

# CORPORATE GOVERNANCE

1 JUNE 2017 - 31 MAY 2018

Statutory report on corporate governance, see section 107b of the Danish Financial Statements Act (*Årsregnskabsloven*)

BANG & OLUFSEN

This annual corporate governance report for Bang & Olufsen a/s forms part of the Management Review set out in Annual Report 2017/18 and covers the financial period 1 June 2017 to 31 May 2018. The report contains the following elements:

- a description of the company's management structure;
- a review of the company's approach to the 'Recommendations for corporate governance from the Committee on Corporate Governance in Denmark', implemented by NASDAQ Copenhagen A/S in its 'Rules for issuers of shares' (the "Recommendations"); and
- a description of the main elements of the Bang & Olufsen Group's internal control and risk management systems relating to financial reporting.

## MANAGEMENT STRUCTURE

### BOARD OF DIRECTORS

#### SHAREHOLDER-ELECTED MEMBERS

Ole Andersen (Chairman)  
Mads Nipper

Juha Christensen (Vice Chairman)  
Albert Bensoussan  
Ivan Tong Kai Lap

Jesper Jarlbæk  
Majken Schultz

#### EMPLOYEE-ELECTED MEMBERS

Søren Balling

Geoff Martin

Brian Bjørn Hansen

The Board of Directors has the overall management responsibility for the company. As per current practice in Denmark, responsibility is divided between the non-executive Board of Directors and the Executive Management Board, which are independent of

each other. The Executive Management Board handles the day-to-day management of the company, while the Board of Directors supervises the Executive Management Board and is responsible for general strategic management. The Board of Directors currently has ten

members, seven of whom are elected by the shareholders and three of whom are elected by the employees. All of the shareholder-elected board members, including the chairman, are independent. Previously, Ivan Tong Kai Lap was not deemed to be an independent member

of the Board of Directors since he had material commercial relations with the company through his position as a chairman of the board of directors of Sparkle Roll Group Limited which is a distributor for the company's products in China. Ivan Tong Kai Lap is no longer associated with Sparkle Roll Group Limited. All shareholder-elected board members are elected for terms of one year. Employee representatives are elected for terms of four years in accordance with current legislation. No age limit applies.

Between eight and ten board meetings are held a year, with ad hoc meetings being held if required. In 2017/18, the Board of Directors held nine meetings.

With the exception of the employee representatives, Bang & Olufsen's board members are under an obligation to buy shares in the company within 12 months of being elected for an amount

equivalent to at least one year's board remuneration for an ordinary board member and to keep them for the duration of their board membership.

Information on the current shareholdings of board members can be found in the consolidated financial statements.

Rules for the election of employee representatives for the Board of Directors

Under the Danish Companies Act (Selskabsloven), employees of the Group's Danish companies have the right to elect a number of members and alternates to the Board of Directors equivalent to half the number of board members elected by the shareholders, but not less than two members.

The employees have chosen to elect board members at Group level, meaning that they only elect representatives to serve on the Board of Directors of the parent company, Bang & Olufsen a/s.

The most recent election of employees to the Board of Directors took place in June 2015 by written, secret, direct

BOARD COMMITTEES			
AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATION COMMITTEE	TECHNOLOGY COMMITTEE
Jesper Jarlbæk (Chairman) Albert Bensoussan Ivan Tong Kai Lap	Ole Andersen (Chairman) Juha Christensen Majken Schultz	Ole Andersen (Chairman) Mads Nipper Jesper Jarlbæk	Jesper Jarlbæk Juha Christensen

ballot. The employee-elected members joined the Board of Directors immediately after the Annual General Meeting in September 2015. Employee representatives are elected for terms of four years. The election of employees to join the Board of Directors after the Annual General Meeting to be held in 2019 will take place in early 2019.

If the employment of an employee representative is terminated, the employee in question retires from the Board of Directors and is replaced by one of the elected alternates. Employee representatives have the same rights, obligations

and responsibilities as other board members.

The Board of Directors may establish board committees with a view to preparing decisions and recommendations for assessment and approval by the Board of Directors. In accordance with the Recommendations, the company has established four board committees - the Remuneration Committee, the Nomination Committee, the Audit Committee and the Technology Committee. The committees report to the Board of Directors and each committee has terms of reference setting out their most important tasks and responsibilities.

#### Remuneration Committee

The Board of Directors has appointed a Remuneration Committee consisting of three board members. The committee is charged with assisting the Board of Directors in establishing, implementing and carrying out its remuneration policy for members of the Board of Directors and the Executive Management Board (the company's governing bodies). The current members of the Remuneration Committee are: Ole Andersen (chairman, independent), Juha Christensen (independent) and Majken Schultz (independent). The committee meets at least twice a year and held three meetings in 2017/18 to discuss matters

related to 2017/18. The current remuneration policy can be found at <http://www.bang-olufsen.com/en/investors/company-information>.

The meetings were held on the basis of an annual cycle which is in accordance with the Recommendations and ensures an adequate overview of the business.

### **Nomination Committee**

The Board of Directors has set up a Nomination Committee consisting of three board members. The committee is charged with assisting the Board of Directors in performing its duties in terms of i) nominating and appointing members of the Board of Directors and the Executive Management Board, ii) ensuring that the Board of Directors and the Executive Management Board always have an appropriate number of members and are made up of persons with the necessary professional qualifications and experience, and iii) carrying out regular evaluations of the results achieved by the Board of Directors and the Executive Management Board. The current members of the Nomination Committee are: Ole Andersen

(Chairman, independent), Mads Nipper (independent) and Jesper Jarlbæk (independent). The committee meets at least once a year and held two meetings in 2017/18.

The meetings were held on the basis of an annual cycle which is in accordance with the Recommendations and ensures an adequate overview of the business.

The Chairman of the Board of Directors manages a structured annual self-assessment process regarding the performance of the Board of Directors as a whole and an evaluation of the performance and competencies of the individual board members.

The evaluation is carried out with a view to constantly improving the work of the Board of Directors, as well as to assess whether its composition is satisfactory in terms of competencies and whether there is a need for continuing education.

In early 2017/18, an evaluation was conducted by the individual directors and executives anonymously completing a comprehensive online questionnaire.

The results were summarised by an external consultant and presented by the Chairman to the Board of Directors on 13 September 2017.

According to the conclusion of the evaluation, the Board of Directors is generally well organised and well-functioning and gives an overall impression of a high-performing board of directors. The evaluation also identified certain minor areas for improvement. Steps have been taken to achieve those improvements. The Chairman held individual meetings with each of the other board members to review their performance.

### **Audit Committee**

The Board of Directors has established an Audit Committee consisting of three board members. The committee is charged with assisting the Board of Directors in performing its duties in terms of financial reporting, internal control systems, the audit process and monitoring by the company of compliance with statutes, rules and code of conduct, including assessment of quarterly reports and the independence of the independent auditors.

The Board of Directors appoints the committee members and the committee chairman. The current members of the Audit Committee are: Jesper Jarlbæk (Chairman, independent), Albert Bensoussan (independent) and Ivan Tong Kai Lap (independent). The committee meets at least four times a year.

The committee held six meetings in 2017/18, all attended by the independent auditors. The meetings were held on the basis of an agreed annual cycle, which is in accordance with the Recommendations and ensures adequate monitoring. It follows key events in the reporting cycle of the financial year and covers the areas of responsibility described above.

### **Technology Committee**

The Board of Directors has established a Technology Committee consisting of two board members. The committee is charged with (i) updating the Board on technology trends that could significantly affect the company, (ii) assisting the Board in its oversight of the company's material investments in technology and software, (iii) reviewing the company's technology and investment strategy.

The Board of Directors appoints the committee members and the committee chairman. The current members of the Technology Committee are: Juha Christensen (Chairman, independent) and Jesper Jarlbæk (independent). The committee meets at least twice a year and held two meetings in 2017/18.

The meetings were held on the basis of an annual cycle which is in accordance with the Recommendations and ensures an adequate overview of the business.

### Executive Management Board

The Board of Directors appoints an Executive Management Board with responsibility for the day-to-day management of the company in accordance with the guidelines and recommendations set out by the Board of Directors. The Executive Management Board's responsibilities also include submitting proposals and recommendations to the Board of Directors regarding Bang & Olufsen's overall strategy and objectives. The Executive Management Board has four members and is headed by the CEO.

### Recommendations for corporate governance in Denmark

The company is subject to the 'Recommendations for Corporate Governance', which are available on the website of the Committee on Corporate Governance in Denmark at [www.corporategovernance.dk](http://www.corporategovernance.dk). The schedule contains the Committee's recommendations of 6 May 2013 as implemented by NASDAQ

Copenhagen A/S in its 'Rules for issuers of shares' effective from 1 June 2013.

The recommendations of May 2013 were revised in November 2017. The company complies with the recommendations currently applicable and expects to comply with the revised recommendations when these become effective from 2018/19.

## EXECUTIVE MANAGEMENT BOARD

CEO	CFO	SVP	SVP
Henrik Clausen	Anders Aakær Jensen	Stefan Kent Persson	John Mollanger

Stefan Kent Persson and Anders Aakær Jensen have filed their resignations effective 31 July 2018 and 30 November 2018, respectively. A replacement search has been initiated.

## Schedule for reporting regarding the recommendations from the Committee on Corporate Governance

(Reporting regarding corporate governance in accordance with the Danish Financial Statement Act sec. 107b.)

### Introduction/conclusion:

Report regarding Bang & Olufsen a/s, reg. no. 41257911

Recommendation	The company complies	The company does not comply	Reason*
1. THE COMPANY'S COMMUNICATION AND INTERACTION WITH ITS INVESTORS AND OTHER STAKEHOLDERS			
1.1. Dialogue between the company, its shareholders and other stakeholders			
1.1.1. The Committee recommends that the Board of Directors ensure an ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant information in the company's potential and policies, and that the Board of Directors knows the shareholders' position, interests and views in relation to the company.	X		<p>Bang &amp; Olufsen a/s aims to provide information to and opportunities for dialogue with its shareholders through regular publication of news, interim reports, annual reports and holding general meetings.</p> <p>Bang &amp; Olufsen participates regularly in, and facilitates, events with investors, potential investors, equity analysts and stockbrokers, including, for example, conference calls and capital markets days.</p> <p>Furthermore, Bang &amp; Olufsen's Investor Relations (IR) department assists the Executive Management Board when holding regular meetings and conference calls with investors. The IR department is available to answer questions from analysts and shareholders and actively participates in various investor relations associations, e.g. DIRF (the Danish Investor Relations Association).</p> <p>The Board of Directors of Bang &amp; Olufsen a/s has adopted the following communication policy: <a href="#">LINK</a></p> <p>All company announcements, as well as press releases, are prepared in Danish and English.</p>

\* **The company complies/does not comply with the recommendation due to the following reason:** According to the Danish Financial Statement Act sec.107b (1)(3), the company must state its reasons for not complying with certain parts of the recommendations. The company can state why a certain recommendation has not been complied with, and what has been done instead.

The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

## Schedule for reporting regarding the recommendations from the Committee on Corporate Governance

(Reporting regarding corporate governance in accordance with the Danish Financial Statement Act sec. 107b.)

### Introduction/conclusion:

Report regarding Bang & Olufsen a/s, reg. no. 41257911

Recommendation	The company complies	The company does not comply	Reason*
1.1.2. The Committee <b>recommends</b> that Board of Directors adopt a policy on the company's relationship with its stakeholders, including the investors, and ensure that the interests of the stakeholders are respected in accordance with the company's policy on such issues.	X		<p>The Board of Directors has for many years been very attentive to its relationship with its stakeholders, which in part is reflected in the annual environmental reports the company has prepared since 1995/1996 <a href="#">LINK</a>.</p> <p>Furthermore, the Board of Directors of Bang &amp; Olufsen a/s has approved a policy on corporate social responsibility (CSR Policy), in which the company's stakeholders and the stakeholders' key interests are identified. <a href="#">LINK</a>.</p> <p>The Board of Directors has identified and has clear guidelines for the company's main interest in relation to its key stakeholders (investors, customers, suppliers, business partners, dealers, employees, the media, local authorities, communities and society). The Board of Directors has also approved a Stakeholder Policy which can be found here <a href="#">LINK</a>.</p>
1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports.	X		Bang & Olufsen a/s publishes quarterly reports.

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Recommendation	The company complies	The company does not comply	Reason*
<p><b>1.2. General meeting</b></p> <p>1.2.1. The Committee <b>recommends</b> that, when organising the company's general meeting, the Board of Directors plan the meeting to support active ownership</p>	X		<p>The Board of Directors of Bang &amp; Olufsen a/s promotes active ownership including shareholder attendance at general meetings by announcing well in advance the date of a general meeting on its website, and otherwise organise the annual general meeting in a way that gives as many shareholders as possible the opportunity to attend. All shareholders are invited to go on a guided tour of the company and its factories in Struer prior to annual general meetings.</p> <p>Pursuant to the company's articles of association, the company can provide all notices to the shareholders by electronic mail, and documents can be presented or sent out electronically.</p> <p>The Executive Management Board will request shareholders of the company to provide an electronic mail address to which notices can be sent. All shareholders are asked to keep their e-mail address updated at all times.</p> <p>The company's management will provide information about system requirements and the use of electronic communication directly to the shareholders or on the company's website <a href="http://www.bang-olufsen.dk">www.bang-olufsen.dk</a>.</p> <p>All shareholders are invited to attend quarterly conference calls with Bang &amp; Olufsen's Executive Management Board in relation to quarterly announcements. During these conference calls, shareholders will be able to ask questions to the management.</p>

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Recommendation	The company complies	The company does not comply	Reason*
1.2.2. The Committee <b>recommends</b> that proxies for the use on the general meeting allow shareholders to consider each individual item on the agenda.	X		On the proxy form used by Bang & Olufsen a/s in connection with the holding of general meetings, it is possible to consider each item on the agenda separately.
<b>1.3. Takeover bids</b>			
1.3.1 The Committee <b>recommends</b> that the Board of Directors establishes a contingency procedure for takeover attempts, concerning the period from when the Board of Directors has substantiated assumptions that a takeover bid will be submitted. The contingency procedure should determine that the Board of Directors, do not, without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid.	X		The Board of Directors of Bang & Olufsen a/s has adopted a take-over policy which sets out contingency procedures complying with this recommendation.

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Recommendation	The company complies	The company does not comply	Reason*
2. THE TASKS AND RESPONSIBILITIES OF THE BOARD OF DIRECTORS			
2.1. Overall tasks and responsibilities			
2.1.1. The Committee <b>recommends</b> that the Board of Directors at least once every year review the terms related to board's handling of its tasks.	X		<p>In connection with the annual review of the rules of procedure for both the Board of Directors and the Management Board, the Board of Directors considers how and to which extent it wishes to exercise control of the work of the Executive Management Board. See also below on the respective Audit, Nomination, Technology and Compensation Committee.</p> <p>The Board of Directors continuously considers whether the company has the necessary skills and financial resources at its disposal.</p> <p>The Board meets pursuant to an established and agreed meeting schedule, and it also meets as and when deemed necessary or expedient in relation to the company's needs. The Board has established procedures pursuant to which it ensures that all matters reserved for the Board is reviewed and assessed on a regular basis in compliance with this recommendation.</p> <p>According to the rules of procedure for the Board of Directors, the chairman convenes, organises and leads board meetings.</p> <p>The Board of Directors evaluates its rules of procedure on an annual basis.</p>

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Recommendation	The company complies	The company does not comply	Reason*
2.1.2. The Committee <b>recommends</b> that the Board of Directors at least once a year review the company's overall strategy with a view to sustaining value creation in the company.	X		The Board of Directors continuously assesses whether the company's overall strategy is appropriate for ensuring value creation. The strategy is reviewed at least annually by the Board of Directors and its implementation and traction is monitored on a continual basis.
2.1.3. The Committee <b>recommends</b> that the Board of Directors ensure, that the company has a capital and share structure that substantiates that the company's strategy and long-term value creation continue to be in the interests of the shareholders and the company, and account for this evaluation in the management commentary in the annual report and/or on the company's website.	X		The Board of Directors of Bang & Olufsen a/s regularly assesses whether the company's capital structure and share structure fulfil the interests of the Bang & Olufsen Group and its shareholders and support the long-term profitable growth and development of the business.
2.1.4. The Committee <b>recommends</b> that the Board of Directors annually review and approve procedures for the management board, including establishing requirements for the Executive Management Board's timely, accurate and adequate reporting to the Board of Directors.	X		<p>The Board of Directors continually supervises the work of the Executive Management Board and evaluates at least once a year the rules of procedure for the Executive Management Board. The rules of procedure contain, among other things, requirements for management reporting and for communications between the Board of Directors and the Executive Management Board.</p> <p>Bang &amp; Olufsen complies with this recommendation.</p>
2.1.5. The Committee <b>recommends</b> that the Board of Directors at least once a year considers Management Board's composition, development, risks and succession plans.	X		Bang & Olufsen complies with this recommendation as such assessment is performed once a year by the Nomination Committee and the Board of Directors.

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Recommendation	The company complies	The company does not comply	Reason*
2.1.6. The Committee <b>recommends</b> that the Board of Directors once every year discuss the activities of the company to ensure diversity at management level, including ensuring equal opportunities for both genders, and that the Board of Directors defines specific targets and accounts for these targets and status for achievement in the management commentary in the annual report and/or on the company's website	X		<p>The Board of Directors of Bang &amp; Olufsen a/s has approved the following Human Resources (HR) policy, which states that the company aims to have at least 25% female representation at Director+ level by the end of May 2020. <a href="#">LINK to HR policy.</a></p> <p>In addition, the Board of Directors of Bang &amp; Olufsen a/s has, as part of the general competencies and description of the composition of the Board, inserted a target of having two female board members at or before the Annual General Meeting to be held in 2019. <a href="#">LINK to Board Member Competencies.</a></p>
<b>2.2. Corporate social responsibility</b>			
2.2.1. The Committee <b>recommends</b> that the Board of Directors adopt a policy on corporate social responsibility.	X		The Board of Directors has approved a policy on corporate social responsibility. <a href="#">LINK</a>
<b>2.3. The chairman and deputy chairman of the supreme governing body</b>			
2.3.1. The Committee <b>recommends</b> that a deputy chairman of the Board of Directors be appointed, who must be able to act in the chairman's absence and also act as an effective discussion partner for the chairman.	X		<p>The Board of Directors has elected a vice chairman to act in the chairman's absence.</p> <p>The rules of procedure for the Board of Directors clearly set out tasks and a description of the duties, obligations and responsibilities of the chairman and the vice chairman of the Board of Directors.</p>

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Recommendation	The company complies	The company does not comply	Reason*
<p>2.3.2. The Committee <b>recommends</b> that, if the Board of Directors in exceptional cases asks its chairman to perform special tasks for the company, including briefly participate in the day-to-day management, a board resolution to that effect should be passed and precautions taken to ensure that the Board of Directors will maintain responsibility for the overall management and control function. Information about agreements on the chairman's participation in the day-to-day management and the expected duration hereof must be disclosed in a company announcement.</p>	X		<p>The chairman does not participate in the day-to-day management of the company and does not carry out other tasks for the company than handling the task as chairman of the Board.</p> <p>If, in an exceptional case, the Board of Directors were to request the chairman to perform special tasks for the company, the Board would take steps to comply with this recommendation.</p>
<h3>3. COMPOSITION AND ORGANISATION OF THE BOARD OF DIRECTORS</h3>			
<h4>3.1. Composition</h4>			
<p>3.1.1. The Committee <b>recommends</b> that the Board of Directors annually accounts for</p> <ul style="list-style-type: none"> <li>• the skills it must have to best perform its tasks</li> <li>• the composition of the Board of Directors and</li> <li>• the specific competencies of the individual members.</li> </ul>	X		<p>The Board of Directors has adopted a list of requirements for board member competencies which can be found at LINK. The board takes these requirements into account when recommending candidates for board membership.</p> <p>In the overall assessment of the composition of the Board of Directors, potential areas in which members' skills and expertise should be updated are also considered.</p>

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Recommendation	The company complies	The company does not comply	Reason*
3.1.2. The Committee <b>recommends</b> that the Board of Directors ensure a formal, thorough and transparent process for selection and nomination of candidates to the Board of Directors. When assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to age, international experience, and gender.	X		In connection with the election of new Board members, the Board considers the qualifications of new candidates, taking into consideration their qualifications and whether they match the company's needs and competency requirements. The qualifications and diversity of the remaining Board members are also taken into account in this process.
3.1.3. The Committee <b>recommends</b> that a description of the nominated candidates' qualifications, including information about other executive functions, e.g. memberships of Executive Management Board's, boards of directors and supervisory boards, including board committees, held by the candidates in foreign companies as well as information on demanding organisational tasks should accompany the notice convening the general meeting when election of members to the Board of Directors is on the agenda.	X		<p>The notice convening a general meeting involving the election of members to the Board of Directors must contain a detailed description of new candidates. For existing members standing for re-election, the notice will refer to the detailed descriptions of the relevant persons in the company's annual report.</p> <p>The description of the qualifications of a candidate for the Board of Directors in the notice convening a general meeting will indicate if he/she can be regarded as independent or not.</p>
3.1.4. The Committee <b>recommends</b> that the company's articles of association determines a retirement age for members of the Board of Directors.	X		In its rules of procedure for the Board, Bang & Olufsen A/S had previously established a retirement age of 70 years. However, in preparation for compliance with the revised recommendations, the rules of procedure for the Board have been updated to exclude this retirement age.

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Recommendation	The company complies	The company does not comply	Reason*
3.1.5. The Committee <b>recommends</b> that members of the Board of Directors elected by the general meeting be up for re-election every year at the annual general meeting.	X		Pursuant to the articles of association of Bang & Olufsen a/s, article 8 (2), Board members shall retire at each annual general meeting, but are eligible for re-election.
<b>3.2. The independence of the Board of Directors</b>			
3.2.1 In order for the members of the Board of Directors to act independently of special interests, the Committee recommends that at least half of the members elected by the general meeting be independent persons.	X		All Board members elected at the general meeting are independent as defined in the recommendations. The company thereby complies with this recommendation.
<p>The independent board of director member may not:</p> <ul style="list-style-type: none"> <li>• be, or have been within the last five years, a member of the management board/managerial staff of the company, a subsidiary or an associated company,</li> <li>• have received significant additional remuneration within the last five years from the company/group, a subsidiary or an associated company apart from a fee for its services in the capacity as a member of the supreme governing body,</li> <li>• represent the interests of a controlling shareholder,</li> </ul>			

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Recommendation	The company complies	The company does not comply	Reason*
<ul style="list-style-type: none"> <li>• within the last year, have had a material business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body of companies with similar relations) with the company, a subsidiary or an associated company,</li> <li>• be, or have been within the last three years, an employee or partner of the external audit firm,</li> <li>• be the manager of a company in which there is cross management representation with the company,</li> <li>• have been a member of the Board of Directors for more than 12 years, or</li> <li>• have close family ties with persons that are not regarded as independent persons.</li> </ul>	X		
<b>3.3. Members of the Board of Directors and the number of other executive functions</b>			
3.3.1. The Committee <b>recommends</b> that each member of the Board of Directors assesses the expected time commitment for its specific functions and assignments in order that the member does not take on more assignments than he/she can manage in a satisfactory way for the company.	X		Each member of the Board of Directors is responsible for assessing the expected time commitment for the functions they perform to ensure that they each have the necessary time to carry out their tasks as board members of Bang & Olufsen. Further, the chairman of the Board ensures that members that do not perform their duties for the company in a satisfactory manner, are advised accordingly.

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Recommendation	The company complies	The company does not comply	Reason*
<p>3.3.2. The Committee <b>recommends</b> that the annual report contains the following information about the members of the Board of Directors:</p> <ul style="list-style-type: none"> <li>• the member's occupation,</li> <li>• the member's age and gender,</li> <li>• whether the member is considered to be independent,</li> <li>• the time for the member's appointment to the Board of Directors,</li> <li>• expiration of the current election period,</li> <li>• the member's other executive functions, e.g. memberships of Executive Management Boards, boards of directors and supervisory boards, including board committees, in Danish and foreign companies,</li> <li>• demanding organisational tasks, and</li> <li>• the number of shares, options, warrants, etc. that the member holds in the company and its consolidated companies and any changes in such holdings during the financial year.</li> </ul>	X		The annual report contains information to this effect: <a href="#">LINK</a>

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
<b>3.4. Board committees</b>			
3.4.1. The Committee <b>recommends</b> that the company publish the following information on the company's website: <ul style="list-style-type: none"> <li>• the terms of reference for the board committees,</li> <li>• important activities of the committees during the year and the number of meetings held by each committee, and</li> <li>• the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	X		The company's annual report contains information to this effect. <a href="#">LINK</a>
3.4.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent members.	X		Bang & Olufsen complies with this recommendation as all members of the board committees are independent.

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
3.4.3. The Committee <b>recommends</b> that the Board of Directors establish an actual Audit Committee, in which following should be taken into account in composing said Audit Committee: <ul style="list-style-type: none"> <li>• the chairman of the Board of Directors should not be chairman of the Audit Committee, and</li> <li>• between them, the members should possess such an amount of expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit conditions of companies whose shares are admitted to trading on a regulated market.</li> </ul>	X		An audit committee has been established and the charter of the Audit Committee comprises all of the recommended preparatory tasks.
3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the Audit Committee monitor and report to the Board of Directors about: <ul style="list-style-type: none"> <li>• significant accounting policies</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook.</li> </ul>	X		Bang & Olufsen complies with this recommendation. A meeting of the Audit Committee is held prior to adoption of each financial report. At such meeting, the Audit Committee ensures that this recommendation is followed.

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
3.4.5. The Committee <b>recommends</b> that the Audit Committee: <ul style="list-style-type: none"> <li>• annually consider whether there is a need for an internal audit function, and if so,</li> <li>• formulate recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the Executive Management Board 's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	X		Bang & Olufsen complies with this recommendation.

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
<p>3.4.6. The Committee <b>recommends</b> that the Board of Directors establish a nomination committee, which has the chairman of the board as its chairman, with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required in the two governing bodies and for a given position, state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies.</li> <li>• annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes,</li> <li>• annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body,</li> <li>• consider proposals submitted by relevant persons, including shareholders and members of the governing bodies, for candidates for executive positions, and</li> <li>• propose a plan of action to the Board of Directors for the future composition of the board, hereunder suggestions for concrete changes.</li> </ul>	X		A nomination committee has been established and the charter of the Nomination Committee comprises all of the recommended preparatory tasks.

\* **The company complies/does not comply with the recommendation due to the following reason:** According to the Danish Financial Statement Act sec.107b (1)(3), the company must state its reasons for not complying with certain parts of the recommendations. The company can state why a certain recommendation has not been complied with, and what has been done instead.

The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
<p>3.4.7. The Committee <b>recommends</b> that the Board of Directors establish a remuneration committee with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• make proposals, for the approval of the Board of Directors prior to approval at the general meeting, on the remuneration policy (including the overall principles of incentive pay schemes), for members of the Board of Directors and the management board,</li> <li>• make proposals to the Board of Directors on remuneration for members of the Board of Directors and the management board and ensure that the remuneration is consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the Board of Directors and the management board receive from other companies in the group, and</li> <li>• nominate a remuneration policy that applies to the company in general.</li> </ul>	X		A remuneration committee has been established and the charter of the Remuneration Committee comprises all of the recommended preparatory tasks.
<p>3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the management board of the company.</p>	X		Bang & Olufsen complies with this recommendation.

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
<b>3.5. Evaluation of the performance of the board of directors and the executive board</b>			
3.5.1. The Committee <b>recommends</b> that the Board of Directors undertake an annual evaluation of the performance and achievements of the Board of Directors as a whole and of the individual members, as well as the cooperation with the management board. Any substantial changes due to the evaluation should be disclosed in the management commentary in the annual report or on the company's webpage.	X		Bang & Olufsen complies with this recommendation.
3.5.2. The Committee <b>recommends</b> that the Board of Directors in connection with the preparation of the general meeting considers, whether the number of members is adequate in correlation with the company's needs. It shall be ensured that a constructive debate is allowed and an effective decision-making process is enabled, so that all members have the opportunity of playing an active role.	X		The number of members of the Board of Directors of Bang & Olufsen a/s is determined through a process which takes recommendation 3.5.2 into account.
3.5.3. The Committee <b>recommends</b> that the Board of Directors at least once every year evaluate the work and performance of the management board in accordance with pre-defined criteria.	X		Bang & Olufsen complies with this recommendation.

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Recommendation	The company complies	The company does not comply	Reason*
3.5.4. The Committee <b>recommends</b> that the management board and the Board of Directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the supreme governing body and the chief executive officer and that the outcome of the evaluation be presented to the supreme governing body.	X		Bang & Olufsen complies with this recommendation.

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Recommendation	The company complies	The company does not comply	Reason*
4. REMUNERATION OF MEMBERS OF THE GOVERNING BODIES			
4.1. Content and form of the remuneration policy			
<p>4.1.1. The Committee recommends that the Board of Directors adopt a clear and easily understandable remuneration policy applicable to the Board of Directors and the management board, containing</p> <ul style="list-style-type: none"> <li>• A detailed description of the components that is entailed in the remuneration of the Board of Directors and the management board,</li> <li>• the reasons for choosing the individual components of the remuneration, and</li> <li>• a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul> <p>The remuneration policy should be approved by the general meeting and disclosed on the company's website.</p>	X	<p>The Board of Directors has adopted a remuneration policy which was last approved by the shareholders in general meeting in September 2017 and is described in the Annual Report 2017/18. The Remuneration Policy is available on the company's website <a href="#">HERE</a>.</p>	

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
4.1.2. The Committee <b>recommends</b> that, if the remuneration policy includes variable components, <ul style="list-style-type: none"> <li>• limits be set on the variable components of the total remuneration package,</li> <li>• a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long term,</li> <li>• there be clarity about performance criteria and measurability for award of variable components,</li> <li>• there be criteria ensuring that vesting periods for variable components of remuneration agreements are longer than one calendar year, and</li> <li>• That an agreement is formed, according to which the company is, in exceptional cases, rendered able to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proves to be incorrect.</li> </ul>	X		Bang & Olufsen complies with this recommendation.
4.1.3. The Committee <b>recommends</b> that remuneration of members of the Board of Directors do not include share or warrant programmes.	X		Bang & Olufsen complies with this recommendation. The Board does not participate in share option, bonus or other incentive programmes.

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
4.1.4. The Committee <b>recommends</b> that if members of the management board receive share-based remuneration, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should not be exercisable earlier than three years from the date of grant.	X		Bang & Olufsen a/s complies with this recommendation. Bang & Olufsen has established a matching shares program for certain key employees. The matching shares program includes performance targets and has a three-year vesting period.
4.1.5. The Committee <b>recommends</b> that termination payments should not amount to more than two years' annual remuneration.	X		Bang & Olufsen a/s complies with this recommendation unless local legislation imposes otherwise.
<b>4.2. Disclosure of the remuneration policy</b>			
4.2.1. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified in the chairman's statement at the company's general meeting.	X		Bang & Olufsen complies with this recommendation.
4.2.2. The Committee <b>recommends</b> that the proposal for remuneration of the Board of Directors for the current financial year be approved by the shareholders at the general meeting.	X		Bang & Olufsen complies with this recommendation. The shareholders attending the Annual General Meeting held in September 2017 were asked to approve the proposed remuneration of the Board for 2017/18. Similarly, the shareholders attending the Annual General Meeting in August 2018 will be asked to approve the board remuneration for 2018/19.

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The company is not obliged to explain if a recommendation has been complied with. However, it may be beneficial to do so as it shows what the company has done to comply with a certain recommendation. This may also be stated here.

Recommendation	The company complies	The company does not comply	Reason*
4.2.3. The Committee <b>recommends</b> that the total remuneration granted to each member of the Board of Directors and the management board by the company and other consolidated companies, hereunder the essentials of any retention- and retirement schemes, be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.	X		Bang & Olufsen complies with this recommendation.  Bang & Olufsen's Annual Report 2017/18 provides information on the Group's remuneration schemes, the remuneration components and the remuneration granted to each member of the Board of Directors and the Executive Management Board.
<b>5. FINANCIAL REPORTING, RISK MANAGEMENT AND AUDIT</b>			
<b>5.1. Identification of risks and openness of additional relevant information</b>			
5.1.1. The Committee recommends that the Board of Directors assess and in the management commentary in the annual report accounts for the most important business risks associated with the realisation of the company's strategy and overall goals, the risks associated with financial reporting as well as the company's risk management.	X		Bang & Olufsen's annual report contains a list and an assessment of business risks identified, including risks associated with financial reporting. <a href="#">LINK</a>  Bang & Olufsen complies with this recommendation.
<b>5.2. Whistleblowing</b>			
5.2.1. The Committee recommends that the Board of Directors decide whether to establish a whistleblowing scheme for expedient and confidential notification of possible or suspected wrong-doing	X		Bang & Olufsen has a whistleblowing scheme in place. The Board of Directors has adopted a whistleblower policy to guide employees on how to respond if they suspect any wrongdoings.

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Recommendation	The company complies	The company does not comply	Reason*
<b>5.3. Contact to auditor</b>			
5.3.1. The Committee recommends that the Board of Directors maintain a regular dialogue and exchange of information with the auditor, and that the Board of Directors and the Audit Committee meet with the auditor at least once every year without the management board present. This also applies to the internal auditor, if any.	X		Bang & Olufsen complies with this recommendation. The Board maintains regular dialogue and exchange of information with the independent auditors.
5.3.2. The Committee recommends that the auditor agreement and auditors' fee be agreed between the supreme governing body and the auditor on the basis of a recommendation from the Audit Committee.	X		Bang & Olufsen complies with this recommendation.

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# FINANCIAL REPORTING PROCESS AND INTERNAL CONTROL

The Board of Directors and the Executive Management Board assume the primary responsibility for Bang & Olufsen's risk management and internal control systems, including compliance with current legislation and other financial reporting standards. Bang & Olufsen's risk management and internal control systems in respect of financial reporting, including IT and tax, have been designed with a view to limiting the risk of errors and omissions in financial reporting.

## CONTROL ENVIRONMENT

Internal control at Bang & Olufsen is based on the company's organisation, decision-making processes, powers and responsibilities, which are set out in and communicated via its corporate documentation, e.g. internal policies, code of conduct, etc. Internal control is also carried out on the basis of procedures described in manuals and memoranda. The Executive Management Board has set up central functions with responsibility for compliance and control with a view to ensure compliance with relevant

legislation and other financial reporting requirements and to check financial reporting by subsidiaries and associated companies. In 2011, Bang & Olufsen set up a separate audit committee consisting of two board members. The Audit Committee currently has three members and is charged with the task of evaluating and discussing important accounting and financial reporting issues.

### Risk assessment

The Executive Management Board and the Audit Committee perform an assessment of the risks relating to financial

reporting for the entire Group at least once a year, including:

- material accounting estimates;
- material changes in accounting policies;
- an assessment of fraud risks.

The purpose of this risk assessment is to identify the financial reporting processes that are most likely to contain material misstatements. Based on such risk assessment, Bang & Olufsen's focus is to implement measures with a view to managing and reducing risk in these processes.

## CONTROL ACTIVITIES

The control framework consists first and foremost of an organisation with clearly defined roles that support the efficient and, in terms of internal control, relevant allocation of responsibilities, backed by specific control activities aimed at identifying and preventing financial reporting errors. These control activities are based on an evaluation of materiality

and risk. The purpose of the control activities is to ensure that objectives, policies, manuals, procedures etc. communicated by management are complied with and possible errors, discrepancies and omissions are prevented, discovered and corrected in time. Control activities include manual and physical checks, general IT checks and automatic application checks in IT systems, for example.

Management has established procedures for consolidated financial reporting that encompass budget reporting and monthly reporting, including budget discrepancy reporting with ongoing adjustment of estimates for the year. In addition to the income statement, balance sheet and cash flow statement, ongoing reporting also includes notes and other information.

The Audit Committee has assessed the need for internal auditing and has decided that this is not required due to the size and complexity of the company in combination with the fact that existing internal control and risk management

systems and processes are considered satisfactory.

### **Information and communication**

The principles for the Group's financial reporting and procedures for using the Group's accounting systems are described in the accounting and system manuals used by all group companies. The manuals are available on the intranet. Financial reporting is done in a single shared reporting system, which assures the parent company of full transparency in relation to the individual reporting units. Financial reporting is backed up by monthly reporting from the individual units.

## **MONITORING**

The risk assessment process and control activities are monitored on a continual basis. Monitoring consists of both formal and informal procedures, which are used by the management and the people who own processes, risks and control procedures, including checks on results, which are compared with budgets and plans, analytical procedures and important

key figures and financial ratios. The management continually monitors for compliance with relevant legislation and other financial reporting requirements and reports its findings to the Board of Directors and the Audit Committee.

The Board of Directors considers at least once a year whether the internal control systems are adequate. The internal control systems are discussed with the independent auditors at the board meeting at which the annual report is considered. Based on what the auditors state in the long-form audit report, the Board of Directors and independent auditors discuss the outcome of the audit, material accounting policies used, material accounting estimates and the appropriateness of the accounting policies used.

The Board of Directors and the Audit Committee monitor management's response to any control weaknesses and/or lack of controls and ensure that the measures agreed to improve risk management and internal controls in respect of financial reporting are implemented according to plan. The management is

responsible for following up on weaknesses in internal control identified in subsidiaries.

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