

BANG & OLUFSEN A/S – ANNUAL GENERAL MEETING 2014
TRANSLATION

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The financial year 2013/14 marked the conclusion of the first phase of our 'Leaner, Faster, Stronger' strategy. It was a year in which we gave top priority to laying the foundations on which Bang & Olufsen is to build its growth over the coming years.

The product portfolio has been significantly strengthened during the year through the launch of a range of new and innovative products. In autumn 2013, Bang & Olufsen became one of the first companies in the world to introduce several new loudspeaker models featuring wireless transfer of high quality audio. The signal is actually of such high quality and features such little delay that the new speakers can be used for surround sound.

A total of four wireless loudspeaker models were introduced during the year, and all four were very well received by customers, dealers and the media alike.

BeoLab 18, in particular, with its distinctive wooden lamellas based on the design of the iconic BeoLab 8000, has already become a design icon itself. Since its launch, BeoLab 18 has garnered a wealth of positive reviews in the trade press, and in January this loudspeaker won the 'Best of Innovations' award in the 'High Performance Home Audio' category at the Consumer Electronics Show (CES) in Las Vegas.

Another important event for Bang & Olufsen during the year was the launch of the 55-inch television: BeoVision Avant. This new TV is an excellent example of the company's more robust and efficient innovation process. With BeoVision Avant, Bang & Olufsen has succeeded in introducing a television that combines modern technology such as the Ultra HD screen with attractive design, sublime audio and – in particular – the mechanical magic for which Bang & Olufsen is rightly famous. What is more, the company has managed to achieve all this at the same time as halving the price of the television in relation to the model it replaces. One of the key focus areas of the first phase of the strategy was to reduce development and production expenses so as to make it possible to improve the price/value ratio in the TV portfolio. With the launch of BeoVision Avant, we have found the right balance and laid the foundations for boosting sales of TV units once more.

Over the past year, the company has maintained its focus on increasing the profitability of the store network. Revenue for the individual stores rose by 4 per cent for B1 stores and by 2 per cent for Shop-in-Shop outlets. Even though this is far from sufficient to create a profitable store network, growth in the second half of the year was significantly higher than in the first six months, which gives grounds for optimism that the health of the store network is moving in the right direction.

During the next phase of the strategy, we expect to begin expanding distribution such that we envisage adding around 100 new partner-owned stores to our global network over the coming three years.

Over the past year, the number of third-party distributors of B&O PLAY products was also increased and there are now more than 1,000 outlets worldwide selling B&O PLAY products, in addition to the 700 or so dedicated Bang & Olufsen stores. The BeoPlay H3 and H6 headphones launched in May 2013 have played a key role in our successfully increasing the number of third-party distributors. We expect that the product launches scheduled for 2014/15 – combined with a

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focused sales push – will contribute to boosting the number of third-party distributors significantly over the coming year.

Automotive returned strong growth, up 12 per cent for the year. This robust development was based on both new models launched during the year, and increased focus on the sale and marketing of sound systems for models introduced in previous years.

Over the past 12 months, Automotive launched new sound systems for the Aston Martin Vanquish and the Audi TT.

Immediately before summer, we announced two new members of the company's Executive Board.

Anders Aakær Jensen joined the board as CFO (Chief Financial Officer) from 1 August, taking over the role from Henning Bejer Beck. Anders joins the company from Grundfos Holding A/S, where his career encompassed high-profile positions in Denmark and abroad in the fields of financing, financial management and accounts.

In addition, we have hired Stefan Persson in the new position of COO (Chief Operating Officer). In his new role, Stefan has responsibility for the company's Product Development, Product Management, Production and Supply Chain Management. Stefan joins us from Sony Mobile Communications, bringing with him years of international experience with product management and product development. Stefan's appointment is intended in part to allow Tue Mantoni, CEO of Bang & Olufsen, to devote more of his time to the company's sales and marketing activities as part of the ongoing commitment to achieving the desired growth.

Before moving on to a review of the company's strategic focus for the coming years, I would first like to take a look at the results achieved in the financial year 2013/14.

The group's revenue in the financial year 2013/14 totalled DKK 2,864 million compared to DKK 2,814 million in 2012/13, equivalent to an increase of 5 per cent.

Activities at Bang & Olufsen are divided into two business areas: business to consumer (B2C) and business to business (B2B). The B2C segment encompasses the company's AV and B&O PLAY products. Total revenue in B2C fell by 1 per cent.

The AV segment generated revenue of DKK 1,633 million against DKK 1,649 million in the previous financial year, equivalent to a decrease of just 1 per cent. The AV segment thus succeeded in stabilising the negative development in revenue we have seen in recent years. In the second half of the financial year, AV started to show signs of growth, driven by new products including and in particular the new wireless loudspeakers. This positive development gives us additional grounds for confidence that the AV segment is poised to start growing again after a number of challenging years.

The revenue for B&O PLAY was DKK 535 million, compared to DKK 532 million last year. B&O PLAY thus grew by 1 per cent during the financial year, which is appreciably lower than the growth rate achieved last year. This limited growth is primarily attributable to the modest number of product launches in the B&O PLAY category compared to previous years. B&O PLAY revenue through B1 store and Shop-in-Shop distribution dropped from DKK 473 million to DKK 399 million.

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In addition to the modest number of product launches, this fall is attributable to the fact that the emphasis in B1 store and shop-in-shop distribution has primarily been placed on the numerous new products introduced under the Bang & Olufsen brand. We believe that the high number of new products scheduled for launch under the B&O PLAY brand during the present financial year will stabilise revenue or perhaps even give it a boost.

Over the past year, sales of B&O PLAY products through third-party distributors and e-commerce grew from DKK 60 million in 2012/2013 to DKK 136 million. Even though this is still a relatively small amount in relation to the company's business as a whole, we believe that this sales channel holds appreciable growth potential for B&O PLAY products going forward.

Over the course of the coming financial year, both the number of new product launches and the number of third-party stores will increase significantly. We therefore also expect that B&O PLAY will start to generate revenue growth once more.

The B2B business area comprises Automotive and ICEpower, and revenue rose by 13 per cent over the year for these two segments.

Revenue for Automotive totalled DKK 612 million compared to DKK 546 million last year, which corresponds to growth of 12 per cent. The strong development achieved by Automotive was powered by solutions for two new car models – Audi TT and Aston Martin Vanquish – as well as improved sales input with regard to existing car models for which Bang & Olufsen sound systems are already available as optional extras. Sales and marketing resources in Automotive have been appreciably reinforced during the year, and this is expected to help the company continue the positive development during the coming phase of the strategy – although probably with lower rates of growth than those we have witnessed in recent years.

With growth of 18 per cent, ICEpower was the business segment that showed the most positive development of all over the past financial year. The segment generated revenue of DKK 102 million against to DKK 87 million last year.

The gross margin for the group amounted to 42.8 per cent for the year, corresponding to an improvement of almost four percentage points on the previous financial year. This improvement is largely attributable to the focus in recent years on applying a more structured and efficient innovation process, which as meant that the new products launched have generally brought in a higher gross margin than previous products. In addition, factors such as a higher proportion of loudspeaker sales in the AV segment, and sales of more 'premium' loudspeakers – as they are known – in the Automotive segment have had a positive impact on the gross margin figure.

The company continues to focus strongly on keeping costs down. As a result, the group's capacity costs decreased to DKK 1,222 million, down 5 per cent from DKK 1,283 million in the previous financial year. The improvement in costs was primarily driven by a reduction in development costs, which fell by 17 per cent in relation to the previous financial year. Much of the reduction in development costs can be attributed to the fact that the share of these costs that was capitalised rose from 53 per cent in 2012/13 to 66 per cent in 2013/14. The company's administration costs also fell during the financial year, although this was due in part to non-recurring income in the

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amount of DKK 11 million from a sale and leaseback transaction on the factory in the Czech Republic.

Distribution and marketing costs increased by DKK 26 million on the previous financial year, a rise of 3 per cent.

The group's development costs totalled DKK 390 million compared to DKK 476 million last year. In addition, the company invested a further DKK 47.5 million in development assets during the year. Despite the fall in these costs, the company succeeded in maintaining a high level of development through the year, which will help assure that Bang & Olufsen – in the same way as in the past year – can continue to launch new and innovative products at a faster pace than previously.

Of the development costs of DKK 390 million, DKK 259 million were capitalised. The company's capitalisation percentage has thus increased from 53 per cent in 2012/13 to 66 per cent in 2013/14. The rise in the capitalisation percentage is attributable in particular to the launch of the numerous new products, including the wireless loudspeakers and BeoVision Avant during the year. Amortisation of completed development projects amounted to DKK 238 million, which represents an increase of DKK 21 million on the previous year.

Earnings before interest and tax (EBIT) improved significantly on the previous financial year, with the company succeeding in generating a small profit of DKK 3 million for the year, turning around the loss of DKK 187 million recorded in the financial year 2012/13. The EBIT figure was thus in line with the expectations stated at the start of the financial year, but is naturally still a long way from what is considered a satisfactory long-term level.

The group posted negative earnings before tax for the financial year 2013/14 of DKK 23 million, compared to negative earnings before tax of DKK 210 million in 2012/13.

The reduction of the corporate tax rate has had a negative impact on the value of the company's deferred tax assets. For this reason, the company recorded a net tax expense of DKK 6 million for the financial year, despite posting negative earnings before tax.

After tax, the negative earnings for the year were thus DKK 29 million against negative earnings of DKK 159 million in the previous financial year.

With regard to the company's cash flows and balance sheet, considerable work has been done in recent years to reduce funds tied up in the company. Working capital nevertheless closed DKK 100 million above the level at the end of the previous financial year. This increase is largely due to the launch of BeoVision Avant late in the financial year, which resulted in both stocks and trade receivables being significantly higher than in the previous year. It is therefore expected that working capital will decrease again over the coming financial year.

The group's cash flow from operating activities was positive at DKK 184 million against DKK 127 million last year. The group registered a negative cash flow from investing activities of DKK 285 million, compared to a negative figure of DKK 329 million the year before. Cash flows from investing activities were positively affected by factors including DKK 79 million from the sale of land and production facilities in the Czech Republic – what is known as a sale and leaseback transaction – completed in spring this year.

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TRANSLATION

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The free cash flow from operating and investment activities totalled DKK -101 million against DKK -202 million last year.

The group's net interest-bearing debt at the end of the financial year was DKK 374 million, compared to DKK 273 million at the end of the previous financial year. This increase can be attributed to the group's negative cash flows.

The group's NIBD/EBITDA ratio is 1.1 against 1.9 last year. This key figure has thus been positively affected by the improvement in operating profits exceeding the increase in the level of debt.

Equity for the group has been negatively influenced by the earnings for the year. Equity at the end of the financial year thus totalled DKK 1,604 million, compared to DKK 1,640 million at year end 2012/13. Equity now amounts to 56 per cent of the total balance sheet total, against 60 per cent at the end of the previous financial year.

On 19 June this year – i.e. after the close of the financial year – the Board of Directors of the company decided to do a capital increase equivalent to 9.99 per cent of the existing share capital. In order to complete this expansion 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 expansion was so strong that it proved possible to complete it at a price equivalent to the closing price on the day.

The establishment of the price for the capital expansion was completed through what is known as a 'book building process', which is a standard process for transactions of this kind. The net proceeds from the capital expansion amounted to DKK 250 million, which will be added to the company's cash and capital resources, allowing us:

- To maintain the high level of investments in product development
- To spread familiarity with the company's new products through an increase in marketing activities
- To accelerate the growth of B&O PLAY through third-party channels, and
- Pursue the B2B opportunities which exist within the luxury hotels and commercial projects market

As I mentioned in my introduction, the financial year that was closed at the end of May was the final year of the first phase of our 'Leaner, Faster, Stronger' strategy.

During the first three years of this strategy, we have ...

- ... created a much stronger product portfolio, across all product categories.
- We have established the B&O PLAY brand, which has grown to generate revenue in excess of DKK 500 million, and which has attracted a great many new, young customers to Bang & Olufsen.
- We have strengthened our store network by assuring higher revenue per store, such that we now have a distribution set-up comprising fewer, but more profitable, stores.
- We have laid strong foundations for growth in China by taking over the store network and establishing a partnership with Sparkle Roll.

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- And we have created a better structured and more efficient innovation process.

The first phase of the strategy has thus created a firm base on which Bang & Olufsen can grow over the coming years. The focus of the second phase of the strategy will thus be to generate profitable growth by building on the foundations from the first phase. The primary emphasis will be on maintaining the high level of product innovation, while simultaneously increasing familiarity among consumers with our new products, and reinforcing distribution.

We have defined six strategic focus areas for the second phase of the strategy.

The first of these focus areas is '**To create authentically unique Bang & Olufsen retail experiences**'. In this context, the emphasis is on raising the customer experience across all interfaces between the customer and Bang & Olufsen. This applies both before, during and after the customer's purchase of a product. A key aspect in this regard is to continue to build up a strong and profitable store network in Europe, and to utilise the strong base that has been established in our growth markets – China in particular.

Earlier in my presentation, I mentioned the new wireless loudspeakers that Bang & Olufsen launched during the year. These are excellent examples of how the strategic focus on acoustics in the first phase of the strategy gave rise to powerful new products. The second focus area for the coming strategy period is to continue building up '**sound as our hero**', such that Bang & Olufsen carries on developing – and thus retains – its key core competence in the field of acoustics. This is to be achieved through ongoing product development, and by ensuring that acoustics is also accorded a key focus area in the dealer network and, in particular, in the company's marketing.

The third focus area is to make sure that the reinforced **TV product portfolio serves as a growth driver** for the other parts of the company's product portfolio. We already know that up to one third of the company's loudspeaker sales stem directly from sales of TVs, and we want to make sure that this relationship continues.

Another area of focus for the AV segment will be to make use of the B2B potential of the product portfolio, especially in the luxury hotel and luxury apartment market. In this regard, focus will be centred on a select few cities that are considered to house appreciable potential – Dubai, for example, which will be hosting the World Exhibition in 2020 and whose luxury hotel capacity will therefore be expanding strongly in the immediate future.

The focus for **B&O PLAY** will be on increasing both the tempo of product launches and the number of third-party distributors. Particular emphasis will be placed on expanding the portfolio of headphones and portable loudspeakers, while some energy will be devoted to introducing new product categories as well.

Automotive will primarily be concerned with continuing to grow. This goal is to be achieved by keeping the level of ambition high so that the segment can retain its leading position in sound systems and loudspeaker design for cars. The company has reinforced Automotive's sales and marketing resources in recent years, positioning the segment to provide even better service to both new and existing partners.

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The company's financial objectives for the coming strategy period are:

- To grow by more than 10 per cent on average over the coming three years, with growth increasing progressively during the strategy period
- To achieve earnings on primary operations in relation to revenue of at least six per cent – before extraordinary items – within the strategy period
- To generate positive free cash flows during the strategy period
- To recommence paying dividends as soon as we believe it is responsible to do so.

The growth in revenue in 2014/15 is expected to exceed five per cent, and is likely to be sensitive to the success of the many new products scheduled for launch over the financial year.

In the area of AV, focus will be on creating sustainable growth development based on the revitalised product portfolio – including the wireless speaker range, BeoVision Avant, and a number of new key products, which will be launched during the year. Initiatives will continue to strengthen the dealer network. It is expected that the number of B1 stores/Shop-in-Shop outlets will stabilise, and that growth will primarily stem from an increase in sales per dealer. Better use than previously is to be made of the potential in the sphere of AV products and solutions by focusing more clearly on luxury hotels and commercial projects in key cities.

As regards the B&O PLAY business area, the company will focus on ramping up the tempo of new product launches and expanding distribution through third-party dealers, while maintaining sales via the network of B1 stores. From the perspective of year-on-year development, the year is likely to start relatively weakly, but should finish strongly on account of the timing of the new product launches in 2013/14 and 2014/15. B&O PLAY is set to contribute positively to overarching group growth in the financial year 2014/15.

Automotive will continue to invest in new technologies and product innovation and will increase its efforts in the area of sales and marketing, for the benefit of partners, partners' dealers and customers worldwide. Automotive is expected to continue to grow, although at a slower pace. With regard to year-on-year growth, the year is forecast to get off to a weak start, but finish more strongly.

ICEpower is expected to maintain its steady growth by continuing to invest in product innovation – an approach that has allowed the company to build up a strong customer portfolio of highly recognisable, high-end audio brands in recent years.

Year-on-year growth in the separate segments is likely to vary over the course of the year, depending on the timing of key product launches, the effects of seasonal campaigns, and the quarterly figures from the previous year. This means that some segments may experience slight downturns in some quarters, but all segments are expected to generate positive growth for the year as a whole.

The group's gross margin is highly sensitive to changes in the composition of sales. Good mark-up on newly launched products and a favourable composition of segments and products alike will allow price repositioning of the TV portfolio, while the group should be able to maintain its overarching gross mark-up at the same level as in the financial year 2013/14.

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In order to ensure stronger market penetration for new and future product launches, Bang & Olufsen expects to increase its financial commitment to distribution and marketing for the financial year 2014/15. This is to take place in parallel with the group maintaining its high level of investment in product innovation.

Bang & Olufsen expects the group EBIT margin to increase in relation to the previous 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 follows the recommendations for corporate governance.

NASDAQ OMX implemented its revised recommendations for corporate governance in 2013, and Bang & Olufsen is already complying with these revised recommendations.

The annual report is no longer published in a hard copy version, but an electronic version is available to download 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 shouldering 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 the CSR work – including the company CSR policy – in accordance with the guidelines laid down in the UN's Global Compact.

In order to formalise and clarify the CSR principles pursued by the company, Bang & Olufsen adopted a CSR policy in 2011/12 and updated this policy in 2013/14. 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 Bang & Olufsen'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 2014/15, Bang & Olufsen will continue its efforts to improve the working environment and to reduce environmental impact from the group's activities, with a view to preventing industrial injuries and cutting energy consumption and the volume of scrap generated. Independent audits of suppliers will continue to ensure continued compliance with the company's code of conduct.

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