

INTERIM REPORT
1ST QUARTER 2016/17
1 JUNE 2016 –
31 AUGUST 2016



Q1 HIGHLIGHTS

”The start to the year with moderate growth was anticipated due to delayed product launches, and the decline in the Bang & Olufsen segment was in line with our expectations. B&O PLAY continued the double-digit growth and delivered a good start to the year. Overall, we see solid progress ahead, supported by strong and relevant products in our pipeline,” says CEO, Henrik Clausen.

Key financial highlights Q1

(DKK million)	Q1 2016/17	Q1 2015/16*	Change %
Revenue	515	506	2
Bang & Olufsen	287	343	(16)
B&O PLAY	229	163	41
Gross margin, %	33.4	32.5	0.9
Bang & Olufsen, %	33.3	35.6	(2.3)
B&O PLAY, %	33.6	26.1	7.5
Capacity costs	(261)	(248)	
EBITDAC	(67)	(50)	
EBIT	(89)	(82)	
Free cash flow	(32)	(168)	

* 2015/16 has been adjusted for non-recurring and aperiodic items and costs and license fees previously allocated to the Automotive business.

- The group realised a moderate revenue growth of 2 per cent. The Bang & Olufsen segment revenue declined by 16 per cent due to delayed product launches, whereas the B&O PLAY revenue increased by 41 per cent.
- The Group gross margin increased to 33.4 per cent from 32.5 margin last year, primarily due to improved gross margins in B&O PLAY.

- EBITDAC was negative DKK 67 million in the quarter compared to negative DKK 50 million last year. The decline in profitability was primarily a result of the decline in revenue in the Bang & Olufsen segment. The anticipated growth in the Bang & Olufsen segment, along with the continued growth in B&O PLAY, is expected to contribute to an improved EBITDAC for the full year.
- Free cash flow was negative DKK 32 million compared to negative DKK 168 million last year. The change was mainly related to an improved net working capital.
- The outlook for 2016/17 remains unchanged. Revenue for the Group is expected to grow compared to 2015/16, driven by double-digit growth in B&O PLAY and moderate growth in the Bang & Olufsen segment. EBITDAC for the underlying business is expected to improve compared to the EBITDAC of DKK 14 million in the underlying business in the 2015/16 financial year.
- On 12 September 2016, HARMAN and Ford Motor Company announced a collaboration that entails Ford offering B&O PLAY audio solutions for Ford's vehicle lineup worldwide. This is expected to generate license fee income for the Group in the coming years.
- Launch of exciting new products including two new Bang & Olufsen TV models is expected to drive revenue growth in the segment in the coming quarters.

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A webcast will be hosted on 4 October 2016 at 10:00 CET. Access to the webcast is obtained through our website www.bang-olufsen.com.

KEY FIGURES

Bang & Olufsen a/s – Group

(DKK million)	1st quarter	
	2016/17	2015/16
Income statement:		
Revenue	515	506
Gross margin, %	33.4	30.1
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	(67)	(73)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	(40)	(42)
Earnings before interest and tax (EBIT)	(89)	(105)
Financial items, net	1	(14)
Earnings before tax (EBT)	(87)	(118)
Earnings after tax, continued operations	(67)	(92)
Earnings after tax, discontinued operations	-	6
Earnings after tax	(67)	(86)
Financial position:		
Total assets	2,749	3,035
Share capital	432	432
Equity	1,655	1,834
Net interest-bearing deposit / (debt)	565	620
Net working capital	285	338
Cash flow		
- from operating activities	(6)	(119)
- from investment activities	(26)	(49)
Free cash flow	(32)	(168)
- from financing activities	(5)	(214)
Cash flow for the period	(38)	(382)
Key figures		
EBITDA-margin, %	(7.8)	(8.4)
EBIT-margin, %	(17.2)	(20.7)
Return on assets, %	(4.5)	(4.8)
Return on invested capital, excl. Goodwill, %	(6.6)	(4.4)
Return on equity, %	(3.9)	(4.8)
Full time employees at the end of the period	1,690	1,871
Stock related key figures		
Earnings per share (EPS), DKK	(1.5)	(2.0)
Earnings per share from continuing operations (EPS), DKK	(1.5)	(2.1)
Earnings per share, diluted (EPS-D), DKK	(1.5)	(2.0)
Earnings per share from continuing operations, diluted (EPS-D), DKK	(1.5)	(2.1)
Price/Earnings	(42)	(23)

MANAGEMENT REPORT

The first quarter of 2016/17 showed moderate overall revenue growth.

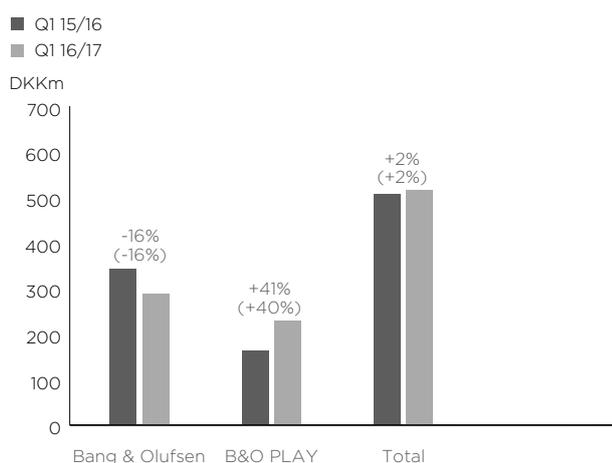
The momentum in B&O PLAY continued with a growth of 41 per cent driven by strong product launches, while the Bang & Olufsen segment declined by 16 percent due to postponed TV launches. The Group gross margin improved, however the postponed launches in the Bang & Olufsen segment adversely impacted the profitability and resulted in a lower EBITDAC than last year.

Revenue development by segment

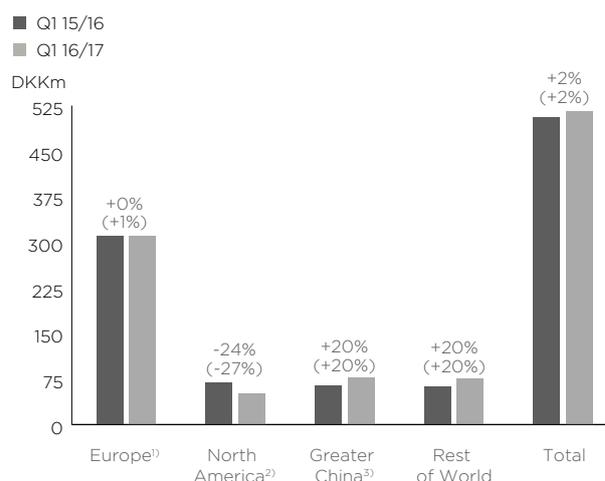
The Group's revenue increased from DKK 506 million last year to DKK 515 million, corresponding to a growth of 2 per cent (2 per cent in local currency).

The Bang & Olufsen segment realised a revenue of DKK 287 million, compared to DKK 343 million last year, which was a decline of 16 per cent (16 per cent in local currency). The decline was however expected due to

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⁾ Greater China covers China, Hong Kong and Taiwan.

the postponed launch of new TV products. The new TV products were launched at the end of the quarter, and growth is expected to be restored in the Bang & Olufsen segment during the financial year.

B&O PLAY showed revenue growth of 41 per cent (40 per cent in local currency). The segment realised revenue of DKK 229 million compared to DKK 163 million last year. The main growth contributors in B&O PLAY were newly introduced products such as Beoplay A1 and Beoplay H5 as well as continued expansion of the distribution channels.

B&O PLAY showed growth in all sales channels. Revenue through the B1 and shop-in-shop channel grew to DKK 82 million from DKK 68 million last year, corresponding to a growth of 21 per cent. Revenue through third party retail and e-commerce increased by 54 per cent

Revenue development by region

Previously, Bang & Olufsen has disclosed the revenue development for the regions Europe, North America, BRIC and Rest of World. Starting from the 2016/17 financial year, Bang & Olufsen will disclose the revenue development for the Greater China region instead of BRIC in order to increase transparency of the development in the Greater China region. The Greater China region comprises China, Taiwan and Hong Kong.

Revenue in Europe was at DKK 311 million on par with last year (1 per cent growth in local currency). B&O PLAY continued to grow, but a decline in revenue from Bang & Olufsen branded products resulted in an overall flat development.

Revenue in North America was DKK 52 million corresponding to a decrease of 24 per cent (27 per cent in local currency). The decline in the first quarter was expected and mainly due to the full year effect of the restructuring of the B1 and shop-in-shop channel during the 2015/16 financial year, where focus was on improving profitability and customer experiences. At the same time, Bang & Olufsen continued the increased focus on collaboration with partners in the custom installations market. The negative growth was partly offset by B&O PLAY starting to gain traction in the US market by increasing the number of third party retailers, which resulted in higher revenues.

Revenue in the Greater China region was DKK 78 million compared to DKK 65 million last year, corresponding to an increase of 20 per cent (20 per cent in local currency). The growth was mainly driven by continued growth in B&O PLAY sales.

In the region Rest of World, the revenue increased by 20 per cent. The increase was primarily driven by growth in B&O PLAY sales.

Distribution Development (Number of stores)

	B1		Shop-in-shop		Third party retail	
	31/08/16	31/05/16	31/08/16	31/05/16	31/08/16	31/05/16
Europe	304	311	135	135	2,793	2,759
North America	24	24	1	1	870	824
Greater China	37	37	30	34	1,100	1,049
Rest of World	111	113	4	2	1,045	1,060
Total	476	485	170	172	5,808	5,692

The number of B1 stores declined by 9 stores compared to the number of B1 stores last year quarter. This was the result of 11 closings and 2 openings or upgrades during the quarter as the focus on improving the overall quality and profitability of the retail network continued. The decline in number of stores was mainly seen in Europe. The number of shop-in-shops declined by 2 stores compared to the last quarter. The number of third party retail stores increased slightly to 5,808 stores from 5,692 stores at the end of the last quarter. A positive development in the number of third party retail stores is expected during the remaining part of the financial year.

Gross margin*

The Group's gross margin was 33.4 per cent in the first quarter compared to 32.5 per cent last year. Traditionally, the gross margin is low in the seasonally small first quarter.

The gross margin in the Bang & Olufsen segment was 33.3 per cent compared to 35.6 per cent last year. The decline was mainly due to low revenue resulting in a low indirect capacity cost absorption in the quarter.

The gross margin for the B&O PLAY segment was 33.6 per cent against a gross margin of 26.1 per cent last year. The increase was driven by higher volumes and continued supply chain optimisations.

Capacity costs*

The capacity costs were DKK 261 million compared to DKK 248 million last year. The increase was partly due to investments in marketing initiatives to secure the continued growth of B&O PLAY. In addition, capacity costs in the Bang & Olufsen segment reflected continued investments in the development and marketing of the newly released products, which will drive moderate growth for the segment in the financial year.

The Group continues to invest in the development of new products. Development costs were DKK 67 million (of which DKK 27 million were capitalised) against DKK

Capitalised development costs and carrying amount (DKK million)

Q1 - 2016/17

Capitalised, net	27
Carrying amount, net	375

Q1 - 2015/16

Capitalised, net	31
Carrying amount, net	381

62 million last year (of which DKK 31 million were capitalised).

Total amortisation charges and impairment losses on development projects were DKK 35 million compared to DKK 41 million last year. The net effect on earnings before interest and tax of capitalisations and amortisations was negative DKK 8 million compared to a negative effect of DKK 10 million last year.

This resulted in expensed development costs (incl. amortisation and impairment losses) of DKK 75 million compared to DKK 72 million last year.

Earnings*

Earnings before interest, tax, depreciation, amortisation and capitalisation (EBITDAC) were negative DKK 67 million compared to negative DKK 50 million last year. The decline was primarily driven by the lower turnover in the Bang & Olufsen segment and increased capacity cost. The anticipated growth in the Bang & Olufsen segment during the year, along with the continued growth in B&O PLAY, is expected to contribute to an improved EBITDAC for the full year.

The company's net financial items were DKK 1 million compared to negative DKK 14 million last year. The

* 2015/16 has been adjusted for non-recurring and aperiodic items and costs and license fees previously allocated to the Automotive business.

change was mainly related to positive exchange rate adjustments.

Earnings before tax were negative DKK 87 million against negative DKK 96 million last year.

Development in balance sheet items and cash flow

The Group's net working capital was DKK 285 million compared to DKK 338 million last year. The improvement was mainly driven by a positive impact from the development in both payables as well as receivables.

Free cash flow was negative DKK 32 million compared to negative DKK 168 million last year, corresponding to an increase of DKK 136 million. The improvement was driven by the positive development in the net working capital.

The net interest bearing deposit was DKK 565 million compared to DKK 620 million last year.

The Group's equity decreased to DKK 1,655 million from DKK 1,834 million last year. The Group equity ratio was at 60 per cent on par with last year.

Other events during the first quarter

On 24 August 2016, B&O PLAY and LG Electronics revealed that its upcoming LG V20 smartphone will feature best-in-class audio functions developed in partnership with B&O PLAY. To enhance the total experience, the V20 set will include a special pair of B&O PLAY earphones.

Subsequent events

On 12 September 2016, HARMAN and Ford Motor Company announced a collaboration that entails Ford offering B&O PLAY audio solutions for Ford's vehicle lineup worldwide. This is expected to generate license fee income for the Group in the coming years.

After the closing of the first quarter, the final escrow settlement with HARMAN following the automotive transaction was released. Net interest bearing deposit will increase with EUR 12.5 million.

Product launches Q1 2016/17

In the first quarter of the 2016/17 financial year, Bang & Olufsen launched the following products:

Beoplay H5

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



BeoVision 14

August Bang & Olufsen introduces BeoVision 14. The new 4K Ultra HD TV comes with a 40- or 55-inch LED-based LCD screen with anti-reflection front glass and includes technologies to ensure optimum image and sound. BeoVision 14 is powered by the Android TV platform, which provides fast, and easy access to web based content and apps, and the integrated Google Cast technology enables streaming straight from the mobile phone or tablet. The warm wooden ambience of the speaker cover reflects the same design language of the the Beolab 18 loudspeaker that displays similar oak lamellas.



BeoRemote One Bluetooth

August Simultaneously with the launch of BeoVision 14 Bang & Olufsen introduces a new version of BeoRemote One. The new BeoRemote One Bluetooth presents a button layout that includes four MyButtons that allows to take a snapshot of a setting and then revert to the exact same at the touch of just one button.



BeoVision Horizon

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



BeoSound 1 & 2

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



OUTLOOK FOR 2016/17

In the 2016/17 financial year, the key focus will be to continue the growth of B&O PLAY, while returning to moderate growth for the full year for the Bang & Olufsen segment. Overall, we expect growth for the Group in 2016/17. In addition, we will ensure continued strengthening of the profitability across the company through strong product launches and tight cost control.

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. The revenue decline realized in first quarter is expected to turn into moderate growth for the full 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.

MANAGEMENT'S STATEMENT

We have today considered and approved the interim report for the period 1 June 2016 – 31 August 2016 for Bang & Olufsen a/s.

The interim report is presented in accordance with IAS 34, Interim Financial Reporting, as endorsed by the EU and further Danish disclosure requirements for interim reports for listed companies.

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

cial position as at 31 August 2016 and the results of the Group's operations and cash flows for the period 1 June 2016 – 31 August 2016.

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

Struer, 4 October 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

Albert Bensoussan

Majken Schultz

Mads Nipper

Ivan Tong Kai Lap

Juha Christensen

Geoff Martin

Jesper Olesen

Brian Bjørn Hansen

CONSOLIDATED INCOME STATEMENT

(DKK million)	Note	1st quarter		Year
		2016/17	2015/16	2015/16
Revenue		515.5	506.0	2,633.4
Production costs		(343.1)	(353.5)	(1,681.5)
Gross profit		172.4	152.5	951.9
Development costs	3	(75.3)	(71.5)	(314.8)
Distribution and marketing costs		(163.0)	(166.4)	(740.3)
Administration costs		(22.7)	(20.3)	(104.3)
Other operating income		-	19.5	42.0
Other operating expenses		-	(18.6)	(36.8)
Operating profit (EBIT)		(88.7)	(104.7)	(202.2)
Share of result after tax in associated companies		-	-	(0.4)
Financial income		1.6	0.3	1.6
Financial expenses		(0.2)	(13.8)	(40.5)
Financial items, net		1.3	(13.5)	(38.9)
Earnings before tax (EBT)		(87.3)	(118.3)	(241.6)
Income tax		20.8	26.1	43.8
Earnings for the year - continued operations		(66.5)	(92.2)	(197.8)
Earnings for the year - discontinued operations	6	-	6.1	(9.9)
Earnings for the year		(66.5)	(86.1)	(207.7)
Earnings per share				
Earnings per share (EPS) DKK		(1.5)	(2.0)	(4.8)
Diluted earnings per share (ESP-D) DKK		(1.5)	(2.0)	(4.8)
Earnings per share (EPS) from continuing operations, DKK		(1.5)	(2.1)	(4.6)
Diluted earnings per share (ESP-D) from continuing operations, DKK		(1.5)	(2.1)	(4.6)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(DKK million)	Note	1st quarter		Year
		2016/17	2015/16	2015/16
Earnings for the year		(66.5)	(86.1)	(207.7)
<i>Items that will be reclassified subsequently to the income statement:</i>				
Exchange rate adjustment of investment in foreign subsidiaries		(3.5)	(4.6)	(3.5)
Change in fair value of derivative financial instruments used as cash flow hedges		(0.6)	3.7	1.9
Transfer to the income statement of fair value adjustments of derivative financial instruments used as cash flow hedges, realised cash flows:				
Transfer to revenue		1.0	(1.5)	6.3
Transfer to production costs		-	0.8	(0.5)
Income tax on items that will be reclassified to the income statement:		(0.1)	(0.7)	(1.7)
<i>Items that will not be reclassified subsequently to the income statement:</i>				
Actuarial gains/(losses) on defined benefit plans		-	-	0.8
Income tax on items that will not be reclassified to the income statement:		-	-	(0.2)
Other comprehensive income for the year, net of tax		(3.2)	(2.3)	3.1
Total comprehensive income for the year		(69.7)	(88.4)	(204.6)

CONSOLIDATED BALANCE SHEET

(DKK million)	Note	31/8/16	31/8/15	31/5/16
Goodwill		66.5	69.7	66.4
Acquired rights		4.7	6.9	6.1
Completed development projects		211.8	281.2	231.2
Development projects in progress		162.7	99.6	151.6
Intangible assets		445.6	457.3	455.2
Land and buildings		95.1	102.3	97.8
Plant and machinery		59.0	56.5	63.5
Other equipment		16.5	26.5	18.9
Leasehold improvements		18.8	47.1	21.8
Tangible assets in course of construction and prepayments for tangible assets		8.3	13.3	7.7
Tangible assets		197.7	245.7	209.7
Investment property		16.3	17.2	16.5
Investments in associates		-	5.9	-
Other financial receivables		29.5	123.6	30.6
Financial assets		29.5	129.6	30.6
Deferred tax assets		219.5	203.3	209.0
Total non-current assets		908.6	1,053.0	921.0
Inventories		526.0	528.5	498.0
Trade receivables		350.2	433.1	430.5
Other financial receivables		93.1	-	93.1
Corporation tax receivable		52.3	41.3	32.0
Other receivables		51.2	56.9	48.9
Prepayments		13.9	28.7	17.0
Total receivables		560.7	560.0	621.4
Cash		750.7	816.3	788.5
Assets held for sale	6	2.9	77.4	2.9
Total current assets		1,840.2	1,982.2	1,910.8
Total assets		2,748.8	3,035.3	2,831.8

CONSOLIDATED BALANCE SHEET

(DKK million)	Note	31/8/16	31/8/15	31/5/16
Share capital		432.0	432.0	432.0
Translation reserve		17.6	20.5	21.1
Reserve for cash flow hedges		2.8	(1.2)	2.5
Retained earnings		1,202.5	1,382.9	1,269.3
Total equity		1,654.9	1,834.2	1,724.9
Pensions		14.9	16.3	14.8
Deferred tax		11.0	9.8	11.5
Provisions		42.0	44.6	43.4
Mortgage loans		177.3	187.5	181.1
Other non-current liabilities		0.9	1.6	1.1
Deferred income		133.7	145.7	136.7
Total non-current liabilities		379.9	405.6	388.6
Mortgage loans		8.5	8.4	8.5
Provisions		24.8	25.6	24.8
Trade payables		365.1	444.9	365.4
Corporation tax payable		24.4	33.3	9.3
Other liabilities		258.3	189.2	270.5
Deferred income		32.8	75.3	39.8
Other current liabilities		714.0	776.7	718.3
Liabilities associated with assets held for sale		-	18.9	-
Total liabilities		1,093.9	1,201.1	1,106.9
Total equity and liabilities		2,748.8	3,035.3	2,831.8

CONSOLIDATED CASH FLOW STATEMENT

(DKK million)	Note	1st quarter		Year
		2016/17	2015/16	2015/16
Earnings for the year - continuing operations		(66.5)	(92.2)	(197.8)
Earnings for the year - discontinued operations		-	6.1	(9.9)
Amortisation, depreciation and impairment losses		48.7	62.3	248.4
Adjustments for non-cash items	4	(22.2)	(18.5)	(9.1)
Change in receivables		81.1	33.6	64.9
Change in inventories		(28.0)	3.3	30.2
Change in trade payables etc		(19.4)	(110.5)	(127.6)
Cash flow from operations		(6.4)	(115.9)	(0.8)
Interest received and paid, net		1.3	(2.2)	(9.3)
Income tax paid		(1.4)	(0.6)	5.1
Cash flow from operating activities		(6.5)	(118.8)	(5.0)
Purchase of intangible non-current assets		(26.7)	(33.4)	(165.8)
Purchase of tangible non-current assets		(3.1)	(15.6)	(46.0)
Sales of tangible non-current assets		2.6	-	1.7
Proceeds from sale of associated companies		-	-	5.5
Proceeds from sale of businesses		-	-	23.0
Change in financial receivables		1.2	(0.3)	-
Cash flow from investing activities		(26.0)	(49.3)	(181.6)
Free cash flow		(32.5)	(168.1)	(186.7)
Repayment of long-term loans		(3.8)	(213.6)	(219.8)
Settlement of share options		(1.6)	-	(3.0)
Cash flow from financing activities		(5.4)	(213.6)	(222.8)
Change in cash and cash equivalents		(37.9)	(381.7)	(409.5)
Cash and cash equivalents, opening balance		788.5	1,198.0	1,198.0
Cash and cash equivalents, closing balance		750.6	816.3	788.5
Cash and cash equivalents:				
Cash		750.6	816.3	788.5
Cash and cash equivalents, closing balance		750.6	816.3	788.5

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(DKK million)	Note	31/8/16	31/8/15	31/5/16
Equity, opening balance		1,724.9	1,921.4	1,921.4
Earnings for the period		(66.5)	(86.1)	(207.7)
Other comprehensive income, net of tax		(3.2)	(2.3)	3.1
Comprehensive income for the period		(69.7)	(88.4)	(204.6)
Grant of share options		1.3	1.1	11.1
Settlement of share options		(1.6)	-	(3.0)
Equity, closing balance		1,654.9	1,834.2	1,724.9

NOTES

1 ACCOUNTING PRINCIPLES

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

The accounting principles and computation methods applied in the interim report are unchanged compared to the principles applied in the 2015/16 Annual Report.

The Annual Report 2015/16 contains a full description of applied accounting principles.

2 SIGNIFICANT ESTIMATES AND ASSESSMENTS BY MANAGEMENT

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

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

3 DEVELOPMENT COSTS AND EBITDAC

(DKK million)	1st quarter		Year
	2016/17	2015/16	2015/16
Incurring development costs before capitalisation	67.0	61.5	302.1
Hereof capitalised	(26.7)	(30.5)	(152.0)
Incurring development costs after capitalisation	40.3	31.0	150.1
<i>Capitalisation (%)</i>	39.8%	49.6%	50.3%
Total charges and impairment losses on development projects	35.0	40.5	164.7
Development costs recognised in the consolidated income statement	75.3	71.5	314.8
EBITDA	(40.0)	(42.4)	46.2
Capitalised development costs	(26.7)	(30.5)	(152.0)
EBITDAC	(66.7)	(72.9)	(105.8)

NOTES

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

(DKK million)	1st quarter		Year
	2016/17	2015/16	2015/16
Change in other liabilities	(4.4)	(3.3)	(18.7)
Financial items, net	(1.3)	13.5	38.9
Result of investments in associates after tax	-	-	0.4
Gain/loss on sale of non-current assets	(2.5)	0.4	(4.1)
Gain/loss on sale of business	-	-	39.0
Tax on earnings for the year	(20.8)	(24.2)	(36.4)
Other adjustments	6.8	(4.9)	(28.3)
Total adjustments	(22.2)	(18.5)	(9.1)

5 SEGMENT INFORMATION

(DKK million)	1st quarter		Reported Change %	Local currency Change %
	2016/17	2015/16		
Revenue by segment and business area				
Bang & Olufsen	286.8	343.3	(16)	(16)
B&O PLAY	228.7	162.7	41	40
Total	515.5	506.0	2	2
Gross margin by business area, %				
Bang & Olufsen	33.3%	32.7%		
B&O PLAY	33.6%	24.8%		
Gross margin %, Group	33.4%	30.1%		

In the Management Report gross margin for 2015/16 has been adjusted to underlying business. 2015/16 included production costs of DKK 12 million related to costs previously allocated to Automotive.

Revenue by region

Europe	310.5	309.5	0	1
North America	52.3	68.9	(24)	(27)
Greater China	77.6	64.8	20	20
Rest of World	75.1	62.8	20	20
Total	515.5	506.0	2	2

Revenue by channel

B1 and shop-in-shop distribution	368.8	410.8	(10)
3rd party distribution and e-commerce	146.7	95.2	54
Total	515.5	506.0	2

NOTES

6 DISCONTINUED OPERATIONS

(DKK million)	1st quarter		Year
	2016/17	2015/16	2015/16
Revenue	-	22.3	94.0
Expenses	-	(14.3)	(57.5)
Earnings before tax	-	8.0	36.5
Tax	-	(1.9)	(7.4)
Earnings for the year discontinued operations	-	6.1	29.1
Gains/losses on sale of assets and businesses	-	-	(39.0)
Tax	-	-	-
Gains/losses on sale of assets and businesses after tax	-	-	(39.0)
Earnings per share of discontinued operations	-	0.1	(2.0)
Diluted earnings per share of discontinued operations	-	0.1	(2.0)
Cash flow from operating activities	-	11.8	52.6
Cash flow used for investing activities	-	(2.8)	13.4
Cash flow from financing activities	-	-	-
Net cash flow from discontinued operations	-	9.0	66.0

(DKK million)	2016/17	2015/16	2015/16
Balance sheet items comprise:			
Development projects	-	37.2	-
Plant and machinery	2.9	0.2	2.9
Other equipment and assets under construction	-	1.1	-
Inventories	-	10.4	-
Trade receivables	-	22.4	-
Other receivables	-	4.1	-
Prepayments	-	1.8	-
Cash	-	0.2	-
Assets held for sale	2.9	77.4	2.9
Trade payables	-	8.5	-
Provisions	-	2.5	-
Corporation tax payable	-	4.5	-
Other liabilities	-	3.4	-
Liabilities associated with assets held for sale	-	18.9	-

APPENDIX 1

Earnings by quarter 2016/17:

(DKK million)	2016/17			
	Q1	Q2	Q3	Q4
Revenue	515.5			
Production costs	(343.1)			
Gross profit	172.4			
Development costs	(75.3)			
Distribution and marketing costs	(163.0)			
Administration costs	(22.7)			
Other operating income, net	-			
Earnings before interest and tax (EBIT)	(88.7)			
Share of result after tax in associated companies	-			
Financial income	1.6			
Financial expenses	(0.2)			
Financial items, net	(1.3)			
Earnings before tax (EBT)	(87.3)			
Income tax	20.8			
Earnings for the year - continued operations	(66.5)			
Earnings for the year - discontinued operations	-			
Earnings for the year	(66.5)			

Accumulated earnings by quarter 2016/17:

(DKK million)	2016/17			
	3M	6M	9M	12M
Revenue	515.5			
Production costs	(343.1)			
Gross profit	172.4			
Development costs	(75.3)			
Distribution and marketing costs	(163.0)			
Administration costs	(22.7)			
Other operating income, net	-			
Earnings before interest and tax (EBIT)	(8.7)			
Share of result after tax in associated companies	-			
Financial income	1.6			
Financial expenses	(0.2)			
Financial items, net	(1.3)			
Earnings before tax (EBT)	(87.3)			
Income tax	20.8			
Earnings for the year - continued operations	(66.5)			
Earnings for the year - discontinued operations	-			
Earnings for the year	(66.5)			

APPENDIX 1

Earnings by quarter 2015/16:

(DKK million)	2015/16			
	Q1	Q2	Q3	Q4
Revenue	506.0	728.6	702.6	696.1
Production costs	(353.5)	(452.4)	(442.5)	(433.1)
Gross profit	152.5	276.2	260.1	263.1
Development costs	(71.5)	(73.9)	(75.5)	(93.9)
Distribution and marketing costs	(166.4)	(216.1)	(160.6)	(197.2)
Administration costs	(20.3)	(19.0)	(21.4)	(43.6)
Other operating income, net	0.9	2.0	2.3	-
Earnings before interest and tax (EBIT)	(104.7)	(30.9)	5.0	(71.6)
Share of result after tax in associated companies	-	-	-	(0.4)
Financial income	0.3	9.1	-	-
Financial expenses	(13.8)	(1.7)	(19.3)	(13.5)
Financial items, net	(13.5)	7.4	(19.3)	(13.5)
Earnings before tax (EBT)	(118.3)	(23.3)	(14.4)	(85.5)
Income tax	26.1	3.9	3.6	10.2
Earnings for the year - continued operations	(92.2)	(19.5)	(10.7)	(75.4)
Earnings for the year - discontinued operations	6.1	9.0	9.5	(34.5)
Earnings for the year	(86.1)	(10.5)	(1.2)	(109.8)

Accumulated earnings by quarter 2015/16:

(DKK million)	2015/16			
	3M	6M	9M	12M
Revenue	506.0	1,234.6	1,937.2	2,633.4
Production costs	(353.5)	(805.9)	(1,248.4)	(1,681.5)
Gross profit	152.5	428.7	688.8	951.9
Development costs	(71.5)	(145.4)	(220.9)	(314.8)
Distribution and marketing costs	(166.4)	(382.5)	(543.1)	(740.3)
Administration costs	(20.3)	(39.3)	(60.7)	(104.3)
Other operating income, net	0.9	2.9	5.2	5.2
Earnings before interest and tax (EBIT)	(104.7)	(135.6)	(130.6)	(202.2)
Share of result after tax in associated companies	-	-	-	(0.4)
Financial income	0.3	4.3	3.7	1.6
Financial expenses	(13.8)	(10.4)	(29.1)	(40.5)
Financial items, net	(13.5)	(6.1)	(25.4)	(38.9)
Earnings before tax (EBT)	(118.3)	(141.6)	(156.0)	(241.6)
Income tax	26.1	30.0	33.6	43.8
Earnings for the year - continued operations	(92.2)	(111.7)	(122.4)	(197.8)
Earnings for the year - discontinued operations	6.1	15.1	24.6	(9.9)
Earnings for the year	(86.1)	(96.6)	(97.8)	(207.7)

APPENDIX 2

Revenue by region 2015/16:

(DKK million)	2015/16			
	Q1	Q2	Q3	Q4
Europe	309.5	494.6	464.5	400.1
North America	68.9	48.4	50.6	46.2
Greater China*	64.8	73.7	73.1	81.8
Rest of World	62.8	112.0	114.4	168.0
Total	506.0	728.6	702.6	696.1

(DKK million)	2015/16			
	3M	6M	9M	12M
Europe	309.5	804.1	1,268.5	1,668.7
North America	68.9	117.3	167.9	214.1
Greater China*	64.8	138.6	211.7	293.5
Rest of World	62.8	174.7	289.1	457.1
Total	506.0	1,234.6	1,937.2	2,633.4

*The Greater China region comprises China, Taiwan and Hong Kong

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Financial calendar

Financial statements

13 January 2016	Interim report (2 nd quarter 2015/16)
6 April 2016	Interim report (3 rd quarter 2015/16)
11 August 2016	Annual report 2015/16
4 October 2016	Interim report (1 st quarter 2016/17)

Safe Harbour statement

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

About Bang & Olufsen

Bang & Olufsen was founded in Struer, Denmark, in 1925 by Peter Bang and Svend Olufsen, two innovative, young engineers devoted to high quality audio reproduction. Since then, the brand has become an icon of performance and design excellence through its long-standing craftsmanship tradition and the strongest possible commitment to high-tech research and development. Still at the forefront of domestic technology, Bang & Olufsen has extended its comprehensive experience with integrated audio and video solutions for the home to other areas such as the hospitality and automotive industries in recent years. Consequently, its current product range epitomises seamless media experiences in the home as well as in the car and on the move.

For additional information refer to www.bang-olufsen.com.