

The report

In a break with our usual practice, we are holding our Annual General Meeting in Struer Hallerne and not at the gymnasium as in previous years. This is a minor change and we trust that it will not have any significant impact on the day's proceedings. I'll talk about major changes later. In line with previous years, I will present the Board's report and then President & CEO Torben Ballegaard Sørensen will review the accounts. As usual, the figures will be supplemented by some illustrative stories about our new products.

The financial year 2004/05 was another year of growth for the Group, which we are highly satisfied with. Last year, I expressed a very definite wish for Bang & Olufsen to record growth in sales. Not all wishes, of course, are met – we had a difficult autumn when, for a couple of months, we seemed only to experience setbacks.

However, thanks to the committed project teams in our development department and in the production, crucially important new flat screen products were delivered in November and December. These inspired our dealers and customers so much that sales developed positively during the spring.

Three years ago, sales of tube TVs accounted for approx. DKK 1.3 billion. In the year just ended, we sold less than DKK 400 million worth of tube products compared to DKK 1 billion worth of flat screen products. This is the greatest transformation of our product portfolio in the last 20 years and the biggest change in the electronics industry in recent times. The change has been managed without any reduction in profitability, which is excellent.

The change emphasises that Bang & Olufsen is, and will remain, a product-driven company. The launch of BeoVision 7 had a decisive effect on sales in the second half of the year and the product has once again demonstrated Bang & Olufsen's ability to distance itself from other audio/video manufacturers within the industry.

We currently have the best product portfolio for many years, a fact that should provide us with a strong platform for the coming year.

Another change that I personally welcome is that we broke even in the USA. At the Annual General Meeting three years ago, I somewhat rashly promised that we would only have another two years of losses in the US. Our American management team has purposefully solved a difficult task and delivers a balanced set of accounts this year. Again, we can be grateful to a good management team for this achievement. At the time, we said that the US was a too important long-term market for us to relinquish. We are now operating at a level where we can look ahead once again - which is what we intend to do. We're currently investing in excess of DKK 100 million in a global TV chassis.

The chassis is the main component that drives our TV. The new chassis – BeoSystem 3 – will, therefore, allow us to expand our TV portfolio in the US and, for the first time, enable Bang & Olufsen to sell TVs in Japan. This will be a historic moment – which we will experience next spring. Besides its global dimension, the new chassis will also give our products a new and unique picture quality.

Along with the US, also Medicom deserves mentioning. After two difficult years, Medicom is profitable once more. Operations are profitable again and the fourth quarter saw an extraordinarily large one-off payment. The problem with one-off payments is, of course, that they do not recur again. Consequently we cannot expect the same high earnings level in the new year. Nevertheless, the change from red to black figures is expected to be here to stay.

Bang & Olufsen a/s**Translation of the Chairman's oral report to the Annual General Meeting on 28 September 2005**

N.B. In the event of any discrepancy between the oral and the written versions, the oral version prevails.

Similarly, we expect the beginning positive development for ICEpower to continue.

Our production, too, is characterised by change. Management is often forced to do what is necessary and not what they would prefer to ensure that their business remains competitive at all times. Last year, we began the process by relocating 200 jobs to our plant in the Czech Republic and we are currently building a new factory to accommodate our operations. The initial stages have gone well – but for many of our skilled and loyal employees, these have not been easy times. We're very aware of that. Bang & Olufsen is a large company in a small town. The only way however, in which Bang & Olufsen can continue to possess the strength to innovate and develop new products, is to ensure that we remain competitive at all levels.

The task that lies ahead of us over the next few years will be to achieve a balance between a gradual discontinuation of a number of production areas alongside sustaining the exciting perspectives for the development factory in Struer while, at the same time, creating a Bang & Olufsen culture in the town of Koprivnice.

Without a sustained effort to reduce our costs, we would not have achieved our goals over the past three years. Production has made a significant contribution to this through substantial improvements to its financial contribution.

The year marked the completion of a three year planning period where the growth targets for profit were 10-15% per annum. This has been achieved – every single year.

Looking ahead to the next planning period, the Board of Directors and Management Board are focusing on B&O's future growth. The growth potential within the individual business areas is good. Over three years, we have focused on – and achieved – increased profits. This must now be followed up by a period headlined "growth". In August, therefore, we chose not only to announce our expectations for the coming year, but also our ambitions for the coming five years. By their nature, these ambitions are not the same as precise year by year projections, but serve as an indicator of what we regard as achievable.

The ambition is to achieve an overall turnover of DKK 6 billion within 5 years.

With the reorganisation of our distribution almost at an end, we are confident that we are looking ahead to a number of years where we can once again expand the total number of sales outlets. This in itself will lead to growth. We also believe that the current and future product portfolio will support growth in existing shops. In addition, we will enhance and strengthen our marketing activity. Altogether we believe that growth expectations for the existing Audio/Video business of 6-8% is both satisfactory and achievable.

Some geographical markets must grow more than others. We attach higher growth expectations to our markets in Asia, the US and Latin Europe than, for example, in the UK and Denmark. In Germany, where our sales organisation is seeing growth after many difficult years, the potential is promising. Back in the 1990s, sales totalled around DKK 600 million against today's DKK 400 million. With regard to the UK, if we were to sell the same per capita as in Holland, we would be one and a half times larger than we are now. Although the potential is considerable, it's clear that our market organisation must prove that it can capitalise on the now enhanced product portfolio.

This will require intensive co-operation with our dealers who, as always, have the final contact with our end users. We must ensure that they are well trained, motivated and have the right tools to hand.

If we are to achieve our ambition, we also need to pursue other and new business opportunities.

Some of the opportunities ahead of us are very exciting indeed. The year's breakthrough in sound systems for cars, where we're launching the first sound system together with Audi, is a totally new business area. To achieve our ambition, we need to grow this business segment so that we achieve a three-figured million kroner turnover over the next five years. The same applies to the opportunities in sales to hotel chains. We must achieve a similar turnover here too.

The two business areas – Medicom and ICEpower – must also develop above the average for the Group. Both businesses have exciting projects ahead and should grow faster than the main business.

To achieve these goals will require new thinking, change and new skills. We have initiated many activities and investments are made in new areas. We must also ensure that we have the human and financial resources in place.

Looking briefly back to last year, I would like to consider our capital structure. This year, we chose to propose to pay approx. DKK 300 million to our shareholders. This is 20% or approx. DKK 50 million more than the year's net profit - half as dividend and the other half as buy-back of own shares.

Each method has advantages and disadvantages. Dividend offers liquidity for everyone – particularly for the shareholders who are long-term and who cannot or do not wish to sell their shares. This, however, is not tax efficient for a number of our foreign shareholders. Buy-back of own shares only provides liquidity for the seller. On the other hand, the share price should rise. The concern with this model is the reduction in the number of shares in circulation as liquidity in the share is all important for attracting foreign investors.

During the spring, we were engaged in a dialogue with a number of large shareholders and we have listened to what we have heard at investor meetings abroad. There are various preferences. I believe that we have found a fair balance between the diverging views.

With regard to our capital structure, we don't have a mathematical or magic figure for the correct gearing or equity share. Our attitude is, however, to be prudent and to be able to determine our development. Each year, the Board decides on the allocation of our surplus liquidity. This year, we recommend paying the aforementioned DKK 300 million believing this is justifiable.

Five years is a long time and we cannot predict with any precision what the future holds. No doubt we will experience setbacks now and again, but new opportunities will almost certainly arise. Financially, it is best to be able to make your own decisions when the waves are high – and we can only do this by having a strong balance sheet.

As for the next five years – and I dare make a prediction here – it will be an exciting time for both our company and our employees with many challenges ahead. I'm certain that our organisation will tackle the task with the enthusiasm, quality awareness and creativity that have always characterised Bang & Olufsen. And I'm confident that our shareholders will follow our developments with interest and patience.

Finally, I would like to thank our shareholders for their support and for the many constructive comments we have received over the year.

Thank you also to my colleagues on the Board, to the management and the employees for a fine effort and to all our dealers across the world.