

The Report

This year, we have returned to our usual venue at Struer Gymnasium.

"Usual" is, of course, not something you can take for granted in today's business world and, in particular, not Bang & Olufsen. We operate in an industry where change and innovation are pre-conditions for survival. Over the past year, the company has demonstrated its flair for innovation and despite the fact that we celebrated our 80th anniversary in November last year, our vitality and innovative skills are as strong as ever.

I will return to this later.

As in previous years, I will present the Board's report after which President & CEO Torben Ballegård Sørensen will go through the accounts. Once again, the figures will be accompanied by some interesting stories about our new products.

The 2005/2006 financial year was yet another year of growth for the Group. Turnover increased by 13%, which is highly satisfactory. Like last year, turnover for this year has shown satisfactory growth, which underpins our ambitions for achieving sales of DKK 6 billion in 2010.

First and foremost, growth was achieved thanks to good progress in the main business. The combination of a strong product portfolio, the addition of around 50 new B1 shops and some positive developments in European markets provided us with the strongest growth for many years. Our domestic market performed well with growth of 9%. Demand was high and underpinned by a strong and efficient dealer network. Denmark is now the Group's largest market while Sweden is also showing good growth rates.

The high points of the year were Spain/Portugal with turnover growth of no less than 25%. In the Benelux countries, growth rates of 20% were achieved in Holland with 19% in Belgium. In France and Italy, the positive development was sustained with double-digit growth rates. Germany and Switzerland also showed impressive growth of 14% and 18% respectively. In Germany, we are well on the way to recovery - supported by the long, committed effort to raise the quality of the distribution in B1 as well as in shop-in-shops. The Southern European markets also performed well, while in the UK we had to wait until the fourth quarter before sales really took off again. The fourth quarter saw an increase of 14% compared to the same period last year, while the year as a whole was in line with the previous financial year.

The US showed early signs of recovery – albeit modestly. We continue to dispose of, or close, our own B1 shops, but we are now beginning to believe that, together with our partners, we have laid a firm foundation for further development. This year, we want to see an expansion with the opening of 5 to 8 new shops.

A common feature in the US and in a number of Asian markets is the demand for real Bang & Olufsen TVs. In the US, we have survived on "the engine" from our old Avant television for several years, but we have been unable to offer differentiated TV products or picture solutions in countries like Japan and Korea.

With the launch in July this year of BeoSystem 3 – a digital TV engine - the scene is set for an upgrading of our picture offer for the US and the launch of a B&O TV in Japan and Korea. This will take place in the second quarter in the US and in Japan and Korea at the beginning of 2007. Almost DKK 100 million has been invested in the development of BeoSystem 3.

In Asia, the distribution continues to expand with, currently, 10 B1 shops in China and 3 in India. In Japan, growth is expected with the launch of BeoSystem 3. In Australia, developments are satisfactory following the acquisition of 14 shops in the second quarter. Russia and the Middle East achieved double-digit growth rates.

Overall, the distribution development has gone well. As mentioned, we opened around 50 new B1 shops – a rate that we want to maintain over the coming years. The shop openings have occurred across the world. It is pleasing to note that while traditionally, some shops are closed at the beginning of the new financial year, this did not occur this year, which gives grounds for optimism for achieving this year's new openings. The improvement of our distribution profile in recent years is an important factor behind our growth. Accounting for 73% of the turnover against 71% last year, our 725 dedicated B1 shops are a very strong asset for Bang & Olufsen. The shop in shops account for 26%. The breakdown of B1 shops in individual markets can be seen on the board behind me.

As a consequence of our growth, some bottleneck problems have arisen in certain areas, both within component and product production. In addition, the implementation of the RoHS EU directive meant that all soldering containing lead was banned in all print cards and in thousands of components. This has created enormous pressure on the technical departments and led to extraordinary costs running into millions of Danish kroner.

The main business, the audio/visual area, produced a number of important launches during the year – exceeding previous years. Our flat screen launches continued with the arrival of BeoVision 7 in 40" format. A further two important audio products were also launched: BeoSound 3 and BeoSound 4, both at the "price friendly" end of the scale.

Important advances were also made outside the main business:

In the new and exciting market for advanced in-car sound systems, Audi launched the A8 car, a world first that is equipped with Bang & Olufsen sound. The entry into this new market should hopefully be a key element in the Group's plans for growth. We expect to reveal further partnerships within this area during this year – but this must wait a while yet.

The year also saw a launch within the field of mobile telephony where, in partnership with the Samsung group, we developed the Serene mobile phone, which builds on Samsung's telephone technology and B&O's sound and design expertise. Besides the product itself, this exemplifies how, in areas where we do not possess the technology ourselves, partnerships can result in exciting and new products.

The technology company, ICEpower, produced an unusually impressive result. A breakthrough in sales was achieved, underpinning our long-term investments in the business. The technologies developed by ICEpower are not only used in B&O's products, but are increasingly used in many other audio products worldwide. In this respect, ICEpower acts both as technology and hardware supplier.

Medicom performed reasonably satisfactorily in the light of the one-off payment that the company received last year, and which made that year particularly positive. Turnover increased by 8%.

In May, the Board had the pleasure of commissioning our new factory in Koprivnice. The factory is located in a scenic mountainous area, or rather a hilly terrain, where the building has been constructed with great respect not just for its function but also for aesthetics. A building worthy of B&O. The project, which has been underway for a number of years, has got off to a fine start. The expected synergies are materialising and the quality of the components are second-to-none. The plant's expansion will proceed over the coming years.

For several years, Bang & Olufsen has had a strong cash flow resulting in a stronger balance sheet. During the same period, increasing dividends have been distributed alongside the implementation of share repurchase programmes. The strong balance sheet has given the Board reason to consider a slightly longer-term policy for the Group's capital structure. It is important to bear in mind that B&O is a cyclical business that is strongly dependent on trends. Consequently, the Board's view has been that Bang & Olufsen should maintain a solvency ratio of between 40 and 50%: that the interest-bearing debt will fluctuate with the rate of investment. The Board intends to ensure that the interest-bearing debt will be in the region of 0.25 to 2.00 times earnings before interest, depreciation and tax (EBIDAT). For the 2005/06 financial year, the Group's EBIDAT was close to DKK 700 million, which means that the net interest bearing debt could have amounted to DKK 1.4 billion. Excess liquidity will be returned

to the shareholders either in the form of dividend or repurchase of shares. The intention is to distribute at least one third of the year's net profits as dividend.

Bang & Olufsen has developed, and continues to develop, an increasingly international business. On the backdrop of the expansion in the Czech Republic and, most recently, acquisitions in Australia and Estonia, the composition of the business is becoming broader and more varied. Bang & Olufsen's international profile and the many overseas projects provide new and young as well as more mature Danish employees with exciting opportunities for personal development. This, combined with B&O's impressive image in all surveys, means that we must be active in the Danish job market. I'm well aware that the Group, in line with many other Danish companies, is finding it more difficult to recruit the necessary human resources and skills than before. Within this area, too, we need to think in unconventional terms and we must profile ourselves better within this market segment. From personal experience and after many years of living abroad, I know that working in a foreign culture is a highly enriching experience. It is essential that we attract the right workforce.

2005/06 produced result before tax of DKK 431 million, i.e. an advance of 13%. The result after tax totalled DKK 296 million. As previously mentioned, and as announced in the preliminary announcement of annual report from August 21, it has been decided to adjust the company's risk profile slightly. It is obvious that a listed company must maintain a fine balance between ensuring its access to the capital required to develop further and exploit opportunities while, at the same time, having the freedom to allocate liquidity to shareholders.

Some highlights from the 2005-2006 financial year are:

Turnover rose by DKK 483 million equating to 13%

Turnover growth in all European markets

We achieved our target for the result

We improved our EBIT % to 10.4%

ICEpower doubled its turnover.

For the third year running, therefore, we are breaking with our own previous dividend policy and are recommending that DKK 16 be paid per share, corresponding to a total of DKK 199 million. Last year, the dividend was DKK 12 per share. The Board, therefore, recommends that the Annual General Meeting approves a dividend of DKK 16 per share. Under the mandate given last year, and which we would like to renew again this year, we have initiated a purchase programme for own shares of up to DKK 300 million. The purchase programme will extend over the coming quarters.

Despite this overall payment of approx. DKK 500 million, we are well prepared for the new year. We aim to create a positive cash flow that can support the previously announced growth of 8-10%. The growth must increase earnings. We maintain our previously announced expectations with regard to recording a result in the region of DKK 460-500 million for the 2006-2007 financial year and we can announce that, as expected, the beginning of the year has been satisfactory.

Unfortunately, the year also brought some sad news. During the summer, Jens Bang suddenly passed away. Jens Bang, the son of Peter Bang, worked in the company as Head of Design, a member of the Board of Directors and, most recently, as the author of the company's 75th and 80th anniversary publications. Jens Bang loved this company, a fact that Board members and senior executives frequently discovered from his unreserved input as to how he thought things should be tackled. For many years, Jens Bang was also the company's main contact to the Bang family's foundation. The foundation, which to this day remains an A shareholder, is currently the main sponsor of the Bang & Olufsen museum that is being build here in Struer.

Finally, I would to thank our loyal shareholders - both for their support throughout the year and for being with us today. I would also like to thank my colleagues on the Board, the Board of Management, senior executives at B&O and all our wonderful employees here and abroad who have, once again, put in a great effort and delivered a very impressive year.

Thank you