

SPEAKING NOTES – ANNUAL GENERAL MEETING, 14 SEPTEMBER 2016 – OLE ANDERSEN  
[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. This year, we have chosen to hold the meeting a little later in the day to allow as many shareholders as possible to attend. I am delighted to see so many people here, and I am sure we will have a productive meeting.

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

Last November marked the ninetieth anniversary of Bang & Olufsen, an event we celebrated with a variety of activities, generating a good deal of attention both within the company itself and outside among our network of dealers. As such, the anniversary neatly symbolised the eventful year that the financial year 2015/16 proved to be for Bang & Olufsen. I would like to start by mentioning a few of the key headlines from the year, then take an in-depth look at some facts and figures before presenting our expectations for the current year and the company's new products.

With the sale of non-core activities such as Automotive in spring 2015, and ICEpower earlier this year, we have succeeded in reducing the complexity of our company. Our primary focus is now on building the two consumer brands – Bang & Olufsen and B&O PLAY – complemented by licensing business for both brands. We will, at the same time, be working intensively to reap the benefits of scale that have been opened up by the company's altered structure and new partnerships, with a view to assuring a significant improvement in the company's profitability.

The high-end brand Bang & Olufsen is the backbone of the company, on which all other areas of the business are based. Over the past year, we have done our utmost to continue to reinforce the Bang & Olufsen brand by making full use of the company's core competences. Our main focus has been on further strengthening the attractiveness of the brand to customers, and on continuing to invest in innovation and retail experiences – while simultaneously boosting profitability within the segment.

During the year, the company has launched a series of new and innovative products featuring pioneering technologies in the Bang & Olufsen segment. BeoLab 90 is the most innovative acoustic product the company has launched in recent times. The new technologies developed for BeoLab 90 help cement the profile of Bang & Olufsen as one of the most innovative players in the world with regard to acoustics, at the same time as the actual development of the project has powered innovation that will surely benefit the company's product portfolio going forward. BeoLab 90 will thus help reinforce the Bang & Olufsen brand even further, which is also sure to have a domino effect on the perception of B&O PLAY, and on opportunities to generate additional licence revenue.

Another important step for the Bang & Olufsen segment is the company's entry into a strategic technology partnership with LG Electronics on the development and production of Bang & Olufsen's future TV solutions. The company already has a strong TV portfolio, and this agreement will open up new technological opportunities on account of LG's leading position in the field of OLED technology. Moreover, the agreement allows the company to focus on its unique competences in the fields of design, acoustics and smart home integration. The agreement with LG Electronics will contribute to improving Bang &

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Olufsen's long-term profitability, in that we expect an annual savings potential in the region of DKK 150–200 million once the partnership has been implemented in full. As such, the partnership constitutes a significant step towards achieving our financial goals for 2017/18 of an EBIT margin of around 7 per cent, and positive free cash flow.

In addition to improved utilisation of technology partners, a key precondition for our capacity to generate robust and improved profitability is that the company assure a stable flow of new and innovative products. The company's capacity to bring new Bang & Olufsen products to market in a timely fashion fell short of satisfactory in 2015/16. Most recently, we were obliged to postpone the launch of new TVs, which resulted in a significant drop in turnover in the fourth quarter of the financial year 2015/16. We simply must improve in this area. We have previously demonstrated our capacity to generate such stability in B&O PLAY – and it is now essential that the Bang & Olufsen segment learn from the experience we have built up in B&O PLAY.

Over the course of the year, we have generally improved profitability in the Bang & Olufsen segment. However, profitability here is still a long way from satisfactory, so it remains of the utmost importance for us to continue focusing on optimising the company's costs. In addition, we are working to improve profitability on an ongoing basis for both distribution and the individual products.

As regards the B&O PLAY brand, focus has been on continuing to reinforce our positioning in the premium segment, and on boosting brand awareness at global level.

The financial year 2015/16 was yet another year marked by regular launches of new and innovative audio and headphone products in B&O PLAY. In fact, we launched more than 20 new products and product variants over the past year.

The numerous new products combined with the 2,400 or so new retail outlets resulted in the segment growing by 58 per cent compared to the previous financial year, thus producing total growth for the company of 12 per cent. This is the highest level of growth the company has achieved in ten years.

Even though we are naturally satisfied with the development we have achieved in B&O PLAY over the course of the year, there are still some areas where we would have liked to have seen more improvement. Specifically, growth in North America was lower than expected. We believe that B&O PLAY has huge potential in North America, so one of our principal focus areas in the current financial year is to seek to exploit this potential.

On account of the successful development of B&O PLAY, awareness of the company's brand has increased significantly. In time, this is sure to help attract new customers to Bang & Olufsen, and thus to generate additional growth for the company as a whole.

The same applies to our licensing business, which primarily consists of licence partnerships such as the Automotive partnership with HARMAN, the partnership with Hewlett-Packard for computers, tablets and accessories, and the partnership with LG Electronics regarding the development of TV solutions and audio optimisation of smartphones.

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The first six months of 2015/16 were marked by a period of transition, whereby HARMAN has gradually taken over Automotive operations, with Bang & Olufsen providing support. The transition phase has now been completed. The foundations have thus been laid for a solid partnership going forward, where HARMAN's global sales and distribution power, financial strength and technological competences will ensure that Bang & Olufsen can build up valuable brand exposure and licence income.

In fact, it is just two days since HARMAN and the car manufacturer Ford released details of a long-term collaboration that features exciting perspectives for Bang & Olufsen. The collaboration entails Ford offering B&O PLAY audio solutions for Ford's broad vehicle lineup worldwide over the coming years. It is the first time that the B&O PLAY brand will be utilised in the Automotive area.

The company's other licensing partnerships with Hewlett-Packard and LG have been developed even further, with a view to expanding brand awareness and, in particular, helping to boost profitability in the company going forward. Over the past year, Hewlett-Packard has launched a number of computer models where Bang & Olufsen was involved in improving the audio quality; in return, Bang & Olufsen receives license payments and – perhaps more importantly – exposure of the brand to a wide range of new customers. Moreover, the company has been working with LG to improve the audio quality in selected phone models.

Back in April, we announced the appointment of Henrik Clausen as the company's new CEO. Henrik joins our organisation from the Telenor Group, where he held the position of Executive Vice President for Strategy & Digital in the global Telenor organisation, and advisor to the Group's CEO. He was previously CEO of the Danish division of Telenor, and CEO of the Malaysian company DiGi, which is listed on the stock exchange. Henrik officially started work at Bang & Olufsen on 1 July, and I am convinced that he has the ideal profile – including international management experience, broad knowledge of the Asian market and in-depth understanding of digital services – to take the company to the next level.

I would like to thank Tue Mantoni for his work for Bang & Olufsen over the past five years. Under Tue's leadership, the company succeeded in implementing a range of significant strategic projects, which helped equip the company to meet the challenges of the future – although there are still some obstacles to overcome.

Over the course of the year, a good deal of media coverage has been devoted to speculation about the future ownership of the company. In November last year, we announced that the company had received certain introductory enquiries concerning a potential launch of a takeover offer, and that the company had entered into dialogue to investigate and analyse the substance of these enquiries.

Sparkle Roll, with which the company already works on the Chinese market, confirmed the dialogue with Bang & Olufsen back in March. The dialogue did not lead to any tangible results, however, so we on the Board of Directors decided to release a statement that we considered the dialogue with Sparkle Roll

concerning a potential launch of a takeover offer terminated. We felt this was necessary to ensure clarity for Bang & Olufsen and for the company's stakeholders.

Sparkle Roll remains a good and important partner on the Chinese market, and during the past financial year, the company increased its ownership stake in Bang & Olufsen to its current level of approximately 20 per cent of the shares.

I would now like to present some details concerning the company's development during the financial year 2015/16.

In the same way as in the previous year, we have chosen for 2015/16 to supplement the IFRS-reported results with what are known as 'underlying' results for selected key items in the income statement. The reason we have decided to do this is because we want to provide insight into how the Board of Directors and the management evaluate the company's development over the financial year in real terms, without the influence of costs linked to the divested Automotive activities or other non-recurring costs. I will also touch upon these underlying figures in my presentation.

The company's continuing business, i.e. the segments Bang & Olufsen and B&O PLAY, posted revenue of DKK 2,633 million for the year compared to DKK 2,356 million last year. This corresponds to an increase of 12 per cent, which, as I mentioned earlier, is the highest rate of growth recorded by the company in ten years. The rise in revenue is attributable in no small part to strong growth in B&O PLAY – up 58 per cent on the previous year – although the Bang & Olufsen segment returned a five per cent loss compared to last year.

Revenue for the Bang & Olufsen segment totalled DKK 1,663 million against DKK 1,743 million in the previous financial year. The principal explanation for the decline in this segment is the fact that TV sales, particularly in Europe, were lower than last year on account of the delayed TV launches during the fourth quarter.

B&O PLAY generated revenue of DKK 970 million, compared to DKK 613 million the previous year. B&O PLAY thus grew by 58 per cent during the financial year. This growth was largely powered by new and innovative products, and by a significant rise in what are known as 'third-party stores'. There was generally a high level of interest in the opportunity to market products from B&O PLAY, and the number of third-party stores totalled 5,692 at the end of the financial year, compared to 3,308 at the end of the preceding year. The number of third-party stores is expected to continue to rise over the coming years. In addition to generating sales, the increase in the number of third-party stores is also sure to boost brand awareness and familiarity with the company's core competences.

In addition to opening more third-party stores, we are also closely monitoring the sales growth in the stores. In the 2015/16 financial year, B&O PLAY sales grew in comparable stores (i.e. like-for-like sales), and we expect this positive development to continue in 2016/17.

B&O PLAY expanded its product portfolio, adding five new and innovative products over the course of the year, and also launched a wide range of new functionalities, colours and software updates on a monthly basis.

Key product launches included the small music player Beoplay A1, which was introduced in April. Beoplay A1 sets completely new standards for portable Bluetooth loudspeakers with regard to sound dispersion, volume and bass. The little music player is supplied with a rechargeable battery that provides up to 24 hours of playback.

Other major product launches over the course of the year were the wireless Beoplay H7 headphones, and the powerful and flexible Beoplay A6 music system designed specifically for a modern lifestyle. This music system can handle more-or-less all streaming standards, and also functions in a BeoLink Multiroom system.

The new products have been extremely well received by the media, and have made a strong contribution to generating growth in B&O PLAY.

A gross margin of 36 per cent was reported for the continuing business for the year. The underlying gross margin, i.e. adjusted for the factors mentioned previously, was 38 per cent. The underlying gross margin for the previous year was 37 per cent.

The gross margins for both Bang & Olufsen and B&O PLAY were up on last year, but the gross margin for the company as a whole showed only a slight improvement on the previous year. This can be explained by B&O PLAY's relatively higher share of the total turnover, and by the fact that improvement in the company's gross margin was slower than expected to materialise.

The company's reported capacity costs totalled DKK 1,159 million compared to DKK 1,387 million last year. Capacity costs were negatively affected by one-time items and aperiodic items totalling DKK 54 million, as well as by costs of DKK 40 million related to shared functions previously allocated to Automotive and ICEpower.

These one-time and aperiodic items amounting to DKK 54 million are related to factors such as costs linked to the terminated dialogue concerning a possible takeover offer, costs associated with changes in the Executive Management Board, and amortisation on stores owned by the company.

The company's underlying capacity costs totalled DKK 1,066 million compared to DKK 1,198 million last year. This significant improvement is attributable in particular to lower distribution and marketing costs, where the company has been working hard to reduce the general level of costs and optimise distribution, and has chosen to postpone campaigns as a result of delayed product launches.

The Group's development costs totalled DKK 302 million compared to DKK 370 million last year. The company's increased use of technology partners made it possible to maintain a high level of activity, and to give an extra boost to innovation capacity in spite of the fall in development costs.

Of the DKK 302 million, DKK 152 million has been capitalised, compared to DKK 159 million during the previous year. The company's capitalisation percentage has thus increased from 43 in 2014/15 to 50 in 2015/16, which is largely attributable to the development of BeoLab 90 and two new TV models.

Total amortisation and impairment losses on development projects were DKK 165 million against DKK 238 million the previous year, which featured impairments of DKK 31 million.

The net impact of the capitalisation and amortisation of development costs on the company's operating profit (EBIT) was thus a negative DKK 13 million, compared to a negative impact of DKK 79 million last year.

The company's capitalised development projects fell slightly from DKK 392 million at the beginning of the year to DKK 383 million at year end.

The company reported an operating loss (EBIT) for its continuing operations of DKK 202 million for the year. As mentioned previously, profits were affected by a number of non-recurring costs. The company's underlying EBIT for the continuing business was negative DKK 69 million, and profitability in the company cannot therefore be described as satisfactory. This should be seen in the light of the previously stated expectations of an EBIT result slightly below break-even.

After tax, the company's profits for the financial year totalled negative DKK 208 million.

At the end of the financial year 2015/16, the company's working capital totalled DKK 319 million, corresponding to 12 per cent of turnover for the year. This is on a par with the 11 per cent figure achieved for the previous financial year.

We have thus succeeded in significantly reducing funds tied up in the company in recent years as compared to the level the company was recording just a few years ago. This reduction has been achieved through a combination of changes in the company structure – i.e. primarily the divestment of activities – and ongoing optimisation of operations. The reduction in tied-up funds also makes the company more agile and helps prevent the high level of growth in B&O PLAY from placing a major drain on the company's liquidity.

The company's free cash flow totalled negative DKK 187 million, compared to negative DKK 211 million last year, less revenue from the sale of assets and companies. This is primarily attributable to negative earnings and the rise in working capital over the financial year, which the Board of Directors is naturally focusing intently on dealing with.

The free cash flow was positively impacted by the sale of assets in ICEpower and an associated company in the total amount of DKK 28 million.

At the end of the financial year, the company had a net bank deposit of DKK 599 million, as well as an account owing from the Automotive transaction in the amount of DKK 93 million; the company expects this account to be settled during the second quarter of the current financial year.

In other words, the company's liquidity situation is solid, which provides a robust basis from which to make the requisite long-term dispositions intended to ensure that the company becomes profitable.

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At the end of the financial year, equity totalled DKK 1,725 million against DKK 1,921 million at the end of the previous financial year. Equity now amounts to 61 per cent of the balance sheet total, against 56 per cent at the end of the previous financial year.

Moving on to the outlook for the current financial year, the Group expects revenue to grow compared to 2015/16.

B&O PLAY is expected to continue to be the main growth driver with double-digit growth. New product launches, increased brand awareness and continued expansion of the distribution are expected to be the main growth contributors in B&O PLAY.

In the Bang & Olufsen segment, the focus will be to continue strengthening the brand, launching new products and improving the health and profitability of the business segment. Revenue in the Bang & Olufsen segment is expected to decline in the first quarter of the 2016/17 financial year compared to the same quarter last year, due to the postponed launch of new products. The decline in revenue is expected to be at the level realised in the fourth quarter of 2015/16. However, due to a strong product pipeline, the Bang & Olufsen segment is expected to achieve moderate growth for the financial year.

In future, we will be measuring earnings on EBITDAC – or ‘Earnings before interest, tax, depreciation, amortisation and capitalisation of development costs’. We believe that EBITDAC constitutes a good expression of the company’s capacity to earn money, while simultaneously improving comparability of the results achieved in different periods.

Earnings before interest, tax, depreciation, amortisation and capitalisation for the underlying business (EBITDAC) is expected to improve compared to the EBITDAC of DKK 14 million in the underlying business in the financial year 2015/16. This will be driven by continued revenue growth, higher gross margin as well as a lower capacity cost ratio measured to revenue.

As a consequence of the newly launched strategic technology partnership with LG Electronics, Bang & Olufsen will incur higher depreciations of the current TV product portfolio as well as lower capitalisations during the 2016/17 financial year. These items will adversely impact the EBIT of the 2016/17 financial year, but will not impact the company’s free cash flow.

The company’s financial goal for the three-year strategy period that runs up to and including the financial year 2017/18 remains unchanged from last year:

- 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 is crucial that the company succeed in capitalising on the agreement with LG Electronics concerning the development of the company’s future TVs.

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- The second factor is the growth in B&O PLAY, which is expected to continue delivering double-digit growth and thus contribute to a significant improvement in the company's profitability.
- The third factor is the licence payments, especially from Automotive; however, they are not expected to make a contribution to the company's profitability until towards the end of the three-year strategy period – i.e. in 2017/18.

The Board of Directors is therefore of the opinion that there is significant potential in the company, and with the strategic initiatives implemented in the financial year 2015/16, we have come a step closer to exploiting this potential.

If we look at what is to help generate growth in the current financial year, significant contributions are likely to come from two completely new TV models that have only just been launched onto the market.

BeoVision 14 is a new 4K Ultra HD-TV, available with a 40" or 55" LED-based LCD-screen. The ultra-thin lamellas that cover BeoVision 14's three-way loudspeakers are made of the finest oak, and the result of extraordinary precision work that utilises the properties of the material to the full. The wood-clad loudspeaker fronts are based on acoustic experience from BeoLab 18, which features corresponding oak lamellas.

BeoVision 14 is based on the Android TV platform and features integrated Google Cast technology which makes it possible to stream films, photos and music directly from a mobile phone or tablet.

The other new TV in the product portfolio is BeoVision Horizon, which has just been launched in connection with the IFA consumer electronics trade fair in Berlin.

BeoVision Horizon is available in two sizes: 40" and 48". This new TV features aluminium surfaces on its frame, anodised lamellas on the front, and a wide range of stands and brackets. BeoVision Horizon allows extremely flexible furnishing in the home and, of course, provides a truly amazing audio-visual experience.

We expect the launch of the two new TV models to contribute to re-generating growth in the Bang & Olufsen segment during the current financial year.

Bang & Olufsen has also recently introduced a new family of wireless speaker systems, comprising the BeoSound 1 and BeoSound 2 models. These wireless speaker systems are designed for maximum flexibility with regard to user-friendliness, connection options and placement. Designed in aluminium and with an acoustic lens in the top, these systems clearly signal Bang & Olufsen. Both speaker systems are suitable for incorporation into a wireless BeoLink Multiroom system, where it is possible to connect up to eight loudspeakers.

BeoSound 1 is already on display in Bang & Olufsen stores and will be joined by BeoSound 2 later this autumn.

In the current financial year, B&O PLAY has already launched Beoplay H5, the company's first wireless model of in-ear headphones. Beoplay H5 is designed by Jakob Wagner, one of the leading figures in contemporary Scandinavian design.



In addition, B&O PLAY has maintained the level of regular launches of new colours and product updates, and will soon be introducing other new and exciting products that are sure to contribute to the continued growth of this segment.

In order to ensure that the company can continue to launch numerous new and innovative products based on Bang & Olufsen's core competences in the fields of audio and acoustics, design, craftsmanship and system integration, the decision has been taken to establish a new innovation centre – Innovation Lab – in Struer. The innovation centre is being set up in the existing assembly factory now that most processes have been transferred to our facility in the Czech Republic.

The objective is to create an innovation centre with the capacity to inspire and motivate employees to develop the Bang & Olufsen products of the future. The centre will be laid out to provide the best possible framework for closer interaction between the employees, and to support a more flexible way of working – at the same time as making the best possible use of our facilities in Struer. The company expects to start using the innovation centre in summer 2017.

And it is now time to take a look at what is known as 'corporate governance'. 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 implemented its revised recommendations on corporate governance. Bang & Olufsen 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.

The company has adopted an actual 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 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 2016/17, 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 will continue, 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.

At the end of the financial year 2014/15, the company received significant proceeds from the Automotive transaction, resulting in us enjoying positive liquidity. Over the course of the financial year 2015/16, the company's results have improved, but we are still in a vulnerable situation. At the same time, 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 – have not yet achieved their full impact.

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

The business is currently undergoing an appreciable transformation. Once the 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.