1**	**0.1**

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

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.6 SHARE-BASED PAYMENT AND MATCHING SHARES

Accounting policies

Share-based incentive programmes
Share-based incentive programmes, in which the Executive Management Board and selected other key employees are given the right to 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 2015/16.

Matching shares
The Remuneration Committee of the Board of Directors has decided in 2014/15 to implement a matching share programme (MSP) to replace the stock option programmes previously used as a variable component in compensation offered to 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.

Share-based payment
The Bang & Olufsen Group's share option programme extend to the Executive Management Board and a number of key employees in the Group. As at 31 May 2016, the total pool of options amount to 1,023,010 options, which can be exercised in the period 2016-2017. Vesting of the share options is dependent on the recipient of the option being employed during the vesting period.

For some of the programmes there are certain demands regarding develpoment 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 22,999 shares as at 31 May 2016 (22,999 shares as at 31 May 2015).

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CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.6 SHARE-BASED PAYMENT (CONTINUED)

	2015/16		2014/15	
	Number of options	Avg. exercise price per option (DKK)	Number of options	Avg. exercise price per option (DKK)
Outstanding at 1 June	2,127,790	58	3,037,285	77
Granted	239,032	-	271,104	-
Exercised	(96,759)	47	(134,411)	48
Expired	(736,916)	82	(1,023,731)	78
Forfeited	(6,000)	-	(22,457)	71
Outstanding 31 May	**1,527,147**	**39**	**2,127,790**	**58**

Further information about the outstanding stock options:

	2015/16			2014/15		
	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 2009/10	-	-	-	58,339	58	2
Outstanding programme 2010/11	75,605	47	2	172,364	47	14
Outstanding programme 2010/11	-	-	-	-	-	-
Outstanding programme 2010/11	-	-	-	416,667	86	3
Outstanding programme 2011/12	-	-	-	-	-	-
Outstanding programme 2012/13	-	-	-	261,911	81	3
Outstanding programme 2013/14	665,000	60	3	665,000	60	15
Outstanding programme 2013/14	282,405	55	3	282,405	55	15
Matching shares 2014/15	265,104	-	17	271,104	-	29
Matching shares 2015/16	239,032	-	29			
Outstanding 31 May	**1,527,147**	**-**		**2,127,790**	**-**	

The value of the share-based payment expresses the group income statement effect of allocated share options. 96,759 share options have been exercised in the year with an average exercise price of DKK 47.

The share option agreements entitle Bang & Olufsen to demand cash settlement of the share options. 96,759 share options were settled with cash settlement and total payment amounted to DKK 3 million.

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

SECTION 4

CAPITAL STRUCTURE AND FINANCING COSTS

(DKK million)

4.6 SHARE-BASED PAYMENT (CONTINUED)

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 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 DKK 46 per option, based on the share price at the time of grant (2014/15; DKK 46).

Staff cost recognised in the income statement in relation to share-based payments were DKK 11.1 million of which DKK 8.2 million relates to matching shares programme (2014/15; DKK 4.6 million of which DKK 0.8 million relates to matching shares).

SECTION 5

OTHER NOTES

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

5.1 NON-CASH ITEMS

Accounting policies

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

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

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

Cash flow from investing activities
Cash flow from investing activities comprises 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 comprises 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)	2015/16	2014/15
Change in other liabilities	(18.7)	7.0
Financial income	(1.6)	(24.8)
Financial costs	40.5	30.9
Result of investments in associates after tax	0.4	(10.5)
Gain/loss on sale of non-current assets	(4.1)	1.8
Gain/loss on sale of business	39.0	(643.0)
Tax on earnings for the year	(36.4)	8.7
Other adjustments	(28.3)	(32.4)
Total adjustments	**(9.1)**	**(662.3)**

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OTHER NOTES

(DKK million)

5.2 DISCONTINUED OPERATIONS

Accounting policies

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

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

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

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

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OTHER NOTES

(DKK million)

5.2 DISCONTINUED OPERATIONS (CONTINUED)

	2015/16	2014/15
Revenue	94.0	647.1
Expenses	(57.5)	(421.7)
Earnings before tax	**36.5**	**225.4**
Tax	(7.4)	(53.0)
Earnings for the year discontinued operations	**29.1**	**172.4**
Gains/losses on sale of assets and businesses	(39.0)	643.0
Tax	-	(151.1)
Gains/losses on sale of assets and businesses after tax	**(39.0)**	**491.9**
Total earnings from discontinued operations	**(9.9)**	**664.3**
Earnings per share of discontinued operations	(0.2)	15.5
Diluted earnings per share of discontinued operations	(0.2)	15.5
Cash flow from operating activities	52.6	283.3
Cash flow used for investing activities	13.4	1,063.2
Cash flow from financing activities	-	-
Net cash flow from discontinued operations	**-**	**1,346.5**
Balance sheet items comprise:		
Development projects	-	34.4
Plant & machinery	2.9	0.2
Other equipment and assets under construction	-	1.1
Inventories	-	9.1
Trade receivables	-	18.9
Other receivables	-	12.0
Prepayments	-	1.8
Cash	-	0.1
Assets held for sale	**2.9**	**77.6**
Trade payables	-	8.4
Provisions	-	1.8
Corporation tax payable	-	3.3
Other liabilities	-	2.8
Liabilities associated with assets held for sale	**-**	**16.3**

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OTHER NOTES

(DKK million)

5.3 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Critical accounting estimates and judgements
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 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.

	2015/16	2014/15
Leasing commitments:		
Plant and machinery etc.	16.4	29.1
Shops	166.3	222.0
Office and factory property	129.5	191.7
Total	**312.1**	**442.8**
Maturity:		
Due within 1 year	79.9	111.9
Due 1 - 5 years	131.7	207.3
Due after 5 years	100.5	123.6
Total	**312.1**	**442.8**
Rental and lease payments, net for the year	117.5	148.1
Minimum rental and lease payments	117.5	148.1

No contingent rental or lease payments have been recognised in the income statement in 2015/16 or 2014/15.

In connection with the establishment of shops in previous financial years, the Group has entered into a number of long-term rental agreements. The agreements include conditions concerning the right to sublet.

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

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OTHER NOTES

(DKK million)

5.3 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS (CONTINUED)

	2015/16	2014/15
Guarantees		
Total guarantees as at 31 May	0.4	2.4

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

VAT and other taxes

The Danish companies in the Group are jointly registrated and are jointly and severally liable for VAT and other taxes of a total of DKK 22.6 million (2014/15; DKK 24.1 million)

Mortgages and securities

Land and buildings and investment property have been mortgaged in the amount of DKK 189.7 million (2014/15; DKK 265.1 million) as security for DKK 189.5 million of the Group's mortgage and bank debt (2014/15; DKK 199.5 million).

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 105.9 million (2014/15; DKK 113.1 million). No intangible assets, financial assets or inventories are pledged as security for liabilities.

Lawsuits

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

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OTHER NOTES

(DKK million)

5.4 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, the Executive Management Board and other key management personnel in other companies in the Group and the close family members of these persons. Related parties also include companies in which these persons have significant interests.

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

Bang & Olufsen's share in subsidiaries and associates is outlined on page 107. The shares in associated company has been disposed in May 2016. The transactions below include all purchases until the shares were disposed.

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

The Executive Management Board'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:

	2015/16	2014/15
Purchase of raw materials	(22.6)	(27.0)

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

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OTHER NOTES

(DKK million)

5.5 MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

No material events have occured after the balance sheet date.

5.6 APPROVAL OF THE ANNUAL REPORT FOR PUBLICATION

At the board meeting held on 11 August 2016, the Board of Directors have approved the publication of this Annual Report.

The Annual Report will be presented for adoption at the Annual General Meeting of Bang & Olufsen a/s on 14 September 2016.

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OTHER NOTES

(DKK million)

5.7 COMPANIES IN THE BANG & OLUFSEN GROUP

Company name	Domicile	Currency	Share capital local currency	Bang & Olufsen Group's share	Number of undisclosed subsidiaries
Bang & Olufsen a/s	Struer, DK	DKK	431,974,780		
Bang & Olufsen Operations a/s	Struer, DK	DKK	156,000,000	100 %	
Scandinavia					
Bang & Olufsen Danmark a/s	Struer, DK	DKK	3,000,000	100 %	
Bang & Olufsen AS	Oslo, N	NOK	3,000,000	100 %	
Bang & Olufsen Svenska AB	Stockholm, S	SEK	4,150,000	100 %	
Central Europe					
Bang & Olufsen Deutschland G.m.b.H.	München, D	EUR	1,022,584	100 %	
Bang & Olufsen AG	Bassersdorf, CH	CHF	200,000	100 %	
Bang & Olufsen Ges. m.b.H	Tulln, A	EUR	1,744,148	100 %	
United Kingdom/Benelux					
Bang & Olufsen United Kingdom Ltd.	Berkshire, GB	GBP	2,600,000	100 %	2
S.A. Bang & Olufsen Belgium N.V.	Dilbeek, B	EUR	942,000	100 %	
Bang & Olufsen b.v.	Naarden, NL	EUR	18,000	100 %	
Rest of Europe					
Bang & Olufsen France S.A.	Levallois-Perret, F	EUR	3,585,000	100 %	1
Bang & Olufsen España S.A.	Madrid, E	EUR	1,803,036	100 %	2
Bang & Olufsen Italia S.p.A.	Milano, I	EUR	774,000	100 %	
North America					
Bang & Olufsen America Inc.	Deerfield, IL, USA	USD	34,000,000	100 %	3
Asia					
Bang & Olufsen Asia Pte Ltd.	Singapore, SG	SGD	2	100 %	
Bang & Olufsen Hong-Kong Pty Ltd	Hong Kong, HK	HKD	1,000,000	100 %	2
Bang & Olufsen Trading (Shanghai) Ltd	Shanghai, CN	RMB	67,000,000	100 %	
Middle East					
Bang & Olufsen Middle East FZ-LLC	Dubai, UAE	EUR	113,116	100 %	
Other					
Bang & Olufsen Expansion a/s	Struer, DK	DKK	7,000,000	100 %	
Bang & Olufsen s.r.o	Koprivnice, CZ	CZK	187,800,000	100 %	
B&O PLAY a/s	Struer, DK	DKK	7,500,000	100 %	
Bang & Olufsen ICEpower a/s*	Lyngby Taarbæk, DK	DKK	1,939,750	100 %	
Bang & Olufsen OÜ**	Tallin, EE	EEK	40,000	100 %	
Associates					
John Bjerrum Nielsen A/S*	Bramming, DK	DKK	10,000,000	33 %	

Dormant companies have not been included

* Sold as of May 2016
** Liquated in 2015/16

SECTION 5

OTHER NOTES

(DKK million)

5.8 KEY FIGURE DEFINITIONS

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

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

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

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

EBITDA-margin, %
EBITDA x 100/Revenue

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

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

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

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

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

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

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

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

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

CONTENTS – BANG & OLUFSEN A/S

Notes

BANG & OLUFSEN A/S – MANAGEMENT REPORT

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

Revenue
Bang & Olufsen a/s generated revenue of DKK 310 million which is an increase of DKK 187 million compared to the 2014/15 financial year. The revenue is generated in Denmark and the increase 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 230 million compared to DKK 45 million last year. The calculation method used is unchanged year-on-year.

Gross margin
The gross margin in Bang & Olufsen a/s in the financial year 2015/16 was positive 64.1 per cent compared to negative 86.2 per cent last year. The change is due to increase in royalty, which has no associated cost of sales.

Capacity costs
Bang & Olufsen a/s's capacity costs decreased by DKK 71 million from DKK 544 million last year to DKK 473 million, which was caused by a decrease in development costs. Administrative expenses amounted to DKK 93 million compared to DKK 86 million. Development costs recognised as an expense, incl. amortisation, were DKK 303 million against DKK 375 million last year.

Earnings before interest and tax for the 2015/16 financial year were negative DKK 275 million against negative DKK 650 million last year.

Earnings before tax were negative DKK 138 million against negative DKK 640 million last year. Bang & Olufsen a/s incurred financial items of net positive DKK 3 million mainly due to exchange rate gains.

Development in balance sheet items and cash flow
Free cash flow in the financial year 2015/16 was negative DKK 192 million against positive DKK 912 million in the 2014/15 financial year. The significant change is due to sale of non-current assets DKK 1,111 million from the Automotive transaction 2014/15.

At the end of the 2015/16 financial year Bang & Olufsen's net working capital was negative DKK 360 million compared to negative DKK 448 million at the end of the 2014/15 financial year.

Net interest-bearing deposit decreased to DKK 526 million against debt DKK 770 million at the end of the 2014/15 financial year.

Equity at 31 May 2016 was DKK 1,422 million compared to DKK 1,543 last year.

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 page 32 of the Group Report.

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

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

(DKK million)	Notes	2015/16	2014/15
Revenue	3	**310.2**	**123.4**
Production costs	4	(111.2)	(229.8)
Gross profit		**199.0**	**(106.4)**
Development costs	4.5	(302.5)	(374.6)
Distribution and marketing costs	4	(78.8)	(83.0)
Administration costs	4	(92.9)	(86.0)
Operating profit (EBIT)		**(275.2)**	**(650.0)**
Dividend from subsidiaries		134.1	1.9
Financial income	6	24.7	37.9
Financial expenses	6	(21.8)	(30.0)
Financial items, net		2.9	7.9
Earnings before tax (EBT)		**(138.3)**	**(640.2)**
Income tax	7	60.9	148.8
Earnings for the year - continuing operations		(77.4)	(491.4)
Earnings for the year - discontinued operations	18	(52.1)	439.6
Earnings for the year		**(129.5)**	**(51.8)**
Total comprehensive income for the year		**(129.5)**	**(51.8)**

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

(DKK million)	Notes	31/5/16	31/5/15
Goodwill		-	3.2
Acquired rights		5.3	7.1
Completed development projects		231.2	312.0
Development projects in progress		151.6	80.3
Intangible assets	8	**388.1**	**402.6**
Land and buildings		47.8	51.7
Plant and machinery		0.9	1.2
Other equipment		2.0	2.3
Leasehold improvements		0.7	1.0
Tangible assets in course of construction and prepayments of tangible assets		1.0	1.8
Tangible assets	9	**52.5**	**58.0**
Investment property	10	**58.1**	**61.4**
Investments in subsidiaries	12	651.6	651.6
Other financial receivables		9.1	97.1
Financial assets		**660.6**	**748.6**
Deferred tax assets		**70.1**	**74.3**
Total non-current assets		**1,229.3**	**1,344.9**
Inventories		**-**	**0.1**
Trade receivables		0.1	0.6
Other financial receivables		93.1	-
Receivables from subsidiaries	18	31.8	480.4
Corporation tax receivable		58.1	0.7
Other receivables		1.6	7.1
Prepayments		4.2	9.7
Total receivables		**188.9**	**498.5**
Cash		**715.3**	**1,129.9**
Assets held for sale		**-**	**74.5**
Total current assets		**904.2**	**1,703.1**
Total assets		**2,133.5**	**3,048.1**

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

(DKK million)	Notes	31/5/16	31/5/15
Share capital	13	432.0	432.0
Retained earnings	13	989.7	1,111.0
Total equity		**1,421.6**	**1,543.0**
Provisions		0.4	0.4
Mortgage loans	14	181.1	191.1
Other non-current liabilities		124.0	148.7
Total non-current liabilities		**305.4**	**340.2**
Mortgage loans	14	8.5	8.4
Loans from banks	14	-	210.0
Provisions		0.6	0.6
Trade payables		62.9	68.2
Debt to subsidiaries	18	235.6	776.3
Other liabilities		98.9	101.4
Total current liabilities		**406.5**	**1,164.8**
Total liabilities		**711.9**	**1,505.1**
Total equity and liabilities		**2,133.5**	**3,048.1**

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

(DKK million)	Notes	2015/16	2014/15
Earnings for the year - continued operations		(77.4)	(491.4)
Earnings for the year - discontinued operations		(52.1)	439.6
Amortisation, depreciation and impairment losses		178.7	326.4
Adjustments for non-cash items	16	(22.8)	(704.5)
Change in receivables		460.2	925.7
Change in inventories		0.1	0.2
Change in trade payables etc		(548.5)	(427.4)
Cash flow from operations		**(61.8)**	**68.6**
Interest received		24.7	17.8
Interest paid		(21.8)	(9.8)
Income tax paid		6.2	-
Cash flow from operating activities		**(52.7)**	**76.5**
Purchase of intangible non-current assets		(154.5)	(195.7)
Purchase of tangible non-current assets		(1.4)	(3.2)
Purchase of investment property		(1.0)	(0.5)
Investment in subsidiary		23.0	-
Sales of investments in associates		-	7.7
Sales of tangible non-current assets		-	1,110.8
Received reimbursements, intangible non-current assets		-	9.2
Change in financial receivables		(5.1)	(92.4)
Cash flow from investing activities		**(139.0)**	**835.9**
Free cash flow		**(191.7)**	**912.4**
Repayment of long-term loans		(9.9)	(6.6)
Repayment of short-term borrowings		(210.0)	(10.0)
Capital increase		-	248.3
Sale of own shares		-	2.6
Settlement of share options		(3.0)	(0.9)
Cash flow from financing activities		**(222.9)**	**233.4**
Change in cash and cash equivalents		**(414.6)**	**1,145.8**
Cash and cash equivalents, 1 June		1,129.9	(15.9)
Cash and cash equivalents, 31 May		**715.3**	**1,129.9**
Cash and cash equivalents:			
Cash		715.3	1,129.9
Cash and cash equivalents 31 May		**715.3**	**1,129.9**

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

	Shareholders of the parent company		
(DKK million)	Share capital	Retained earnings	Total
Equity 1 June 2015	**432.0**	**1,111.0**	**1,543.0**
Earnings for the year	-	(129.5)	(129.5)
Comprehensive income for the year	-	(129.5)	(129.5)
Grant of share options		11.1	11.1
Settlement of share options		(3.0)	(3.0)
Equity 31 May 2016	**432.0**	**989.6**	**1,421.6**
Equity 1 June 2014	**392.7**	**948.2**	**1,340.9**
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
Equity 31 May 2015	**432.0**	**1,111.0**	**1,543.0**

NOTES

(DKK million)

1 ACCOUNTING PRINCIPLES

The financial statements for 2015/16 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 year and are identical to accounting policies in the Bang & Olufsen Group financial statements, except for the items below. For a description of the accounting policies of the Group, please refer to the consolidated financial statements under the relevant notes.

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

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

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

NOTES

(DKK million)

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

When applying the parent company's accounting principles, it is necessary that management makes a number of accounting assessments and estimates as well as makes assumptions about the carrying amount of certain assets and liabilities and the recognised revenue and costs, which cannot be deduced directly from other sources. Significant judgements are made when assessing provisions, development projects, trade receivables, inventories and deferred tax assets.

Management bases its estimates and assumptions on historical experience and other relevant factors that are believed to be reasonable under the given circumstances. The actual outcome can differ from these estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

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

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 382.8 million as at 31 May 2016 (DKK 392.3 million as at 31 May 2015).

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 70.1 million as at 31 May 2016 (DKK 74.3 million as at 31 May 2015).

NOTES

(DKK million)	2015/16	2014/15

3 REVENUE

Geographical split		
Denmark	310.2	123.4
Rest of world	-	-
Total	**310.2**	**123.4**
Functional split:		
Sale of goods	-	-
Sale of services	12.4	-
Royalty	230.0	45.0
Rental income	67.8	78.4
Total	**310.2**	**123.4**

4 STAFF COSTS

Wages and salaries etc.	231.2	240.7
Share-based payment	10.1	3.4
Pensions	16.7	17.3
Other social security costs	2.9	4.9
Total	**260.9**	**266.2**
Expensed as follows:		
Production costs	79.4	87.4
Development costs	104.5	115.1
Distribution and marketing costs	25.1	27.7
Administration costs	51.9	36.1
Total	**260.9**	**266.2**
Average number of full-time employees	430	472

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 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. 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, the Executive Management Board and other key employees.

NOTES

(DKK million)	2015/16	2014/15

5 DEVELOPMENT COSTS

Incurred development costs before capitalisation	289.8	295.2
Hereof capitalised	(152.0)	(159.2)
Incurred development costs after capitalisation	137.8	136.0
Capitalisation (%)	*52.4%*	*53.9%*
Total amortisation charges and impairment losses on development projects	164.7	238.6
Total	**302.5**	**374.6**

6 FINANCIAL ITEMS

Interest income from banks	0.9	0.7
Interest income from subsidiaries	6.7	10.3
Gain from sale of subsidiaries	-	4.8
Gain from sale of associated companies	5.5	-
Exchange rate gains, net	11.6	21.9
Financial income	**24.7**	**37.7**
Interest costs on bank loans	3.1	9.5
Interest costs on mortgage loans	7.6	7.2
Interest costs to subsidiaries	7.9	8.7
Other financial costs	3.2	4.6
Financial costs	**21.8**	**30.0**

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)	2015/16	2014/15

7 TAXATION

Income statement and other comprehensive income

Tax recognised in income statement:		
Corporate tax, continuing operations	60.9	148.8
Corporate tax, discontinued operations	(0.5)	(135.0)
	60.4	13.8
Current tax charge/credit	(56.9)	6.0
Adjustment to prior periods, current tax	(7.8)	(70.0)
	(64.7)	(64.0)
Change in deferred tax	(2.6)	(20.6)
Adjustment of deferred tax prior years	6.9	71.7
Adjustments from change in tax rate	-	(0.9)
	4.3	50.2
Total taxation charge in the income statement	**(60.4)**	**13.8**
Tax recognised in:		
Income statement	(60.4)	13.8
Other comprehensive income	-	-
	(60.4)	13.8

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

	2015/16		2014/15	
	%	DKKm	%	DKKm
Tax calculated on earnings before tax	22.0	(41.9)	23.5	15.3
Non-deductible costs and non-taxable income	-1.3	2.6	-1.6	1.1
Adjustments to prior periods	0.4	(0.8)	-2.7	1.7
Changes in tax rates	0.0	-	1.4	(0.9)
Non-taxable dividends / profit from subsidiaries and associates	10.5	(19.9)	2.4	(1.6)
Other	0.3	0.4	-1.7	1.2
Annual effective tax rate/taxation charge in income statement	31.8	(60.4)	21.3	13.8

Income tax paid including on-account payments for the jointly-taxed Danish companies amounts to DKK -6.3 million (2014/15; 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 70.1 million as at 31 May 2016 (DKK 74.3 million as at 31 May 2015).

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

In 2015/16, a deferred tax asset of DKK 32.0 million has been recognised in the jointly-taxed Danish companies, based on tax loss carry-forwards, which can be indefinitely carried forward (2014/15; DKK 20.5 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
Cost					
At 1 June 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 Business	-	(3.1)	(302.3)	(104.9)	(410.3)
Completed development projects	-	-	215.3	(215.3)	-
At 31 May 2015	3.2	152.3	894.0	80.3	1,129.8
Additions in the year	-	2.5	47.8	104.2	154.5
Disposals in the year	(3.2)	-	(203.4)	-	(206.6)
Completed development projects	-	-	32.9	(32.9)	-
At 31 May 2016	**-**	**154.8**	**771.3**	**151.6**	**1,077.7**
Amortisation and impairment					
At 1 June 2014	-	(141.6)	(662.7)	-	(804.3)
Amortisation during the year		(6.1)	(250.6)	-	(256.7)
Reversed amortisation on disposals			162.7	-	162.7
Reversed amortisation on disposals from sale of Business		2.5	199.3	-	201.8
Impairment losses during the year			(30.7)	-	(30.7)
At 31 May 2015	-	(145.2)	(582.0)	-	(727.2)
Amortisation during the year		(4.3)	(164.7)		(169.0)
Reversed amortisation on disposals			206.6		206.6
At 31 May 2016	**-**	**(149.5)**	**(540.1)**	**-**	**(689.6)**
Net book value					
At 31 May 2016	**-**	**5.3**	**231.2**	**151.6**	**388.1**
At 31 May 2015	3.2	7.1	312.0	80.3	402.6

	2015/16	2014/15
Amortisation and impairment losses		
Production costs	2.4	3.4
Development costs	166.6	238.6
Total	**169.0**	**242.0**

No impairment losses have been recognised in 2015/16 (2014/15 DKK 30 million).

NOTES

(DKK million)

9 TANGIBLE ASSETS

	Land and buildings	Plant and machinery	Other equipment	Leasehold improve-ments	Tangible assets in course of construction	Total
Cost						
At 1 June 2014	181.9	26.1	129.5	2.6	1.6	341.7
Additions	0.9	0.1	0.8	0.1	1.3	3.2
Completed assets	0.2	-	0.3	-	(0.7)	(0.2)
Disposals	-	-	(2.0)	-	(0.3)	(2.3)
Disposals from sale of Business	-	(3.8)	(4.6)	-	(0.1)	(8.5)
At 31 May 2015	183.0	22.4	124.0	2.7	1.8	333.9
Additions	0.1	-	0.5	-	0.8	1.4
Completed assets	-	-	-	-	(1.6)	(1.6)
Disposals	-	-	(0.8)	-	-	(0.8)
At 31 May 2016	**183.1**	**22.4**	**123.7**	**2.7**	**1.0**	**332.9**
Amortisation and impairment						
At 1 June 2014	(122.2)	(22.8)	(124.4)	(1.4)	-	(270.8)
Depreciation	(5.0)	(1.0)	(2.1)	(0.3)	-	(8.4)
Reversed depreciation on disposals	-	-	1.6	-	-	1.6
Impairment losses	(4.1)	-	(0.3)	-	-	(4.4)
Reversed amortisation on disposals from sale of Business	-	2.6	3.5	-	-	6.1
At 31 May 2015	(131.3)	(21.2)	(121.7)	(1.7)	-	(275.9)
Depreciation	(4.0)	(0.3)	(0.8)	(0.3)	-	(5.4)
Reversed depreciation on disposals	-		0.8		-	0.8
At 31 May 2016	**(135.3)**	**(21.5)**	**(121.7)**	**(2.0)**	**-**	**(280.5)**
Net book value						
At 31 May 2016	**47.8**	**0.9**	**2.0**	**0.7**	**1.0**	**52.5**
At 31 May 2015	51.7	1.2	2.3	1.0	1.8	58.0

	2015/16	2014/15
Depreciation and impairment losses		
Production costs	1.8	4.2
Development costs	3.6	8.6
Total	5.4	12.8

NOTES

(DKK million)

10 INVESTMENT PROPERTY

Cost	
At 1 June 2014	269.7
Additions	0.5
Completed assets	0.2
At 31 May 2015	270.4
Additions	1.0
Completed assets	1.6
Disposals	(1.6)
At 31 May 2016	**271.4**
Depreciation and impairment	
At 1 June 2014	(182.1)
Depreciation	(6.5)
Impairment losses	(20.4)
At 31 May 2015	(209.0)
Depreciation	(5.5)
Impairment losses	1.2
At 31 May 2016	**(213.3)**
Net book value	
At 31 May 2016	**58.1**
At 31 May 2015	61.4

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 44.9 million has been received from the investment property in 2015/16 (2014/15; DKK 48.7 million), and directly attributed operating expenses were DKK 19.3 million (2014/15; DKK 23.7 million).

Investment properties are let out to the subsidiaries on operating leases with a lease term of 3-34 months. According to the existing operating leases, rental income of DKK 10.8 million will be received in the 3 months which are included in the lease term of the operating leases.

NOTES

(DKK million)

11 IMPAIRMENT OF NON-CURRENT ASSETS

Intangible assets excl. goodwill – impairment losses during the year
No impairment losses have been recognised in 2015/16 (2014/15 DKK 30 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 9.0 per cent (7.0 per cent after tax) (2014/15; 10.0 per cent/7.6 per cent).

Goodwill
No impairment losses have been recognised on cash-generating units which include goodwill in 2015/16 og 2014/15 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 2015/16 or 2014/15.

12 INVESTMENTS IN SUBSIDIARIES

Cost	
At 1 June 2015	651.6
Disposals	-
At 31 May 2016	**651.6**

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%	2.2	9.8	13.1	22.9
Floating rate loans, interest rate level 0.5 - 1.0 %	6.3	27.4	130.8	158.2
At 31 May 2016	**8.5**	**37.2**	**143.9**	**181.1**
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
At 31 May 2015	8.4	34.8	156.3	191.1

The fair value of the parent company's mortgage loans amounts to DKK 189.5 million (2014/15; DKK 199.9 million). All loans are in DKK. The fair value is calculated as the present value of the expected future instalments and interest payments.

Loans from banks
The parent company has no current draw (2014/15; DKK 210.0 million).

15 SHARE-BASED PAYMENT

The share option programmes described in note 4.7 to the consolidated financial statements are issued by Bang & Olufsen a/s. The value of the share options granted to employees in the parent company's subsidiaries is recognised in investments in subsidiaries. DKK 1.0 million of the total expense of DKK 11.1 million relates to subsidiaries (2014/15; DKK 0.6 million of DKK 4.6 million).

16 NON-CASH ITEMS

	2015/16	2014/15
Financial income	(24.7)	(37.7)
Financial costs	21.8	29.8
Gain/loss on sale of non-current assets	53.9	(650.6)
Tax on earnings for the year	(60.4)	(13.8)
Other adjustments	(13.4)	(32.2)
Total adjustments	**(22.8)**	**(704.5)**

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

	2015/16		2014/15	
	Carrying value	Fair value	Carrying value	Fair value
Other financial receivables	9.1	9.1	97.1	97.1
Receivables from subsidiaries	31.8	31.8	480.4	480.4
Other receivables	1.6	1.6	7.1	7.1
Loans receivable and other receivables	**42.4**	**42.4**	**584.6**	**584.6**
Mortgage loans	189.6	199.9	199.5	199.9
Loans from banks	-	-	210.0	210.0
Overdraft facilities	-	-	-	-
Payables to subsidiaries	235.6	235.6	776.3	776.3
Trade payables	62.9	62.9	68.2	68.2
Other payables	103.6	103.6	101.4	101.4
Financial liabilities valued at amortised cost	**591.6**	**601.9**	**1,355.4**	**1,355.8**

No receivables in the parent company are overdue at 31 May 2016 (2014/15; 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 2015/16 or 2014/15.

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.

	2015/16	2014/15
Income	2.3	-
Expenses	-	(76.0)
Earnings before tax	**2.3**	**(76.0)**
Tax	(0.5)	17.9
Earnings for the year discontinued operations	**1.8**	**(58.1)**
Gains/losses on sale of assets and businesses	(53.9)	650.6
Tax	-	(152.9)
Gains/losses on sale of assets and businesses after tax	**(53.9)**	**497.7**
Earnings per share of discontinued operations		
Diluted earnings per share of discontinued operations		
Cash flow from operating activities	(2.2)	(41.1)
Cash flow used for investing activities	23.0	1,064.9
Cash flow from financing activities	-	-
Net cash flow from discontinued operations	**20.8**	**1,023.8**
Balance sheet items comprise:		
Development projects	-	-
Investments in subsidiaries	-	74.5
Other receivables	-	-
Assets held for sale	**-**	**74.5**
Other liabilities	-	-
Liabilities associated with assets held for sale	**-**	**-**

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.

	2015/16	2014/15
Leasing commitments:		
Plant and machinery etc.	10.0	32.6
Office and factory property	0.9	11.2
Total	**10.9**	**43.8**
Maturity:		
Due within 1 year	4.1	18.1
Due 1 - 5 years	6.8	25.7
Due after 5 years	-	-
Total	10.9	43.8
Rental and lease payments, net for the year	27.7	33.1
Minimum rental and lease payments	27.7	33.1

No contingent rental or lease payments have been recognised in the income statement in 2015/16 or 2014/15.

	2015/16	2014/15
Guarantees		
Total guarantees as at 31 May	-	-

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

VAT and other taxes

Refer to note 5.3 in the consolidated financial statements.

Mortgages and securities

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

NOTES

(DKK million)

20 RELATED PARTIES

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

The related parties that have significant influence in the Bang & Olufsen Group, are the Board of Directors, the Executive Management Board and other key management personnel in other companies in the Group and the close family members of these persons. Related parties also include companies in which these persons have significant interests.

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

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

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

	2015/16	2014/15
Purchase of services - subsidiaries	34.3	55.6
Sale of services - subsidiaries	-	-
Rental income - subsidiaries	67.8	78.4
Royalty income - subsidiaries	230.0	45.0
Purchase of services - associated companies	-	-
Rental income - associated companies	-	-

The parent company has a net payable to subsidiaries of DKK 203.8 million at 31 May (2014/15; net receivable DKK 295.9 million). All receivables and payables with subsidiaries fall due within 1 year.

The fair value of the intercompany receivables and payables are DKK 31.8 million and DKK 235.6 million respectively (2014/15; DKK 480.4 million and DKK 776.3 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

NOTES

2015/16 and 2014/15.

(DKK million)

20 RELATED PARTIES (CONTINUED)

Other transactions
Bang & Olufsen a/s has received DKK 134.1 million in dividend from its subsidiaries (2014/15; DKK 1.9 million). No dividend has been received from its associates in 2015/16 or 2014/15.

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

No other transactions have taken place with related parties.

21 MATERIAL EVENTS AFTER THE BALANCE SHEET DATE

No material events have occured after the balance sheet date.

STATEMENTS

MANAGEMENT'S STATEMENT

The Board of Directors and the Executive Management Board have today considered and approved the annual report of Bang & Olufsen a/s for the financial year 1 June 2015 – 31 May 2016.

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 2016 as well as of their financial performance and their cash flow for the financial year 1 June 2015 – 31 May 2016.

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, 11 August 2016

Executive Management Board

Henrik Clausen 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
Geoff Martin	Jesper Olesen	Brian Bjørn Mansen

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 2015 – 31 May 2016, 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 2016 and of the results of the Group's and the parent company's operations and cash flows for the financial year 1 June 2015 – 31 May 2016 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, 11 August 2016

ERNST & YOUNG
Godkendt Revisionspartnerselskab

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

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