

BANG & OLUFSEN A/S - ANNUAL GENERAL MEETING, 10 SEPTEMBER 2015  
*Translation*

(In the event of any discrepancy between the oral and written version, the oral version prevails)

Welcome to Bang & Olufsen's annual general meeting. I am delighted to see that once again so many people have made the effort to be here, and I trust that we will have a good general meeting.

As usual, I will be presenting an account of the company's general development as well as the financial results for the past year. I will also review the focus areas for the next phase of our company strategy.

The 2014/15 financial year was a challenging one for Bang & Olufsen.

During the year, the company launched an extensive range of new and innovative products in both the Bang & Olufsen segment and in the B&O PLAY segment, and continued its efforts to secure the company's development through the launch of a future-proof digital technology.

The first half of the financial year was significantly impacted by challenges relating to the launch of the company's new and innovative television, BeoVision Avant, and in particular by a 23 per cent decline in first-quarter sales in the Automotive segment, which had so far generated stable and positive growth. Even though the difficulties associated with the launch of BeoVision Avant were resolved through the extremely dedicated efforts of the company's employees, the Board of Directors felt that the challenges and the consequences of these difficulties were very much attributable to the complexity of the company and not least its lack of scale. As a result the Board of Directors and the Executive Management decided to initiate a review to identify possible strategic and structural development options for the company. I will return to the results of this review shortly.

During the second half of the financial year, operations were characterised by considerably more stability. Growth was seen for both the Bang & Olufsen segment and the B&O PLAY segment, and the company generated a positive cash flow. However, earnings remained unsatisfactory.

In continuation of the review initiated in December 2014, in spring 2015 a number of decisive steps were taken with the ultimate aim of reducing the complexity of the company in the longer term and not least of stabilising future earnings.

In March 2015, we announced changes to the organisation which will realise savings of approx. DKK 100 million a year in future. Moreover, a decision was made to sell off the company's non-core business assets, for example its 33 per cent ownership interest in Medicom.

In April, we reported that we had entered into an agreement with HARMAN International Industries on a future licence agreement within the Automotive industry, and that the company had sold its assets relating to the Automotive segment.

The cooperation between Bang & Olufsen and HARMAN makes it possible to unite the two companies' respective strengths and special expertise. We will also continue to produce certain components for HARMAN.

Bang & Olufsen contributes its unique brands – Bang & Olufsen and B&O PLAY – as well as its capabilities within acoustics and, not least, design.

HARMAN has particularly strong technological capabilities and a market-leading position within, for example, navigation and infotainment systems for cars. With its considerable sales force, HARMAN has significant global sales and distribution resources which can help boost exposure of our two brands.

In addition, HARMAN has the financial muscle and the skills required to ensure that the Bang & Olufsen brand's automotive sound systems keep pace with the rapid technological developments taking place in the automotive industry.

The agreement involves the divestment of the assets relating to the former Automotive segment. For these assets and its existing contracts with Audi, BMW, Mercedes and Aston Martin, Bang & Olufsen has received an upfront cash payment of DKK 1.1 billion.

The terms of the contract also include licence payments for any new agreements which HARMAN may make with other car manufacturers, which of course both we and HARMAN expect to be the case. It is difficult to predict the size of these future licence payments. However, we expect the future licence agreements to represent a significant sum which can potentially exceed the DKK 1.1 billion which the company has already received, and to thus help support the profitability of Bang & Olufsen for many years into the future.

Following the Automotive transaction, Bang & Olufsen will now be able to focus on strengthening those of its activities which are directly related to the consumer segment. This will allow us to further strengthen the two brands Bang & Olufsen and B&O PLAY.

The Bang & Olufsen brand will remain the backbone of the company. The primary focus for the Bang & Olufsen segment will be on strengthening the brand further and on investing in innovative products and ensuring a better and more consistent consumer experience in the B1 and shop-in-shop distribution.

B&O PLAY is expected to be the most important driver of growth in the coming years. Growth will be driven by new product launches and a considerable increase in distribution. In addition to being a profitable business, B&O PLAY must continue to attract new and younger customers to the company, something which has already been proved possible in the first four years of the brand's existence.

The licence business, of which the Automotive agreement is an important part, has two primary objectives. Firstly, it must increase awareness of the two brands, and secondly it must strengthen the company's profitability by ensuring a stable cash flow which can support the company's long-term development.

Given the company's focus on the consumer segment, the Board of Directors has decided that Bang & Olufsen will try to find a new owner for ICEpower. ICEpower is a healthy company with a strong brand and unique capabilities. The company has always been an integrated part of Bang & Olufsen. However, at the moment, less than 10 per cent of ICEpower's revenue relates directly to Bang & Olufsen. In the opinion of the Board of Directors, it therefore makes sense to find a new strong, owner for ICEpower.

As regards both Bang & Olufsen and B&O PLAY, particular attention will be given to a number of special strategic focus areas in the coming three years.

For Bang & Olufsen, focus will be on ensuring a consistently high level of product innovation and quality. Additional focus will be on the segment's expertise within software, innovation, design and acoustics. At the same time, there will be a need for further reducing complexity and for improving the profitability of the product portfolio, especially the TV portfolio. Key to this will be even stronger cooperation with the company's technological partners, ensuring that their scale and technologies contribute to restoring stability and profitability for the Bang & Olufsen segment.

Moreover, the Bang & Olufsen segment will also focus on ensuring an improved and more consistent consumer experience throughout its network of stores. Also, focus will still be on attracting new and strong partners to those cities where the company does not have a strong partner at the moment.

For the B&O PLAY product portfolio, focus will be on strengthening both the audio and headphones categories with new products. Competition is fierce in the B&O PLAY segment, and focus will therefore be on supplementing the launch of new products with the launch of new variants and versions of existing products, ensuring at all times that customers have a choice of new and exciting models.

The B&O PLAY products will still be distributed via our own stores and through specialist distributors who have the requisite knowledge about local conditions to help ensure that distribution is as cost-effective as possible. Growth in third-party distribution is expected to be global, but with a particular focus on growth in North America and China.

The strategic initiatives are expected to result in both growth and improved profitability for the company. The company's financial targets for the next three-year strategy period are:

- To grow revenue by an average of approx. 10 per cent during this period, with B&O PLAY as the primary driver of growth;
- To achieve a 7 per cent profit margin before special items during the strategy period.
- To generate positive free cash flows during the strategy period.

The improved profitability will largely be driven by three factors:

- Firstly, it will be particularly crucial for the company to form technological partnerships which can contribute to restoring the profitability of its TV business. The company must continue to deliver strong Bang & Olufsen television solutions in future, but it lacks the scale needed to do so on its own. Consequently, it must find a partner which can contribute both technological know-how and scale, allowing Bang & Olufsen to focus on its expertise within acoustics and design.
- The other factor is growth for B&O PLAY. Marked growth in B&O PLAY sales does not entail similar growth in costs. As this segment holds considerable potential, growth in the B&O PLAY segment will also lead to a significant improvement in the company's profitability.
- The third factor is constituted by the licence payments, especially from Automotive; however, it is only towards the end of the three-year strategy period that they are expected to contribute to the company's profitability.

Based on these strategic measures, no one should be in any doubt that the Board of Directors still believes in the significant potential of the company. However, it is also clear to us that, to realise this potential, the company's challenges in relation to its size must be solved.

I will now provide some details about the company's development in the 2014/15 financial year.

The divestment of the Automotive assets and the revised strategy led to considerable adjustments to the company's balance sheet in the fourth quarter of the year. These adjustments are detailed on pages 11-14 of the Annual Report. The adjustments had a marked impact on the company's gross margin and capacity costs in the fourth quarter, thereby also influencing its earnings before interest and tax (EBIT).

However, it is worth noting that by far the majority of these adjustments are of a non-recurring nature and are expected to be confined to the fourth quarter. Moreover, it should be noted that most of the adjustments have no bearing on the company's free cash flow.

With a view to providing readers of the financial statements with insights into the views of the Board of Directors and company management on the company's actual development in the fourth quarter, the company has decided to supplement the IFRS-reported results with so-called underlying results for a number of items in the income statement. I will also touch upon these in my presentation.

The company's continuing operations, i.e. the segments Bang & Olufsen and B&O PLAY, posted revenue of DKK 2,356 million for the year compared with DKK 2,162 million last year. This corresponds to a 9 per cent increase. The increase in revenue was driven by both segments, which showed growth of 7 per cent and 15 per cent, respectively, relative to the previous year.

The growth in the Bang & Olufsen segment was driven primarily by the European market, where revenue grew by 6 per cent for the year. Revenue in North America grew by 3 per cent, which was largely due to the strengthening of the USD relative to DKK. Thus, the underlying growth in North America was not satisfactory, and in the course of the year the company therefore adapted the organisation and the dealer network with a view to turning North America into a growth market again in future. The development in revenue in the so-called BRIC markets, i.e. Brazil, Russia, India and China, stagnated compared to the previous financial year. This is, of course, not satisfactory either, but is primarily attributable to a sharp decline in revenue in Russia, which has been characterised by considerable economic uncertainty since summer 2014.

Revenue for the Bang & Olufsen segment totalled DKK 1,743 million against DKK 1,628 million the previous financial year. The positive growth in this segment was driven primarily by growth in the television category, with particularly strong demand for BeoVision Avant, which was launched in a 55" version in May 2014, and in 75" and 85" versions in the course of the financial year.

In January 2015, the company launched the innovative wireless music system BeoSound Moment. With the music system, it is easy to integrate today's many music and streaming services into one. Since the launch, Moment sales have been lower than expected, but we expect sales to improve in the course of the current financial year, driven by the launch of the multiroom functionality both for BeoSound Moment and for several of the company's other products.

BANG & OLUFSEN A/S - ANNUAL GENERAL MEETING, 10 SEPTEMBER 2015  
*Translation*

B&O PLAY generated revenue of DKK 613 million, compared to DKK 534 million the previous year. B&O PLAY thus grew by 15 per cent during the financial year. The growth was primarily driven by solid growth through third-party channels and internet sales, which grew by a combined 80 per cent relative to last year. Revenue through third-party channels thus totalled DKK 244 million, corresponding to almost 40 per cent of B&O PLAY's total revenue against 25 per cent of total revenue the previous year.

The strong growth in sales through third-party stores is largely attributable to a substantial increase in the number of such stores. At the end of the financial year, the number of third-party stores had thus grown to more than 3,300, up by approx. 1,900 since the end of May 2014. Revenue via the company's e-commerce platform also increased during the year, but still only accounts for a smaller proportion of B&O PLAY's revenue.

B&O PLAY revenue through the B1 and shop-in-shop network declined by 7 per cent relative to last year. The decline is primarily attributable to a fall in revenue in the first half of the year, where the number of new product launches was too low. On the other hand, B&O PLAY grew strongly in the second half of 2014/15, both in the B1 and the shop-in-shop channels.

The growth in B&O PLAY in the second half of the financial year was very much underpinned by the launch of many new products and upgrades of existing products. Demand for the wireless BeoPlay A2 speakers and the wireless BeoPlay H8 headphones has exceeded the forecasts for the year, in particular.

The strong demand for BeoPlay A2 initially led to delivery problems, but these were resolved in the course of the spring, and in the end approx. 100,000 units were sold during the financial year.

Following the launch of BeoPlay A2, the B&O PLAY portfolio now includes a very wide range of wireless audio systems, including Beolit 15 and BeoPlay A9, which will be further expanded in the autumn.

As mentioned earlier, the company has seen strong demand for the wireless BeoPlay H8 headphones, which feature Active Noise Cancellation. The headphones are based on the same design ideas as the popular BeoPlay H6 and BeoPlay H2, which were launched in May 2013 and November 2014, respectively. More new models are due to be added to the portfolio of headphones in the autumn.

With the popular and innovative products which were launched in 2014/15, and the new models to be launched during autumn 2015, B&O PLAY will have by far the strongest product portfolio since the brand was launched four years ago. The combination of the strong product portfolio and the expansion of third-party distribution is expected to result in markedly increasing sales of B&O PLAY this year.

A gross margin of 24.6 per cent was reported for the continuing operations for the year. The underlying gross margin, i.e. adjusted for the above-mentioned factors, was 37.2 per cent. A gross margin of 38.4 per cent was posted last year.

The underlying gross margin for the year was negatively impacted by a high share of television sales relative to loudspeakers in the Bang & Olufsen segment. Moreover, the gross margin was negatively impacted by the increasing share of revenue from the B&O PLAY segment, which generally returns a lower gross margin than the Bang & Olufsen segment.

As mentioned earlier, the company's capacity costs were also negatively impacted by the adjustments made in Q4. The company thus reported capacity costs of DKK 1,387 million, with underlying capacity costs of DKK 1,198 million.

However, the underlying capacity costs still exceeded last year's capacity costs of DKK 1,090 million. The increase can be ascribed to an increase in distribution and marketing costs entailed by increasing levels of activity, negative exchange rate developments and, not least, a significantly lower share of capitalised development costs.

The Group's development costs totalled DKK 370 million compared to DKK 285 million last year. The company has thus succeeded in maintaining a high level of development throughout the year, which will help ensure that Bang & Olufsen – as has been the case in the past year – can continue to launch new and innovative products at an even faster pace than previously.

Of the development costs of DKK 370 million, an amount of DKK 159 million was capitalised. The company's capitalisation rate thus fell from 62 per cent in 2013/14 to 43 per cent in 2014/15, largely due to a high level of capitalisation in the previous financial year due to the launch of the wireless loudspeakers and BeoVision Avant, among other things.

Total amortisation and impairment losses on development projects were DKK 238 million against DKK 184 million the previous year. The increase is due, among other things, to impairment losses on development projects related to products which, as a result of the launch of the new strategy, will not be completed.

The net impact of the capitalisation and amortisation of development costs on the company's operating profit (EBIT) was thus a negative DKK 79 million, compared with a negative impact of DKK 8 million last year.

The company's capitalised development projects fell from DKK 724 million at the beginning of the year to DKK 392 million at year-end. In addition to the declining capitalisation percentage, the fall is primarily due to the sale of the Automotive assets.

The company reported an earnings before interest and tax (EBIT) for its continuing operations of negative DKK 807 million for the year. As mentioned earlier, the results were impacted by several balance sheet adjustments in the fourth quarter of the year, relating to the divestment of the Automotive assets and the revised strategy. All in all, these factors impacted EBIT by DKK 484 million in the financial year. The company's underlying EBIT for its continuing operations was thus negative DKK 323 million, which is clearly not a satisfactory result, and which is worse than the outlook previously announced by the company of negative DKK 230 – 260 million.

The result for the non-continuing operations, i.e. Automotive, ICEpower, Medicom as well as the divested shops in Australia, was DKK 664 million. Of the DKK 664 million, DKK 492 million can be attributed to the proceeds from the sale of assets and companies i.e. primarily the difference between the sales price and the carrying amount of the Automotive assets. The remainder, i.e. DKK 172 million, can be attributed to the results of the non-continuing operations.

The Group is therefore posting earnings after tax of DKK 57 million for the financial year.

The company's cash flows and balance sheet have, of course, also been impacted significantly by the divestment of the Automotive assets. In addition, the company had reduced its working capital significantly by the end of the financial year.

The company's working capital had thus been reduced from DKK 724 million at the end of the third quarter to DKK 261 million at the end of the financial year. An amount of DKK 140 million is directly related to the divestment of assets, while DKK 130 million relates to the previously mentioned adjustments of the balance sheet; the remaining DKK 193 million is attributable to general improvements in the working capital and timing differences in connection with the end of the financial year.

The company's free cash flow from operating and investment activities was a positive DKK 913 million against a negative DKK 101 million last year. The free cash flow was positively impacted by sales of assets and companies in the total amount of DKK 1,123 million. Thus, adjusting the cash flows for this effect, free cash flows were negative, which is obviously something which the Board of Directors is very focused on rectifying.

Some of the free cash flows have been used to repay bank debt. The company has thus gone from having net interest-bearing debt of DKK 374 million at the end of the last financial year, to having a net bank deposit of DKK 788 million. The company's financial situation has thus been strengthened significantly as a result of the divestment of the Automotive business.

At the end of the financial year, equity totalled DKK 1,921 million against DKK 1,604 million at the end of the previous financial year. Equity now amounts to 56 per cent of the balance sheet total, against 55 per cent at the end of the previous financial year.

On 19 June 2014, the Board of Directors decided to implement a capital increase equivalent to 9.99 per cent of the existing share capital. In order to complete this increase as quickly and efficiently as possible, the company made use of the authorisation accorded by the shareholders at the annual general meeting last year to make a private placement at market price. The backing for this capital increase was so strong that it proved possible to complete it at a price equivalent to the closing price on the day. The net proceeds from the capital increase totalled DKK 250 million.

Moreover, the company's equity is positively impacted by the divestment of assets, especially the Automotive assets, as described earlier.

Moving on to the outlook for the current financial year, the company expects to grow revenue by between 8 and 12 per cent.

The B&O PLAY segment is expected to be the main source of growth, driven by the strong product portfolio and the continued expansion of third-party distribution, as described earlier. The Bang & Olufsen segment is expected to see moderate growth.

As a result of the higher in revenue, an improved gross margin and continued cost savings, the company expects to see a substantial improvement in the EBIT of its continuing operations. Costs associated with functions formerly shared with Automotive are not expected to be fully eliminated in the 2015/16 financial year as it will take time for the cutbacks to take full effect. Consequently, the company expects to post an

operating loss for 2015/16. If adjusted for costs which were formerly shared with Automotive, the company is expected to post an EBIT around break-even, which represents a substantial improvement relative to the 2014/15 financial year.

Bang & Olufsen considers its corporate governance work to be an important and ongoing process, and maintains continuous focus on the principles of good corporate governance. The company is keen to ensure a high degree of transparency in its communication, and therefore complies with the recommendations on corporate governance.

In 2013, NASDAQ OMX implemented its revised recommendations on corporate governance. Bang & Olufsen therefore complies with these recommendations, which was also the case last year.

Bang & Olufsen no longer publishes a printed version of its annual report, but an electronic version is available for downloading from the company website. From the same site, it is also possible to download additional information about products, company announcements, corporate governance, corporate social responsibility and so on.

Bang & Olufsen is committed to taking active and shared responsibility for the society of which the company is a part. This is why we have long been working with corporate social responsibility – or CSR – within the framework of our business.

We recognise the UN and ILO declarations on human rights, labour rights, anti-corruption, the environment and the climate, and have therefore chosen to structure our CSR work – including the company's CSR policy – in accordance with the guidelines laid down in the UN's Global Compact.

To formalise and clarify the CSR principles pursued by the company, the company has adopted a CSR policy. The CSR policy covers all business units and facilities in the Group, and the company is working to encourage suppliers and other business partners to act in accordance with the intentions behind this policy.

The company's code of conduct for suppliers supports the CSR policy in key areas such as the environment, human rights, labour rights and anti-corruption, and states the company's values so that these are clearly communicated to suppliers and partners etc. In addition, the company has an internal ethical policy for its procurement function.

To support the guidelines, Bang & Olufsen has established a whistleblower function whereby employees and others directly associated with the company are able to report unethical behaviour anonymously via an external hotline.

In 2015/16, Bang & Olufsen will continue its efforts to improve the working environment and to reduce the environmental impacts of the Group's activities with a view to preventing work-related injuries and cutting energy consumption and the volume of scrap generated. Independent inspections of suppliers are continuing with a view to ensuring compliance with the Code of Conduct.

A more detailed review of the company's CSR activities is available on the Bang & Olufsen website.



Following the divestment of the Automotive assets, the Board of Directors has thoroughly considered how the proceeds should be spent. As can be seen from the annual report, the conclusion is that the Board of Directors recommends to the general meeting that no dividend be paid.

Due to the company's vulnerable situation combined with the repayment of its bank debt and considering its historical earnings volatility as well as the recently launched and as yet unproven strategy, the Board of Directors deems that the company has a need for a strong capital base.

I must emphasise that this does not mean, of course, that the money will be spent willy-nilly. A lot of hard work will be put into achieving a marked improvement in earnings. Once the new strategy starts to gain traction, the Board of Directors will establish a long-term capital structure and reconsider the question of paying dividend to shareholders.

I must also inform you that prior to the convening of the general meeting, the Board of Directors received a proposal from one of the shareholders that at least 80 per cent of the proceeds from the divestment of the Automotive activities be distributed as dividend to Bang & Olufsen's shareholders. Based on the considerations which I have just presented, the Board of Directors cannot support this idea. Under the provisions of the Danish Companies Act, the general meeting cannot decide to pay dividend in excess of what has been proposed and adopted by the Board of Directors, and the proposal from the shareholder has therefore not been included in the agenda.