

Welcome to Bang & Olufsen's annual general meeting!

I am delighted to see that so many shareholders have again this year made their way here. The general meeting is, in fact, being held in the late afternoon to make it possible for as many shareholders as possible to attend – including those of our employees who hold shares in the company.

As usual, I will be presenting a report on the company's general development as well as the financial results for the past year.

By way of introduction, I would like to briefly present an overall status and highlight some of the most important events which have had a bearing on the results for the year. I will then talk in more depth about the development of the two business units, the figures and our expectations for the future. I will not go into detail about developments in individual markets – but I will talk a bit about our expectations for Europe, China and the USA.

The overall status is that the past year has been one of satisfactory growth. We grew revenue by 12% and posted EBITDAC of DKK 81 million in the underlying business, and positive free cash flows of DKK 91 million.

The financial results were therefore completely in line with the outlook announced at the beginning of the financial year.

However, I must stress that, although we have realised a healthy growth in revenue, improved our profitability and were able to consolidate, our results are still not what they should be. But the company is on the right track.

One of the reasons why we have been able to deliver results in line with expectations is, of course, the launch in the course of the year of a number of new and innovative products by both our business units – Bang & Olufsen and B&O PLAY. The products have been well received by the market, which has contributed to the growth in revenue.

We have also implemented a number of significant changes, which positively impacted the development in the company.

In the spring, we sold our factory in the Czech Republic where, for the past 12 years, a large number of Bang & Olufsen and B&O PLAY products have been produced by our skilled employees. The new owner, Tymphany Acoustics Technology, is a long-standing partner, and in connection with the divestment of the factory, a long-term cooperation agreement has been concluded, which means that many of our products will still be produced at the same factory and by the same employees. The divestment should be seen in light of our desire to create a more agile business model focusing on our core competences – acoustics, design and craftsmanship. We will increasingly work with partners in areas that fall outside our core competences. The divestment improves our liquidity, while also significantly reducing the need for future investments.

Significant changes were also introduced to our distribution in the course of the year. We increased the number of B&O PLAY outlets from 5,692 to 6,424. At the same time, we have also focused on increasing sales per store and on like-for-like sales, which have also developed positively in the course of the year. Concurrently, the number of B1 stores has been adjusted with the aim of strengthening customer experience and ensuring better profitability in the store network.

I will now talk about the activities in the individual business areas.

During the year, the Bang & Olufsen business unit launched a number of new and innovative products.

All the new Bang & Olufsen products are based on our core competences – acoustics, design and craftsmanship – while at the same time incorporating the latest technologies thanks to our collaboration with technology partners such as LG.

The increased use of technology partners has also contributed to a general improvement of the profitability in Bang & Olufsen in recent years. We are strongly focused on maintaining this trend.

The new Bang & Olufsen products have been developed within three product categories, which address the various ways of using our products.

The products in the **'Flexible Living' category** are tailored to the increased demand for more flexible products for the home, and they can be used in different situations.

In this category, we launched a new TV, BeoVision Horizon, which – in addition to an exciting design featuring anodised aluminium surfaces and top-class sound and picture quality – is distinguished by its very flexible placement options.

In the same category, we launched a new family of wireless speaker systems consisting of BeoSound 1 and BeoSound 2. These wireless speaker systems in aluminium are also designed for flexibility, both when it comes to connectivity and placement options, and the speakers have a built-in multiroom feature.

The products in the **'Immersive Moments' category** are intended for customers who really want to immerse themselves in sound and picture experiences. In this category, we launched a new TV, BeoVision 14, with oak lamellas which very much reflect Bang & Olufsen's core competences within design and craftsmanship.

In April, we presented a product in a totally new category which we call **'Sound as Interior'**. The product is called BeoSound Shape and is a wireless speaker system combining superb sound with a unique design and flexibility for modern homes, and which also helps to improve the acoustics in the home, even when the system is switched off. The wall-mounted speaker system consists of hexagonal modules which can be positioned on the wall in endless combinations, in terms of size and shape. This allows users to personalise the visual look of BeoSound Shape.

BeoSound Shape has just hit the Bang & Olufsen stores, and we expect the system to make a significant contribution to revenue, while at the same time boosting awareness of the Bang & Olufsen brand even further.

In the course of the year, 50 new B1 stores and shop-in-shops were either opened or upgraded, while 81 stores were closed or converted into shop-in-shops. This was done to improve the quality and profitability of the store network. At the end of 2016/17, there was a total of 626 B1 stores and shop-in-shop stores.

During the year, the B&O PLAY business unit focused on positioning itself globally in the premium segment and on ensuring greater market penetration.

In 2016/17, the portfolio of B&O PLAY products was expanded to include several new products within three different categories.

In the **'Personal on-the-go' category**, B&O PLAY launched Beoplay H9, a new top-of-the-range wireless headphone model offering active noise cancellation and an exclusive design in the very best materials. Other new products in this category were Beoplay H4 and the extremely popular wireless earphones Beoplay H5, which were enthusiastically received by the market.

The **'Social on-the-go' category** is for consumers who like to share their experiences with others. New in this category is Beoplay P2, which is the smallest member of the B&O PLAY portfolio of wireless Bluetooth speakers.

B&O PLAY also offers **'Flexible Living' products**, which are easy to incorporate into home interiors and which can be included in wireless multiroom setups – also with Bang & Olufsen products in the same category. In this category, B&O PLAY launched the powerful Beoplay M5 multiroom speaker which can also be used with Bang & Olufsen products with multiroom set-up.

To maintain growth momentum, it has been a priority for B&O PLAY to increase its outlet numbers globally. The retail stores have been – and are still – very interested in being allowed to market the products from B&O PLAY, and a number of agreements have been made with new distributors. At the same time, we have also focused on increasing sales per store and like-for-like sales, which also developed positively in the course of the year. Among other things, as a result of increased marketing and training of sales staff.

All in all, more than 700 new B&O PLAY retail outlets were added, bringing the total number to 6,424 at the end of the financial year. In addition, the B&O PLAY products are also sold by the B1 and shop-in-shop stores, of course. The number of outlets increased both in Europe and China, and in the USA.

The licensing business has become an integral part of the company's business and is an important source of earnings. At the same time, this part of the business is also contributing significantly to boosting awareness of the Bang & Olufsen brand. Licence revenue for the financial year totalled DKK 140 million against DKK 30 million the year before.

In the past year, the company has increased activities within its licensing business, which primarily consists of licence partnerships with Hewlett-Packard on PCs, tablets and accessories, the Automotive partnership with HARMAN, and the partnership with LG Electronics regarding the development of TV solutions and audio optimisation of smartphones.

The licensing partnerships with Hewlett-Packard and LG were developed significantly during the year. Hewlett-Packard launched a number of new PCs, which Bang & Olufsen has helped to audio-optimize. The company has received licence payments for this; also, the partnership is ensuring regular exposure of the

brand to a large number of new potential customers. In addition, the company has worked with LG to improve the audio quality of selected smartphones.

HARMAN's cooperation with the car manufacturer Ford over the past year on B&O PLAY audio solutions for some of Ford's large portfolio of car models worldwide has already resulted in valuable exposure, and there is more to come. Ford has announced that the new 2018 version of the Ford F-150 will be available with a B&O PLAY sound system. The new F-150 is part of the Ford F series, which has been the best-selling car in the USA for the past 35 years. At the other end of the scale, it has been announced that the new generation of Europe's best-selling 'smaller vehicle', the Ford Fiesta, will also be available with a B&O PLAY sound system.

I will now present the results for the 2016/17 financial year.

Like last year, we have decided to supplement the IFRS-reported results with the so-called 'underlying' results for selected key items in the income statement.

We have done this in order to provide a better insight into how the Board of Directors and the company management see the company's actual development in the financial year – unimpacted by costs relating to divested activities and other expenses of a non-recurring nature. I will therefore also refer to these underlying figures in my presentation.

The company posted total revenue of DKK 2,954 million for 2016/17 against DKK 2,633 million last year. This represents an increase of 12% – in fact the same growth rate as last year, when the company delivered the highest growth rate in ten years. Generating growth of 27% relative to the year before, B&O PLAY was the main driver of the growth, while Bang & Olufsen grew by 3%.

Revenue for the Bang & Olufsen business unit totalled DKK 1,718 million against DKK 1,663 million in the previous financial year. Growth was driven, in particular, by the positive development in the licensing business and increased sales of audio products after the launch of BeoSound 1 and BeoSound 2.

The business unit B&O PLAY realised sales of DKK 1,236 million for the financial year compared to DKK 970 million the year before. Growth was driven by new and innovative products, with Beoplay H5, Beoplay H9, Beoplay M5 and Beoplay P2 selling particularly well.

The gross margin for the underlying business, i.e. adjusted for the factors mentioned previously, was 39.7%. By comparison, the underlying gross margin for the previous year was 37.7%. The gross margins for both Bang & Olufsen and B&O PLAY improved compared to last year. Bang & Olufsen's gross margin was positively impacted by income from the licensing partnerships, while the B&O PLAY gross margin was positively affected by increased sales volumes and improved product margins. The reported gross margin for continuing operations was 38.1%.

The company's underlying capacity costs totalled DKK 1,208 million compared to DKK 1,066 million last year. The increase is attributable, in particular, to higher amortisation of development projects, including the effect from accelerated depreciation of the TV portfolio as a result of the new partnership with LG on the TV front, and higher distribution and marketing costs. The higher distribution and marketing costs reflect the fact that investments have been made in growth for B&O PLAY, while costs have been reduced

in the Bang & Olufsen business. The company's reported capacity costs totalled DKK 1,295 million compared to DKK 1,159 million last year.

The Group's development costs totalled DKK 386 million compared to DKK 315 million last year. The increase is attributable to investments in new products in B&O PLAY and Bang & Olufsen, which I will return to later.

A total of DKK 174 million has been capitalised, compared to DKK 152 million last year. This means that the company's capitalisation percentage decreased from 50.3% in 2015/16 to 48.1% in 2016/17.

Total amortisation and impairment losses on development projects were DKK 222 million against DKK 165 million the previous year.

The net impact of the capitalisation and amortisation of development costs on the company's operating profit (EBIT) was thus a negative DKK 48 million. A negative impact of DKK 13 million was seen last year.

The company's capitalised development projects fell from DKK 383 million at the beginning of the year to DKK 335 million at year-end.

Earnings before interest, tax, depreciation, amortisation and capitalisation of development costs – also called EBITDAC – of DKK 81 million were posted against DKK 14 million last year. Profitability has thus improved, which is in line with the outlook announced earlier of an improved EBITDAC in the underlying business relative to 2015/16. EBITDAC was DKK 25 million for the year compared to a negative DKK 106 million the year before. As mentioned before, the results were affected by a number of non-recurring costs.

After tax, the company realised a loss of DKK 117 million.

At year-end 2016/17, the company's working capital totalled DKK 27 million against DKK 319 million the year before. The working capital was reduced by DKK 112 million following the divestment of the Czech subsidiary and by DKK 98 million as a result of the development in trade payables. The working capital was also impacted by impairment losses on service and product inventories.

Over the past few years, the company has thus succeeded in significantly reducing funds tied up compared to the levels realised a few years ago. The reduction can be attributed to a combination of changes in the company structure – primarily due to the divestment of activities – and the continuous optimisation of operations.

The company's free cash flows totalled DKK 307 million in 2016/17 against a negative DKK 187 million last year. The development was impacted by the release of the final escrow payment from the Automotive transaction of DKK 93 million, and DKK 123 million from the divestment of the Czech subsidiary. Adjusted for these items, the company's free cash flows totalled DKK 91 million. At the end of the financial year, the company had net bank deposits of DKK 900 million against DKK 599 million the year before. The liquidity situation is thus quite solid, which also means that the company is free to implement the measures needed to ensure profitable long-term growth.

At year-end, equity totalled DKK 1,586 million against DKK 1,725 million at the end of the previous financial year. Equity now equates to 56% of the balance sheet total, against 61% at the end of the 2015/16 financial year.

All in all, the company is characterised by a solid equity position and a strong solvency position. This is a good starting point for the future – both when it comes to tackling any unforeseen challenges and making the right decisions and investments to benefit the long-term development of the company.

In the past year, the company has had five focus areas.

1. In order to create a strong foundation for the future, the company has clarified its strategy for the next three years. This was announced in connection with the annual report in July together with the outlook for the company's results up until 2020. I will elaborate on the strategic direction a bit later.
2. To create a more agile business model, priority has been given to strengthening the company's core competences – acoustics, design and craftsmanship. This means, for example, that we are increasingly working with partners in areas which are not naturally associated with these core competences, and as previously mentioned, this has also meant that we sold our factory in the Czech Republic in the spring. This has contributed significantly to improving liquidity – and moving forward, it will also reduce the need for investments.
3. In the past year, we have focused strongly on the launch of new and innovative products. In the Bang & Olufsen business unit, we, among other things, launched two new TVs, two new multiroom speaker systems and BeoSound Shape, while seven new B&O PLAY products have been introduced. In connection with the development and marketing of the new products, it has been crucial that each of the products caters for the different customer groups and use cases. A good example of this is the products in the Flexible Living category aimed at consumers who demand flexible solutions – including that the Bang & Olufsen products and the B&O PLAY products in the Flexible Living category can be part of the same multiroom setup. This will be an important strategic focus area for the company going forward.
4. As mentioned initially, we have also worked to strengthen the retail network, as this is crucial to being able to sell our products across the markets. We have increased the number of B&O PLAY sales outlets as a way of reaching out to new potential customers. Concurrently, the number of B1 stores has been adjusted with the aim of strengthening customer experience and ensuring better profitability in the store network.
5. A final priority was strengthening global growth. We have entered into agreements with major retail networks and partners all over the world, and we have seen considerable growth in online product sales – both via our own channels and via the online platforms of partners. Finally, developments were positive, especially in North America and China, with significant growth in revenue, especially for B&O PLAY.

As mentioned previously, the company has further defined its strategy for the next three years – and also presented its financial targets for the future, which I will return to later.

As shown by the financial statements, the company is on the right track, and we have created a solid foundation for the future. The strategy should therefore be seen as a clarification of our current direction and as a continuation of the initiatives introduced in recent years. The strategy must contribute to ensuring that we maintain and develop the company's current growth momentum and create a profitable business.

Our long-term ambition is for Bang & Olufsen to become the leading global audio lifestyle brand.

We do not necessarily want to be the biggest in the world, but our ambition is to be the leading brand and to set new standards through our innovative and inspiring products.

We are not just a Danish company selling products in Denmark. We need to be an international company with a global mindset, and we must make the most of our global potential. Our products must be just as relevant in China and the USA as they are in Denmark.

Ours are not just technology or audio products. We must be a lifestyle brand that inspires our customers and supports the way they express themselves and live.

And finally, unique sound and acoustics must be the focal point of the company and all the products we develop.

Over the next three years, we will focus on five strategic tracks which must contribute to fulfilling our long-term ambition.

1. Our brand is strong, but it is crucial that we continue to strengthen it. Bang & Olufsen and B&O PLAY are two independent business units, but support a single brand. Priority is therefore also given to ensuring greater coherence between the two business units and creating one company, resulting in a clearer profile and a more consistent customer experience. As mentioned previously, the company has in recent years entered into a number of partnerships with some of the world's largest and most innovative companies. The brand partnerships have become an important part of the business and a platform for introducing new potential customers to the brand. The importance of this part of the business will not lessen in future – on the contrary, it will be a very important element in the efforts to generate more revenue, increase profitability and boost brand awareness.
2. New products and future innovation will be based on the company's core competences – acoustics, design and craftsmanship. We will supplement our competences with technology partners who are leading within their fields. This will both contribute to developing and refining Bang & Olufsen's own core competences, and also help to ensure that we have the flexibility needed to quickly and efficiently adapt to new technologies and changing customer needs.
3. In order to maintain our current growth momentum, it is crucial that we make the most of our global potential – particularly in China and the USA. Despite high growth rates, we still see considerable potential for increasing awareness and growing our business in these markets. In order to realise this potential, we are going to strengthen the local organisations and allocate more

resources to B&O PLAY. At the same time, we are going to expand our brand partnerships to include both new and existing partners, as they also play an important role when it comes to boosting awareness of the Bang & Olufsen brand in these markets.

4. The ongoing work to optimise our channels and distribution plays an important role when it comes to ensuring that we target consumers – both where they are today and where they are going to be in the future – and not least when it comes to ensuring that they get the best customer experience. At the same time, it is essential that we create a model that is both attractive and profitable for our partners. B1 stores will continue to play an important role, but they must be supplemented by other channels to ensure a wider distribution of Bang & Olufsen products, both online and physically. We are going to continue to develop the B1 store network to consist of fewer but stronger partners who can provide the right customer experience and whose size ensures that they can run a professional retail business. We are going to further develop our third-party distribution set-up. Our focus will be on increasing the total number of stores over time, including also within the lifestyle segment, but at the same time with a sharp focus on quality and relevance. Finally, it is essential that we strengthen our digital interaction with customers. We are therefore going to create a stronger and more coherent digital profile for Bang & Olufsen across all our platforms.
5. We are going to continue our efforts to create a more agile and asset-light business model – reducing complexity, increasing flexibility and scaling our business further. The company is already strongly geared to adapting its products to new technological changes and platforms through cooperation with technology partners such as LG within the TV segment, while the divestment of our factory in the Czech Republic is increasing flexibility.

The company has set ambitious targets for the next three years, but I believe we have a good starting point for achieving these goals.

We expect to realise average growth in excess of 10% over the next three years across the business. B&O PLAY is expected to deliver average annual growth of more than 20%, while the Bang & Olufsen business unit is expected to realise low, single-digit growth.

At the same time, our target is to achieve an EBIT margin of 12% within the next three years. This will be done based on continued growth, increased licence revenue and the initiatives introduced to improve profitability.

As the company's operating model requires ever less capital to finance growth, the company's free cash flows are expected to increase to a level of more than 10% of revenue before May 2020.

Looking at the outlook for the current year, we must maintain growth and improve profitability. More specifically, this means revenue growth of approx. 10% relative to 2016/17.

Growth is still expected to be driven by B&O PLAY, which must grow by more than 20% compared to 2016/17. This will be achieved through the continued development of the existing product categories, while at the same time strengthening our sales channel. The efforts to strengthen the company's brand globally will also impact sales positively.

The revenue curve in the Bang & Olufsen business unit – including revenue relating to the brand partnerships – is expected to be flat. We expect revenue in the region of DKK 160-200 million from the brand partnerships.

In the Bang & Olufsen business, revenue must come from new and innovative products, based on the company's core competences within acoustics, design and craftsmanship.

Earnings before interest, tax, depreciation, amortisation and capitalisation for the underlying business (EBITDAC) are expected to equate to 8-10% of revenue. The current financial year will still be affected by the changed operating model in the Bang & Olufsen business, which will lead to a continued high level of depreciation and amortisation, while the level of capitalisation will fall.

The EBIT margin for the underlying business is expected to be in the region of 1-3% in 2017/18. The previously announced outlook was in excess of 7%. However, due to the change in our business model, we will be heavily impacted by higher levels of depreciation and amortisation next year. This is one of the reasons why our guidance is based on EBITDAC. We follow the plan to improve the profitability of the company, which is reflected in an expected EBIT margin in excess of 12% in 2019/20.

Moreover, the company's free cash flows are expected to be positive.

There have also been some changes to the company's Executive Management Board and Board of Directors.

Jim Hagemann Snabe is stepping down from the Board of Directors, and I would like to take this opportunity to thank Jim for his huge contribution to Bang & Olufsen.

Søren Balling is the new employee-elected member of the Board of Directors, taking over from Jesper Olesen, who has left the company. Welcome to Søren, and many thanks to Jesper Olesen for serving on the board.

Finally, as announced in April, John Mollanger is new Executive Vice President of B&O PLAY and a member of the Executive Management Board. In his professional career, John has worked in the USA, Europe and Asia for leading global companies within the sport, lifestyle and fashion segments. In addition, his experience includes being the founder, majority shareholder and CEO of an international start-up company. John's profile is therefore perfectly suited to B&O PLAY, and I am confident that the company will benefit greatly from John's past experience with building brands, strengthening retail distribution and creating revenue growth.

Based on the revised strategy, we believe that we can maintain the current strong growth momentum, create a profitable business and develop new, innovative products for the benefit of our many customers.

The new financial year has already seen the launch of a number of new products.

In August, Bang & Olufsen launched a new speaker in the 'Immersive Moments' category. BeoLab 50 is the first speaker to spring directly from the company's flagship, BeoLab 90, with which it shares a number of features. With its polished aluminium surfaces and oak lamellas, BeoLab 50 also shares a number of features with other recent Bang & Olufsen products.

Two weeks ago, Bang & Olufsen presented BeoVision Eclipse, the first result of our strategic technology partnership with LG Electronics on the development and production of Bang & Olufsen TVs. Technologically, the partnership with LG has taken Bang & Olufsen's TV portfolio to a new level by virtue of LG's leading position within the so-called OLED technology. At the same time, it has meant that we have been able to focus on our own unique competences and add an unmistakable Bang & Olufsen touch to the new TV. The result speaks for itself – BeoVision Eclipse is in every way a fantastic TV.

In June, B&O PLAY launched Beoplay E4, which is the next generation of earphones with active noise cancellation. Beoplay E4 is designed as a stylish accessory for travellers and people who are always on the move. Beoplay E4 allows users to enjoy silence wherever they are, while always delivering absolutely top-class sound.

This development is proof of our strong innovation power, and it makes me confident that we have a huge potential for the future.

Here at the general meeting, we should also touch on what is known as corporate governance. Bang & Olufsen considers its corporate governance work to be an important and ongoing process, and we maintain a continuous focus on the principles of good corporate governance.

As a company listed on NASDAQ Copenhagen A/S and under the Danish Financial Statements Act, Bang & Olufsen is subject to the recommendations on corporate governance. NASDAQ Copenhagen A/S revised the recommendations in 2014, and Bang & Olufsen complies with these recommendations.

The company's Board of Directors has prepared a report on corporate governance for 2016/17. The report is available on the company website. From the same site, it is also possible to download the annual report and additional information about products, company announcements, corporate social responsibility etc.

Bang & Olufsen has, for many years, been working with corporate social responsibility – or CSR – because we are committed to taking active and shared responsibility for the society and communities of which we are a part.

Bang & Olufsen recognises the UN and ILO declarations on human rights, labour rights, anti-corruption, the environment and the climate, and we 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.

The company has adopted a CSR policy in order to formalise and clarify the CSR principles it pursues. 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 conduct themselves 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.

Bang & Olufsen has a whistleblower function to support the guidelines. It is an externally operated hotline, where employees and others directly associated with the company can report any infringements of the company's CSR policy.

The CSR report for 2016/17 documents the company's work with its CSR targets in the most recent financial year and also describes the CSR targets for the current financial year.

In 2017/18, Bang & Olufsen will continue its efforts to improve the working environment and reduce the environmental impacts from its activities. However, we acknowledge that we can – and must – do even better, and that historically the resources which we have been able to devote to CSR have been limited. We are therefore going to increase our efforts in this area, starting in the current financial year.

At the end of the 2014/15 financial year, the company received substantial proceeds from the Automotive transaction, resulting in positive liquidity. The 2016/17 financial year brought an improvement in the company's financial results, but the full effect of the strategic initiatives of recent years – such as the Automotive partnership with HARMAN International Industries and the technology partnership with LG Electronics – has yet to materialise.

The Board of Directors therefore recommends to the general meeting that no dividend be paid for the financial year.

The company is currently undergoing an appreciable transformation. Once the strategy begins to generate stable results, the Board of Directors will define and implement a long-term capital structure and also reconsider the question of distribution to the shareholders.