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Translation

Struer, August 9, 2001

**Financial Statement for 2000/01 for Bang & Olufsen a/s**

- The year's turnover rose by DKK 88 million to DKK 3,810 million. Sales of A/V products increased by DKK 140 million. Sales of telephones through Bang & Olufsen's own distribution network fell by DKK 75 million.
- The ordinary result before tax was DKK 224 million. This does not live up to the forecast of April 5, 2001 which predicted a pre-tax result between DKK 250 million and DKK 270 million. The result is after development costs of DKK 43 million in new business areas.
- The international economic downturn and the slowdown in consumption impacted on almost all markets in the 4<sup>th</sup> quarter. Turnover for the quarter declined by DKK 36 million to DKK 905 million compared to the last quarter of the previous year. The result after tax declined by DKK 48 million to DKK 6 million.
- Turnover in the dedicated B1 shops rose by 4 per cent. 50 per cent of the sales now take place in the B1 shops against 42 per cent the previous year.
- The coming financial year will see a number of important new launches.
- For the financial year 2001/2002, expectations are for a moderate increase in turnover and an unchanged result. A continued downturn in the international economy will adversely affect the Group's sales.

Peter Skak Olufsen  
Chairman

Torben Ballegaard Sørensen  
President, CEO

**Main and Key figures for the Bang & Olufsen Group**

**DKK million**

<b><u>Profit and loss account</u></b>	<b><u>2000/01</u></b>	<b><u>1999/00</u></b>	<b><u>1998/99</u></b>	<b><u>1997/98</u></b>	<b><u>1996/97</u></b>
Net turnover	3,810	3,722	3,380	3,117	3,008
Operating profit	271	337	333	299	303
Result from ordinary operations before tax	224	317	348	340	321
Ordinary result after tax	148	222	253	232	216
Extraordinary result after tax	-	20	(63)	75	-
Result for the year	148	243	190	308	216
Result after tax and minority interests	154	243	190	308	170
Average No of full-time employees	2,780	2,861	2,654	2,546	2,578
Depreciation and write-offs	171	162	131	146	120
Investments in tangible fixed assets	222	280	226	211	167
Product development costs	346	308	254	237	205

Parenthesis denote negative figures or amounts to be deducted.

<b><u>Balance sheet information</u></b>	<b><u>31/5 01</u></b>	<b><u>31/5 00</u></b>	<b><u>31/5 99</u></b>	<b><u>31/5 98</u></b>	<b><u>31/5 97</u></b>
Equity capital	1,147	1,058	981	1,163	1,014
Total assets	2,302	2,144	1,895	2,074	2,127
Of which liquid funds and securities	53	130	130	549	653
Tangible fixed assets	895	847	726	634	545

<b><u>Key figures</u></b>	<b><u>2000/01</u></b>	<b><u>1999/00</u></b>	<b><u>1998/99</u></b>	<b><u>1997/98</u></b>	<b><u>1996/97</u></b>
Earnings per share (nominal DKK 10), DKK	12	18	20	17	13
Intrinsic value (nominal DKK 10), DKK	92	85	77	87	80
Dividend per share (nominal DKK 10), DKK	3.5	6.0	5.0	7.5	2.5
Return on equity, %	13	22	24	21	18
Equity ratio, %	50	49	52	56	48

<b><u>Result from subsidiaries</u></b>	<b><u>2000/01</u></b>	<b><u>1999/00</u></b>	<b><u>1998/99</u></b>	<b><u>1997/98</u></b>	<b><u>1996/97</u></b>
(before consolidation), DKK million					

**Bang & Olufsen AudioVisual a/s - the group\***

Net turnover	3,494	3,428	3,131	2,945	2,734
Operating profit	238	283	297	279	266
Result for the year	120	182	228	203	183
Of which minority shareholding	3				
Bang & Olufsen AudioVisual a/s' share of the result for the year	123				

**Bang & Olufsen Telecom a/s**

Net turnover	244	306	268	169	348
Operating profit					
(before share of profits to parent company)	5	29	16	(4)	31
Result for the year	4	21	8	(2)	16

**Bang & Olufsen Medicom a/s**

Net turnover	233	199	177	126	100
Operating profit					
(before share of profits to parent company)	37	33	28	14	12
Result for the year	23	20	13	6	6

**Bang & Olufsen New Business a/s\*\***

Net turnover	25	24
Operating profit	3	7
Result for the year	(6)	1

Parenthesis denote negative figures or amounts to be deducted.

\* In the result, DKK 27 million has been deducted for development costs for Bang & Olufsen Multimedia.

\*\* Bang & Olufsen New Business a/s owns 76.4% of Bang & Olufsen PowerHouse ApS. The result for the year for Bang & Olufsen PowerHouse ApS is a loss of DKK 10.5 million.

For the calculation of the key figures, the guidelines laid down by the Danish Society of Financial Analysts have been followed.

The calculation of ordinary result after tax has been adjusted for minority interests. In respect of Group goodwill, which is depreciated over the equity capital in the first year, the accounting practice differs from the guidelines' recommendation. Quoted securities are booked at the purchase or quoted price, whichever is lower.

The key figures are as follows:

Earnings per share (nominal DKK 10), DKK:	Ordinary result after tax compared to average number of shares in circulation.
Intrinsic value (nominal DKK 10), DKK:	Equity capital at year end compared to no. of shares at year end.
Return on equity, %:	Ordinary result after tax as % of average equity.
Equity ratio, %:	Equity capital at year end as % of liabilities at year end.

Average number of shares in circulation: 12,489,138 shares.

The Group's accounting principles are unchanged compared to previous years.

## Bang & Olufsen a/s - the Group

Turnover in the Bang & Olufsen a/s Group reached DKK 3,810 million in the 2000/2001 financial year against DKK 3,722 million the previous year. This constitutes a rise of DKK 88 million, or 2 per cent.

The result of primary operations was DKK 271 million against DKK 337 million the year before, i.e. a fall of DKK 66 million or 20 per cent.

The ordinary pre-tax result was DKK 224 million against DKK 317 million – a fall of DKK 93 million or 29 per cent. The result is after costs of DKK 43 million relating to the development of new business areas within Bang & Olufsen Multimedia (DKK 27 million), Bang & Olufsen PowerHouse (DKK 10 million) and Bang & Olufsen New Business (DKK 6 million).

The lower result is attributable to four significant factors:

1. Own shops in the US contributed negatively by approx. DKK 25 million less than last year.
2. With a fall in turnover of 6 per cent, the German market once again proved disappointing. Germany contributed approx. DKK 20 million less than last year.
3. With an expected fall in turnover of 12 per cent, Denmark contributed approx. DKK 15 million less than last year.
4. Bang & Olufsen Telecom a/s' contribution declined by approx. DKK 24 million.

Totalling around DKK 80 million, these four factors have a direct impact on the result for the year. Compared to the ongoing expectations over the year, the final result is lower than envisaged. Trends during the second half year and, in particular, during the fourth quarter proved considerably worse than originally expected. The first warning was given in the Interim Report on January 24, 2001. On the basis of the result for the 1<sup>st</sup> half-year, which was above that for the same period the year before, expectations for the full year were maintained. At the time, however, it was stated that the US market had suffered lower growth compared to the early part of the financial year and that this would affect the second half year and thus the full year negatively if slackening demand were to spread to Europe. This is what happened.

On April 5, expectations for the full year were revised downwards to DKK 250-270 million due to the continuing slump in US sales. This had also spread to a number of European markets.

These expectations were maintained in the Quarterly Report of April 18, 2001.

The slowdown, however, was further intensified in the fourth quarter when the fall in turnover – with few exceptions – spread across the board. In particular, losses from own shops in the US exceeded expectations.

Turnover in the 4<sup>th</sup> quarter declined by DKK 36 million to DKK 905 million compared to the 4<sup>th</sup> quarter of the previous year. The result after tax fell by DKK 48 million to DKK 6 million.

Although neither the targets for turnover nor growth in earnings were achieved, the Group maintains and continues to follow the basic strategies for the Group's development.

Within the Group, the companies Bang & Olufsen AudioVisual and Bang & Olufsen Telecom have under performed while Bang & Olufsen Medicom, Bang & Olufsen New Business, Bang & Olufsen Multimedia and Bang & Olufsen PowerHouse have developed in line with expectations.

As mentioned, DKK 43 million was spent on the development of new business areas during the year.

Product development costs were DKK 346 million against DKK 308 million in the previous financial year. Product development costs now account for 9 per cent of the turnover.

Distribution and marketing costs rose by DKK 69 million or 10 per cent, of which DKK 58 million relates to expansion in the US.

The overall tax percentage for the year rose from 30 to 34 per cent. The rise in the tax rate is mainly due to the fact that the foreign subsidiaries have used up their tax losses.

Of the tax expense of DKK 76 million, DKK 65 million relates to Bang & Olufsen AudioVisual a/s and DKK 11 million to other companies in the Bang & Olufsen a/s group.

During the financial year, the balance sheet increased by DKK 158 million - from DKK 2,144 million to DKK 2,302 million. The increase primarily derives from stock which increased by DKK 101 million and other receivables which saw an increase of DKK 59 million.

The increase in stock is due to the opening of own B1 shops that required extra stock as well as the reduced turnover in the 4<sup>th</sup> quarter.

The rise in other receivables mainly relates to corporation tax receivable, due to the lower than expected result.

Tangible fixed assets saw a net increase of DKK 48 million to DKK 895 million largely due to the completion of Bang & Olufsen Medicom's new building and investment in new production equipment.

The total cash flow for the year was negative at DKK 157 million. The Group's cash flow from operating activities was DKK 138 million against last year's DKK 245 million. The difference is attributable to the shortfall in earnings.

The liquidity requirement for investments totalled DKK 245 million against DKK 266 million the previous year. The change is due to

reduced investments in tangible fixed assets. During the financial year, a mortgage loan of DKK 51 million relating to Bang & Olufsen Medicom's new factory buildings was taken up. In the 1999/00 accounts, loans amounted to DKK 200 million. Items relating to shareholders – acquisition of own shares and dividend paid – amounted to DKK 102 million.

Following a proposed dividend of DKK 46.9 million, equity capital amounts to DKK 1,147 million against last year's 1,058 million.

\* \* \*

Bang & Olufsen celebrated its 75<sup>th</sup> jubilee in 2000. The event was marked by a major retrospective exhibition at Dansk Design Center in Copenhagen and by a variety of events at Struer to which approx. 1,000 of the largest dealers from across the world were invited.

On March 1, 2001 Executive Vice President Carl Henrik Jeppesen left the company. On May 1, 2001 Torben Ballegaard Sørensen joined the company succeeding Anders Knutsen as President and CEO on July 1. The Group's Management Board now comprises Torben Ballegaard Sørensen and Executive Vice President Peter Thostrup.

## **Bang & Olufsen AudioVisual a/s**

Turnover in Bang & Olufsen AudioVisual was DKK 3,494 million, an improvement of DKK 66 million on the previous financial year's turnover of DKK 3,428 million. Sales of audio/video products saw an increase in turnover of approx. DKK 140 million while sales of telephones through Bang & Olufsen's shops declined by approx. DKK 75 million.

The ordinary pre-tax result was DKK 185 million, a decline of 27 per cent, or DKK 69 million, on the year. Bang & Olufsen Multimedia was, until the end of the financial year, a division within Bang & Olufsen AudioVisual a/s. The DKK 27 million invested in multimedia activities, therefore, impact on the accounts of Bang & Olufsen AudioVisual.

Both in terms of turnover and result, the unsatisfactory development is due to a number of factors.

As mentioned in the Group report, the general economic downturn in the US and in Europe has led to a slowdown in consumption. Additional factors were the development in the result in the US and the fact that interest in, and demand for, DVD solutions and plasma screens – especially in southern European countries – has been more rapid than Bang & Olufsen expected. As stated in the section on launches in the new financial year, this development is being addressed.

Bang & Olufsen AudioVisual is maintaining a centrally managed global brand advertising strategy where individual markets focus on developing the distribution concept and on local activities centred on individual shops. Compared to the previous financial year, total marketing and

distribution costs increased by DKK 62 million to DKK 762 million. This is largely due to the continuing rise in the number of own retail shops in the US.

## Developments in the largest markets

The percentage advances/declines in turnover are calculated on the basis of local currencies.

### Germany

The past financial year did not see a reversal of the downward trend in Germany. Turnover declined by 6 per cent to DKK 561 million and Germany contributed DKK 20 million less than the previous year.

There are two basic reasons for the extended negative development in Germany. First, the German market suffered a general slowdown which, in the past year, resulted in sales of audio-visual products falling by approx. 4 per cent.

Secondly, we have recognised that the reduction in the number of multibrand shops as part of the new distribution strategy in 1998 proceeded too severely. In 1998, 630 shops sold Bang & Olufsen products. Of these shops, many were very small. It was necessary to reduce the number of shops, but this proceeded at a pace where the opening of B1 shops could not fully compensate for the shortfall in sales from shops with which contracts were terminated. This also impacted on the mutual confidence between the remaining multibrand shops and Bang & Olufsen.

The group is now re-establishing this confidence. Consequently, 82 of the existing multibrand dealers have invested significantly in upgrading to shop-in-shop solutions in the past 18 months. Bang & Olufsen now accounts for a significant part of the floor area in these shops.

At the end of the previous financial year, Bang & Olufsen announced that no further agreements with multibrand dealers in Germany would be terminated. Nevertheless, the number of multibrand shops has been reduced by 50 as increased competition and general structural changes in the retail sector have led dealers to close down.

The number of B1 shops rose by nine during the financial year. Although ambitions for opening new shops were somewhat higher, the target was not achieved due to difficulties in finding the right locations and the right owners. The current 56 B1 shops in Germany account for 31 per cent of the total turnover against 23 per cent last year. Growth in B1 shops, established for two years or longer, was 5 per cent. A total of 483 shops now sell Bang & Olufsen products in Germany.

On July 1, 2001 Peter Dalm, 51, joined the Group as the new Managing Director of the German subsidiary. Peter Dalm has an extensive sales and distribution background. Most recently, he was Senior Vice President in the LEGO group with responsibility for Central Europe, including Germany, Switzerland, Austria and Hungary.

### Scandinavia

Developments in Denmark, Sweden and Norway were characterised by a general decline in the consumption of long-term consumer goods.

Bang & Olufsen's decline in Denmark, our second largest market was 12 per cent down to DKK 479 million. Denmark contributed DKK 15 million less than the previous year. The decline has taken place in multi-brand and chain stores while growth in B1 shops amounted to 10 per cent. With three new B1 shops opened during the year, Denmark now has 30 B1 shops. These represent 28 per cent of the total turnover of the 319 shops which sell Bang & Olufsen products.

Turnover in the Swedish market fell by 7 per cent to DKK 112 million. The 18 Swedish B1 shops account for 61 per cent of the total turnover. Growth in B1 shops was negative, i.e. 2 per cent. A total of 58 shops sell Bang & Olufsen products in Sweden.

In Norway, turnover declined by 5 per cent to DKK 64 million. 15 B1 shops account for 73 per cent of the total turnover in Norway. Growth in B1 shops was 4 per cent. 43 shops in Norway sell Bang & Olufsen products.

Lars Kirstein Andersen, 40, has joined the Group as Director for Scandinavia. Lars Kirstein Andersen, who was previously Managing Director of Tech Data, Denmark, was formerly European Marketing Director for Acer Computer in Germany.

### United Kingdom

The UK saw a rise in turnover of approx. 2 per cent to DKK 450 million. Thus the UK maintained its position as Bang & Olufsen's third largest market.

The stable development in the UK market reflects the fact that Bang & Olufsen's distribution strategy has been implemented satisfactorily. The UK was among the first markets to launch this strategy. In the case of the new shops, it has been possible to find the right locations and the right owners. At the same time, sales in the remaining multibrand shops have been satisfactory.

The number of B1 shops increased by 11 to 58, which now accounts for 58 per cent of the total turnover. Growth in B1 shops was approx. 5 per cent. A total of 141 shops sell Bang & Olufsen products in the UK.

### USA

During the financial year, Bang & Olufsen pursued its strategy of making USA one of the Group's key markets. The US strategy differs from that applied elsewhere in that it involves ownership of retail shops.

The strategy comprises two key elements:

1. Distribution which exclusively targets B1 shops which are either owned by Bang & Olufsen, joint ventures with other partners or are wholly-owned by independent dealers. During the year, 19 new B1 shops were established. In total, there are 55 B1 shops,

of which 14 are owned by Bang & Olufsen, 11 are joint ventures with other partners and 30 are owned by independent dealers.

2. Development of new video products aimed at the American market. The first product, BeoVision Avant, was launched in August last year and new products will follow during the coming financial year.

US turnover rose by 17 per cent to DKK 311 million which, seen on the background of the downturn in the American economy, is satisfactory. The downturn began in December 2000 and continued through the remaining part of the financial year and is the most important reason why stronger growth was not achieved.

As for Bang & Olufsen's own shops, the results are below expectations. Primarily due to the significant investment in own shops, a loss had been expected. The loss, however, was approximately DKK 25 million above last year.

This is due to a combination of factors. Investment requirements for own shops proved larger than anticipated and earnings fell below expectations due to late openings. In addition, some newly opened shops turned out to be located in the wrong place. Finally, the American organisation did not have adequate human resources to manage the desired rapid establishment and operation of our own shops. The American organisation is currently being strengthened.

The long-term expectations for the American market, which is now provided with an increasing number of dedicated products, are maintained. The long-term development of the shop network is also continuing, although the ambition of opening 25 new B1 shops during the coming financial year has been reduced to 15. Own or joint venture shops will account for only 5. The reduced level of ambition for the new year expresses the intention to ensure high quality levels in all aspects pertaining to the new shops while, at the same time, guaranteeing that the organisation's capacity and the level of ambition match each other.

### **Switzerland**

Turnover declined by 3 per cent to DKK 281 million. In line with the majority of the other markets, the Swiss market was characterised by a general decline in consumption. At the same time, market shares within the A/V area shifted from high end products to discount products. In Switzerland, too, the lack of DVD and plasma products has impacted on Bang & Olufsen.

Four new B1 shops were opened during the year bringing the total number to 18. These account for 30 per cent of the turnover of the 193 shops which sell Bang & Olufsen products. Growth in the B1 shop segment was 3 per cent.

### **Holland**

In contrast to other European markets, sales in Holland are the responsibility of a sole importer. After several years' significant advances, turnover declined by 4 per cent to DKK 248 million. During the year, 11

new B1 shops were opened. Holland now has 31 B1 shops which account for 24 per cent of the total turnover in the 163 shops which sell Bang & Olufsen products in Holland.

### **France**

Once again, France saw a significant advancement which, during the financial year, reached 12 per cent, to DKK 200 million. Seven new B1 shops were opened, bringing the number of B1 shops to 41. These account for 73 per cent of the total turnover – a rise of 6 per cent compared to last year. Growth in B1 shops was 12 per cent. France has a total of 69 shops selling Bang & Olufsen products. The continuing advance in the French market is an expression of the implementation of the distribution strategy which focuses on location, training and a high level of activity within each shop.

In September/October, Bang & Olufsen will open its newest shop in The Danish House at Champs-Élysées in Paris.

### **Southern Europe**

After several years of continuing double digit growth rates, developments in Italy and Spain came to a standstill during the financial year. In both countries, the high end of the A/V market has been characterised by strongly rising interest and demand for DVD and plasma screens, a demand which has significantly exceeded that of other markets.

In Italy, we maintained a turnover of DKK 198 million. Six new B1 shops were opened, bringing the total number of B1 shops to 34, which now account for 55 per cent of the total turnover. B1 shops in Italy showed no growth during the financial year. 127 shops sell Bang & Olufsen products in Italy.

With an unchanged turnover of approx. DKK 136 million, sales in Spain followed the general trend for the A/V market which grew by just 3 per cent. The year saw somewhat slower development of B1 shops than envisaged, mainly because the necessary combination of the right location and the right owners could not be found. During the year, two new B1 shops were established, bringing the total number of Spanish B1 shops to 67. B1 shops showed a negative growth of 5 per cent during the financial year.

### **Expansion Markets**

Expansion Markets showed an advance in turnover of almost 19 per cent to approx. DKK 206 million with Russia, Taiwan, Hong Kong and Australia showing particularly strong advances. This is due to a variety of reasons: the original distribution system has been reorganised and new B1 shops have opened at attractive locations and with committed owners who have managed to generate growth in the face of economic turbulence. During the period, 11 new B1 shops were established, so that Expansion Markets now have 80 B1 shops.

### **Singapore and Japan**

The two newly established subsidiaries have both had a good start.

At the start of the financial year when the Japanese subsidiary had just been established, there were two B1 shops, seven shop-in-shop solutions and 42 multibrand shops in Japan. At the end of the financial year, there were five B1 shops, 11 shop-in-shops and 22 multibrand shops. Further moves will take place to increase the number of B1 shops and shop in shops during the coming financial year.

Turnover in Singapore is centred on one B1 shop which is among the five most successful shops worldwide. The potential for opening a second shop in Singapore is being examined.

### **Distribution development**

The financial year saw the opening of 101 new B1 shops which is in line with the target set at the start of the financial year. 12 B1 shops were closed and 8 were downgraded. There are 530 B1 shops, 389 in Europe, 56 in North America, 80 in Expansion Markets and 5 in Japan.

Turnover in B1 shops with 2 full years of operation rose by 4 per cent, while turnover in multibrand shops fell by approx. 7 per cent.

As of May 31, 2001, Bang & Olufsen products were for sale in 2,017 shops worldwide, i.e. 155 fewer than the year before. A large majority of these shops were closed by the owners due to general market trends. Smaller shops are particularly susceptible to competitive pressures.

During the financial year, Bang & Olufsen initiated, on a trial basis, the first e-commerce activities in the US for sales of telephony products and accessories. This initiative is proceeding in close co-operation with the dealers. The result so far has, however, not been so clear-cut so as to justify the expansion of these activities into other markets.

In the previous financial year, Bang & Olufsen established an Internet-based Retail System which links all dealers to the headquarters in Struer. Whereas dealers previously telephoned their orders to a regional office which forwarded them to Struer, the orders are now sent on-line to Struer. The system also comprises an on-line news and information module which replaces most of the paperbased communication between the head office, regional offices and the dealers.

At the start of the 2000/2001 financial year, 100 dealers were linked to the system. Today, the figure is approximately 1,000 and the rest are expected to be on-line before the end of the next financial year. The specific advantages are faster delivery time, improved communication with dealers and the transfer of resources to more productive activities.

## Launches during the financial year

During the year, Bang & Olufsen AudioVisual launched three important new products and updated two existing ones.

The three new products are:

BeoCenter 1, launched in October 2000, is a compact sound and picture centre comprising a 25" television, a combined CD and DVD player, FM radio and two active loudspeakers. BeoCenter 1 provides outstanding audio/video integration.

DVD 1, which was launched in November 2000, is a stand-alone product which can be used with the full range of Bang & Olufsen's video programme. Due to limited production capacity, it has not been possible to fully meet demand during the financial year.

BeoSound 1, which was launched in November 2000, is Bang & Olufsen's contribution to portable sound. BeoSound 1 comprises radio, CD player and a strong, active loudspeaker system which provides accurate and dynamic sound reproduction. The product has been well received.

The two products updates are:

BeoVision 1 LS, a development of BeoVision 1, links the product to the BeoLink system and allows for the addition of active loudspeakers.

BeoVision Avant RealFlat, launched in May 2001, is a home cinema system equipped with a high quality, flat TV screen in widescreen format.

## Bang & Olufsen Telecom a/s

Turnover in Bang & Olufsen Telecom fell by DKK 62 million, i.e. 20 per cent, to DKK 244 million during the year under review. The result before tax was DKK 6 million, i.e. a fall of DKK 24 million, or 79 per cent, compared to last year.

The marked decline in turnover and result is basically attributable to the two newly developed products, BeoCom 2, Bang & Olufsen's new cordless telephone and BeoCom 3, the Group's first, 100 per cent ISDN telephone with two lines. The two products were delayed by seven and four months respectively when the development time was under estimated. BeoCom 3 was launched in March this year and BeoCom 2 in May and are so far available in the Danish market only. From August/September this year, both products will be launched in other markets.

In consequence of the delays, there were no new products in the market at the beginning of the financial year to compensate for the normal life-cycle of an existing product programme.

71 per cent of the turnover is sold through Bang & Olufsen Audio-Visual's distribution and 29 per cent through the specialised tele distribution in Denmark and Holland. This is largely in line with last year.

On March 1, 2001, Peter Eckhardt was appointed Managing Director. He was previously Managing Director for Bang & Olufsen Scandinavia a/s.

### **Bang & Olufsen Medicom a/s**

For the fourth consecutive year, Bang & Olufsen Medicom achieved growth and met its targets. During the financial year, turnover rose to DKK 233 million, a rise of DKK 34 million. The result before tax increased by DKK 4 million to DKK 34 million. As the result for the previous year comprised a share of profits of DKK 3 million from Ericsson DiAx A/S. Medicom's basic earnings are in line with the target.

Within the last couple of years, Medicom has implemented a well-planned strategy in which Medicom's flexible and efficient production layout remains a central element. This has now been enhanced by technological competences which, to an increasing extent, result in new products based on patented technologies. Underlying this development are Bang & Olufsen's core competencies within integrated product development, user-friendliness and design. A number of research and development tasks are being carried out in conjunction with industrial partners and international academic institutions. This is expected to generate rising licence income in the coming years.

The strategic development has resulted in an increasing number of international customers within the pharmaceutical and diagnostic sectors, with Novo Nordisk, Astra Zeneca and 3M as the largest.

Medicom develops intelligent products for pharmaceutical companies, products which contribute to a more user-friendly, safe and more simplified administration of medical treatment. The new generation of electronic dosing systems also provides patients with a better overview of their dosage needs. The next step within this field is expected to be an integration between products and the Internet whereby patients will benefit from individually adapted information and better communication with doctors.

Medicom develops intelligent electronic products for diagnostic companies, which ensures better decision-making processes for the assessment of a patient's condition in connection with diagnostic examinations. These products exploit Bang & Olufsen's competencies within acoustics and data signal processing, in particular.

Medicom expects to maintain growth in turnover as well as result through expanding the number of contracts with existing and new customers.

## **Bang & Olufsen New Business a/s**

New Business was established to maximise the use of the Group's considerable acoustics competencies. The company has two business areas: further development of loudspeakers for distribution through Bang & Olufsen's usual channels and the establishment of new business areas relating to acoustics.

New Business has made significant strides with regard to new loudspeakers for professional sound studios. The first pioneering product is expected to be launched in 2002. Bang & Olufsen's entry into the professional market represents a further emphasis on the significant sound competence that Bang & Olufsen has developed through dedicated research and development in recent decades.

Within the field of In Car Entertainment, contacts have been established with selected high-end car manufacturers that have indicated an interest in the sound concept developed by New Business for the motor industry. Also within this field, New Business is differentiating itself on the strength of its competencies within design and its ability to offer great sound in small cabinets, ICEpower technology and a number of newly developed or newly acquired patents.

New Business is meeting the planned schedules and will be provided with increased resources in the new financial year.

With effect from March 1, 2001, Jens Peter Zinck was appointed Managing Director. He has come from a position as Sales and Marketing Manager in Bang & Olufsen Medicom a/s.

## **Bang & Olufsen PowerHouse ApS**

Bang & Olufsen PowerHouse is responsible for the Group's activities within digitalised, intelligent and efficient amplifier technology.

In January, the company relocated to Kgs. Lyngby. The new facilities offer scope for the company's planned expansion and its location benefits its intensified collaboration with Denmark's Technical University. Since January, the organisation has been awarded considerable resources for research, patent generation and the maturing of technologies as well as for product development. Sales and Marketing is also being built up.

As a consequence of this, the company, which is still in its establishment phase, has incurred a loss of DKK 11 million.

To maximise business opportunities, PowerHouse operates within three business units with differentiated products:

- Standard products of which the first series of modular amplifier components is in production. The products are supplied to customers within the professional audio market sector as well as the home audio market. In the latter category, Sony has chosen

ICEpower technology as the amplifier element in its new sub-woofers.

- Customer specified system products where a number of initial development projects are in the pipeline.
- Partner alliances where Bang & Olufsen has signed a letter of intent with Sanyo Electric Co. Ltd. concerning design, development, production, marketing and sales of integrated and hybrid amplifiers based on ICEpower technology. The final agreement is under preparation. It envisages that PowerHouse will supply technology, development support and access to knowledge and patents. Sanyo is the largest supplier of hybrid and integrated amplifiers in the market.

In the coming financial year, sales efforts will be intensified in the three main markets – USA, Japan and Europe with focus on relevant market segments. As mentioned, PowerHouse is still in the start-up phase and there will be a continual need for significant investment to maintain and develop the technological and market platform. The company will not be profitable for the next few years.

## **Bang & Olufsen Multimedia**

This business area focuses on Bang & Olufsen's efforts within multimedia and Internet-related products, physical as well as virtual, and within existing as well as new product categories.

The endeavour is, at least initially, centred upon the following three areas in which DKK 27 million was invested during the year.

**Link systems:** Web enabling of Bang & Olufsen's existing and future products, i.e. providing the user with direct access to music on the Internet through Bang & Olufsen's products and the home PC. During the year, work has primarily focused on the development of BeoLink PC2.

**Portable:** Products which can also be used outside the home, e.g. portable digital music players. During the 2001/2002 financial year, a small, elegant and robust mp3 player will be launched. The player will, for first time, allow users to carry Bang & Olufsen audio/visual products in their pocket.

**BeoPlayer:** Virtual software products, where Bang & Olufsen's competencies within design, in combination with simple and user-friendly operation, enable the user to find and organise relevant content on the Internet for simple and easy application and operation.

In November 2000, BeoPlayer, a virtual digital mp3 player for PCs, was test launched. The BeoPlayer represents Bang & Olufsen's first contribution in respect of

the organisation of music in the digital world. In May 2001, BeoPlayer was the official music and video player on the Eurovision Song Contest website.

During the coming year, development work will target integrating multimedia applications for core audio/visual products.

Whereas costs of development activities during the past financial year have been devoted to identifying the Group's business opportunities within multimedia, the requirements for development activities within the next financial year will be characterised by intensified commercial focus and close integration within the field of audio/video.

## **The 2001/2002 Financial Year**

### **Launch of new products**

#### **Bang & Olufsen AudioVisual**

The new financial year has commenced with the continued launch of BeoVision Avant RealFlat and the new launch of BeoLab 2, Bang & Olufsen's first sub-woofer. BeoLab 2 exploits the overall sound competencies for which Bang & Olufsen is renowned and combines them with the latest ICEpower technology. BeoLab 2 reproduces the breadth of the deep bass area and can be used in conjunction with all other Bang & Olufsen audio products and active loudspeakers.

In the latter part of the financial year, Bang & Olufsen AudioVisual will launch four new products. One integrates video and DVD, the other is a new TV with widescreen, i.e. 16:9. The two final products are plasma concepts for the US and European market.

These launches will meet growing customer demand for integrated DVD solutions and plasma screens.

#### **Bang & Olufsen Telecom**

During the financial year, Telecom will capitalise on BeoCom 2 and BeoCom 3, which were launched recently. During the year, a further development of BeoCom2 will be launched which, for instance, can be linked up with BeoCom 6000. BeoCom 3 will be launched before Christmas 2001 in a special two-line version for the US. Finally, BeoCom 6000 will be subject to extensive design and functionality upgrading.

#### **Bang & Olufsen Multimedia**

BeoLink PC 2 will be launched in August 2001. BeoLink PC 2 makes it possible to link the home PC with other Bang & Olufsen audio systems through the BeoLink concept, thus enabling users to listen to MP 3 files from the PC through an existing Bang & Olufsen system.

BeoSound 2, which is expected to be launched in the first quarter of 2002, will allow users to carry Bang & Olufsen's virtual products in their pocket for the first time. In a simple and user-friendly way, users can transfer and store their MP 3 files from their computer to the small, elegant player.

## Expectations for the 2001/2002 financial year

Bang & Olufsen will adhere to its basic strategies. However, in the light of recent developments, adjustments will be implemented within a number of areas.

Within the audio/video business, focus will be on a qualitative consolidation of the B1 distribution following the strong expansion of recent years. This will be supported by enhanced management and control systems. The long-term global target of 800-1,000 B1 shops will be maintained, but the pace of the expansion will match the more rigorous quality requirements. In the US, the need for consolidation in order to strengthen the retail business and ensure a sound platform for growth in the coming financial years is evident. In Germany there is a need to develop partnerships and trust with the multibrand shops alongside the development of shop-in-shop activities.

Product development will be further intensified. Particularly in the latter part of the coming financial year, a strong product programme, for which there are high hopes, will be launched.

During the coming financial year, Medicom is expected to continue its positive advances. In Telecom, whose competencies are important for the whole group, focus will be on continued development of the distribution system and new product launches. In the three new business areas, Multimedia, PowerHouse and New Business, there will be long-term investments in future earnings and in the capitalisation of the Group's brand. The three companies will have a negative impact on the Group's result next year. In the longer-term, all business areas must be profitable. Focus will be on the exploitation of competencies and developments across the whole group to the benefit of the core business.

On the background of the chosen strategies and new product launches, Bang & Olufsen expects a moderate increase in turnover for the coming financial year. The result will remain unchanged.

The first two months of the year have progressed satisfactorily, but the summer months are traditionally less important in terms of turnover as well as earnings and therefore do not provide a clear trend. There are no immediate signs of changes to either the economic climate or the sales of high-end consumer goods. A continuing downturn in the international economy will have a negative impact on the Group's sales potential.

### **The Board of Director's Decision and Recommendation to the Annual General Meeting**

The Board of Directors recommend to the Annual General Meeting:

1. That the Board of Directors is authorised – within 18 months from the date of the Annual General Meeting - to acquire 10 per cent of the company's share capital against a fee which must not be more than 10 per cent above or below the most recent price quoted for the ordinary shares on the Copenhagen Stock Exchange. Pursuant to the above authorisation, however, the company can at no time acquire shares representing a value exceeding 10 per cent of the share capital's voting rights.
2. That dividend of DKK 3.50 (1999/00 financial year, DKK 6.00) is paid per nominal share of DKK 10 which means that the total dividend for the year will be DKK 46,872,861.00 (DKK 80,353,476.00 for the 1999/2000 financial year).

The printed accounts for 2000/2001 will be published on August 30, 2001.

The Annual General Meeting will be held on Friday, September 7, 2001 at 4.30 pm at Struer Gymnasium.

/Appendices 8 pages

Appendix 1

## Profit and Loss Account

<b>Bang &amp; Olufsen a/s</b>	Group	
(DKK million)	2000/01	1999/00
<b>Net turnover</b>	<b>3,810.0</b>	<b>3,722.4</b>
Production costs	(2,281.1)	(2,250.4)
<b>Gross profit</b>	<b>1,528.9</b>	<b>1,472.0</b>
Product development costs	(346.4)	(308.3)
Distribution and marketing costs	(781.2)	(712.4)
Administration costs, etc.	(130.2)	(117.4)
Other operating income, net	-	3.2
<b>Operating profit</b>	<b>271.1</b>	<b>337.1</b>
Result from ordinary operations in associated companies	3.4	2.6
Financing income	16.9	89.8
Financing costs	(67.2)	(112.7)
Net financing costs/income	(50.3)	(22.9)
<b>Result from ordinary operations before tax</b>	<b>224.2</b>	<b>316.8</b>
Tax on ordinary result	(76.3)	(94.6)
<b>Ordinary result after tax</b>	<b>147.9</b>	<b>222.2</b>
Extraordinary income/costs	-	20.4
<b>Extraordinary result after tax</b>	<b>-</b>	<b>20.4</b>
<b>Result for the year</b>	<b>147.9</b>	<b>242.6</b>
Of which minority shareholding	5.6	0.8
<b>Bang &amp; Olufsen a/s'</b> <b>share of the result for the year</b>	<b>153.5</b>	<b>243.4</b>

Parentheses denote negative figures or amounts to be deducted.

Appendix 2

## Assets

### Bang & Olufsen a/s

Group

(DKK million)

31/5-01

31/5-00

#### Intangible fixed assets

Leasehold improvements and rights

74.6

37.4

Patent

0.9

1.0

Total intangible fixed assets

75.5

38.4

#### Tangible fixed assets

Land and buildings

334.5

261.5

Plant and machinery

367.1

298.2

Other equipment

147.0

116.7

Prepayments for fixed assets and plant/equipment in progress

46.8

170.6

Total tangible fixed assets

895.4

847.0

#### Financial fixed assets

Investment in associated companies

5.9

5.5

Other debtors

28.0

41.9

Total financial fixed assets

33.9

47.4

#### Total fixed assets

**1,004.8**

**932.8**

#### Stocks

Raw materials

254.7

224.8

Work in progress

52.8

42.5

Spare parts

128.6

119.3

Finished goods

249.3

197.5

Total stocks

685.4

584.1

#### Debtors

Trade debtors

454.5

453.3

Dividend owed by subsidiaries

2.0

-

Other debtors

96.3

37.4

Accruals

5.5

6.3

Total debtors

558.3

497.0

#### Liquid funds

53.0

130.1

#### Total current assets

**1,296.7**

**1,211.2**

#### Total assets

**2,301.5**

**2,144.0**

Appendix 3

## Liabilities

### Bang & Olufsen a/s

Group

(DKK million)	31/5-01	31/5-00
<b>Equity capital</b>		
Share capital	133.9	133.9
Premium on share issue	2.1	2.1
Retained earnings	1,010.9	922.0
<b>Total equity capital</b>	<b>1,146.9</b>	<b>1,058.0</b>
<b>Minority interests</b>	<b>1.3</b>	<b>-</b>
<b>Provisions</b>		
Deferred tax	54.3	50.4
Other provisions	44.5	37.4
<b>Total provisions</b>	<b>98.8</b>	<b>87.8</b>
<b>Long-term liabilities</b>		
Mortgage loans	198.8	169.9
Loans from banks, etc.	187.5	200.0
Total long-term liabilities	386.3	369.9
<b>Short-term liabilities</b>		
Mortgage loans in the coming year	27.5	13.5
Loans from banks, etc.	88.5	8.2
Trade creditors	186.5	231.6
Liabilities to associated company	1.9	2.1
Corporation tax	25.5	6.5
Other creditors	291.4	286.0
Dividend for the financial year	46.9	80.4
Total short-term liabilities	668.2	628.3
<b>Total debt</b>	<b>1,054.5</b>	<b>998.2</b>
<b>Total liabilities</b>	<b>2,301.5</b>	<b>2,144.0</b>

Appendix 4

## Cash Flow Statement

### Bang & Olufsen a/s, the Group

(DKK million)	2000/01	1999/00
Result for the year	153.5	243.4
Depreciation and write-offs	171.1	162.4
Adjustments	118.2	91.6
Change in working capital	(170.1)	(123.7)
Cash flow from operations before financial items	272.7	373.7
Interest received, etc.	16.9	89.8
Interest paid, etc.	(67.2)	(112.7)
Cash flow from ordinary operations	222.4	350.8
Corporation tax paid	(84.8)	(106.2)
<b>Cash flow from operational activities</b>	<b>137.6</b>	<b>244.6</b>
Purchase of intangible fixed assets	(53.8)	(28.2)
Purchase of tangible fixed assets	(221.8)	(279.9)
Purchase of financial fixed assets	-	(17.0)
Change in financial debtors	13.9	15.3
Dividend from associated company	2.0	-
Sale of shares	-	33.0
Sale of intangible fixed assets	2.7	-
Sale of fixed assets	14.3	11.1
<b>Cash flow from investment activities</b>	<b>(242.7)</b>	<b>(265.7)</b>
New long-term debt	51.0	200.0
Reduction in long-term liabilities	(20.6)	(14.2)
Financing of minority interests	6.9	-
Sale/purchase of own shares	(21.6)	(84.3)
Tax relating to disposal of own shares	7.2	-
Proceeds from capital increase and dividend from own shares	5.2	5.2
Dividend paid	(80.4)	(66.8)
<b>Cash flow from financing activities</b>	<b>(52.3)</b>	<b>39.9</b>
<b>Change in liquid funds - Cash flow for the year</b>	<b>(157.4)</b>	<b>18.8</b>
Liquid funds, 1 June	121.9	103.1
<b>Liquid funds, 31 May</b>	<b>(35.5)</b>	<b>121.9</b>

Parentheses denote negative figures or amounts to be deducted.

Appendix 5

## Equity capital

<b>Bang &amp; Olufsen a/s</b>	Group	
(DKK million)	2000/01	1999/00
<b>Share capital</b>		
Balance, 1 June	133.9	133.6
Capital increase	-	0.3
Balance, 31 May	133.9	133.9
<b>Premium on share issue</b>		
Balance, 1 June	2.1	1.1
Premium on capital increase	-	1.0
Balance, 31 May	2.1	2.1
<b>Retained earnings</b>		
Balance, 1 June	922.0	846.0
Exchange rate adjustment of investment in subsidiaries	4.3	9.0
Equity capital adjustments in subsidiaries	(1.5)	(15.6)
Immediate depreciation of Group goodwill	(11.4)	-
Appreciation of own shares for anniversary bonus	24.1	-
Value own shares for anniversary bonus	(24.1)	-
Tax on anniversary bonus	7.2	-
Writedown own shares	(21.6)	(84.3)
Dividend own shares	5.3	3.9
Retained earnings	106.6	163.0
Balance, 31 May	1,010.9	922.0
<b>Total equity capital</b>		
Balance, 1 June	1,058.0	980.7
Exchange rate adjustment of investment in subsidiaries	4.3	9.0
Equity capital adjustments in subsidiaries	(1.5)	(15.6)
Capital increase	-	1.3
Appreciation of own shares for anniversary bonus	24.1	-
Value own shares for anniversary bonus	(24.1)	-
Tax on anniversary bonus	7.2	-
Depreciation of Group goodwill	(11.4)	-
Writedown own shares	(21.6)	(84.3)
Dividend own shares	5.3	3.9
Retained earnings	106.6	163.0
Balance, 31 May	1,146.9	1,058.0

Parentheses denote negative figures or amounts to be deducted.

Appendix 6

## Other operating income net

Bang & Olufsen a/s (DKK million)	Group	
	2000/01	1999/00
Share of profits from Ericsson Diax A/S	-	3.2
	<u>-</u>	<u>3.2</u>

## Financing income and costs

Bang & Olufsen a/s (DKK million)	Group	
	2000/01	1999/00
<b>Financing income</b>		
Interest income from banks, etc.	1.9	2.1
Cash discounts	8.5	7.0
Other interest received	6.5	5.2
	<u>16.9</u>	<u>14.3</u>

### Financing costs

Interest on bank loans	17.4	10.2
Interest on mortgage loans	13.1	9.5
Currency losses	25.9	4.3
Cash discounts	1.7	2.2
Other interest paid	9.1	11.0
	<u>67.2</u>	<u>37.2</u>

## Change in operating capital

Bang & Olufsen a/s (DKK million)	Group	
	2000/1	1999/00
<b>Change in operating capital</b>		
Change in debtors	(28.9)	(113.4)
Change in stocks	(101.3)	(1.6)
Change in trade debt, etc.	(39.9)	(8.7)
	<u>(170.1)</u>	<u>(123.7)</u>

Parentheses denote negative figures or amounts to be deducted.

Appendix 7

## Corporation tax

### Bang & Olufsen a/s

Group

(DKK million) 2000/01 1990/00

In the profit and loss account tax has been accounted for:

Parent company:

Current tax	0.4	0.4
Change in deferred tax	1.4	(0.3)
Adjustment previous year, current and deferred tax	(3.9)	(0.3)

Total for parent company	<u>(2.1)</u>	<u>(0.2)</u>
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Subsidiaries and associated companies:

Current tax	71.4	95.6
Change in deferred tax	5.6	(0.1)
Adjustment previous year, current and deferred tax	4.5	(0.7)
Adjustment deferred tax as a result of changed tax rate	(3.1)	-

Total for subsidiaries and associated company	<u>78.4</u>	<u>94.8</u>
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Tax on result for the year	<u>76.3</u>	<u>94.6</u>
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Corporation tax paid in the parent company including tax paid on an instalment basis amounted to DKK 13.1 million.

Bang & Olufsen AudioVisual a/s is jointly taxed with the company. Payments on account transferred from Bang & Olufsen AudioVisual a/s account for DKK 26.6 million.

## Turnover and Distribution, Bang & Olufsen AudioVisual a/s

### Turnover in markets

(DKK million)	Turnover 2000/01	Group Growth in local currency
Germany	561	(6%)
Denmark	479	(12%)
United Kingdom	450	2%
USA	311	17%
Switzerland	281	(3%)
Holland	248	(4%)
Expansion Markets	206	19%
France	200	12%
Italy	198	(1%)
Spain	136	1%
Sweden	112	(7%)
Belgium	87	(5%)
Japan	68	-
Norway	64	(5%)
Austria	58	(7%)
Other	35	
Total	<u>3,494</u>	

Appendix 8

**The development in the number of shops for Bang & Olufsen AudioVisual a/s**

Shop segment	Number of shops as at <u>31/5-01</u>	Change during the period <u>1/6-00 - 31/5-01</u>	Share of turnover <u>per segment</u>
B1	530	79	50%
B2	289	44	14%
B3	393	(143)	14%
C	688	(107)	16%
D	22	(17)	2%
E	<u>95</u>	<u>(11)</u>	<u>4%</u>
I alt	<u>2,017</u>	<u>(155)</u>	<u>100%</u>

Parentheses denote negative figures.

Definitions of shop segments:

- B1 Shops which are dedicated retailers of Bang & Olufsen products.
- B2 Shops with a turnover of at least 50 per cent of Bang & Olufsen products.
- B3 Shops with a turnover of at least 25 per cent of Bang & Olufsen products.
- C Shops whose purchases from Bang & Olufsen exceed DKK 500,000 per year.
- D Bang & Olufsen "shop in shop" in department stores.
- E Retail chain shops purchasing a minimum of DKK 500,000 per year.