

Copenhagen Stock Exchange
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Translation

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Interim report for the period June 1, 2002 – February 28, 2003

The report has been prepared in accordance with the new Annual Accounts Act. Consequently, the results for the period, the opening balance and the comparative figures have been adjusted accordingly, cf. appendix 1.

- The ordinary profit before tax was DKK 251 million against DKK 202 million for the same period last year. This represents an improvement of DKK 49 million or 24 per cent.
- Turnover was DKK 3,083 million corresponding to a decrease of DKK 106 million or 3 per cent compared with the 2001/2002 financial year.
- The Group's cash flow for the first three quarters was positive at DKK 272 million against DKK 140 million last year, i.e. an improvement of DKK 132 million.
- Satisfactory developments in the UK, Spain/Portugal, Italy, Belgium, Asia, Expansion Markets, Austria, Denmark and France. Developments in Germany, Holland and the US remain disappointing.
- The Group improved gross margin by 2.3 percentage points and continued to exercise tight cost control. The focus on product development remains unchanged.
- During the period under review the Group as scheduled launched BeoVision 5 Plasma in the US market and BeoCom 4, a new cordless phone, in Europe.
- The previously announced expectations for a pre-tax profit of between DKK 280 and 295 million for the 2002/03 financial year are maintained. However, the uncertainties surrounding the estimated profit have increased considerably.

Jørgen Worning
Chairman

Torben Ballegaard Sørensen
President, CEO

Main figures – Bang & Olufsen a/s – the Group (unaudited)
(DKK million)

1/6 2002 - 28/2 2003

	2002/03	2001/02
Net turnover	3,083.4	3,189.3
Operating profit	253.7	214.4
Financial items	(2.4)	(12.2)
Result from ordinary operations before tax	251.3	202.2
Tax on ordinary result	(75.9)	(82.5)
Result for the period after tax	175.4	119.7
Of which minority share	(4.4)	7.3
Bang & Olufsen a/s' share of the result	171.0	127.0

Parentheses denote negative figures or amounts to be deducted.

Corporation tax has been calculated as the share of the financial year's expected tax liability relating to the result for 9 months.

Balance sheet information	28/2 03	28/2 02
Equity	1,533.6	1,390.4
Assets	2,667.4	2,643.7
Assets, excl. liquid funds	2,243.2	2,478.3

Development in equity	2002/03	2001/02
Equity as at June 1	1,406.9	1,308.3
Dividend paid	(46.9)	(46.9)
Dividend own shares	3.1	3.1
Capital increase used for employee shares	1.6	1.3
Exchange rate adjustment of investment in subsidiaries	(2.1)	(2.4)
Retained earnings	171.0	127.0
Equity as at February 28	<u>1,533.6</u>	<u>1,390.4</u>

Parentheses denote negative figures or amounts to be deducted.

Notes on the development

Bang & Olufsen a/s

Market conditions developed less favourably than expected at the beginning of the year. Turnover for the period June 1, 2002 to February 28, 2003 was DKK 3,083 million against DKK 3,189 million for the same period last year. This corresponds to a decrease of DKK 106 million or 3 per cent.

For the third quarter, turnover was DKK 1,025 million against DKK 1,193 million last year, i.e. a decrease of DKK 168 million or 14 per cent. The ordinary profit before tax, however, showed an improvement of DKK 13 million or 13 per cent in that the result for the third quarter was DKK 116 million against DKK 103 million the previous year.

The decline in turnover in the first three quarters can be ascribed to the following key factors: unfavourable foreign exchange trends for USD and GBP, corresponding to DKK 52 million. The continuing slowdown in Germany and Holland resulted in a decline of DKK 119 million. In addition, Bang & Olufsen Medicom experienced a decrease in turnover of DKK 38 million. However, sales increases in primarily the UK, Spain/Portugal, Italy, Belgium, Asia and Expansion Markets considerably softened above developments.

Despite lack of growth in turnover the Group maintained satisfactory earnings from primary operations due to improved gross profits. The gross margin is 2.3 percentage points higher than the same period last year due to rationalisation measures in production and price increases for a number of products. Furthermore, tight cost controls are implemented across the Group.

Overall, these measures aim at securing the Group's profitability, in relative as in absolute terms, thereby preparing it for a period of increasing uncertainty as well as renewed, profitable growth when the general climate improves.

Operating profit was DKK 254 million against DKK 214 million in the same period last year. This represents an improvement of DKK 40 million. The ordinary profit before tax was DKK 251 million against DKK 202 million last year, i.e. an improvement of DKK 49 million or 24 per cent.

Profits after tax were DKK 175 million against DKK 120 million for the same period last year, i.e. an improvement of DKK 55 million or 46 per cent.

The Group's cash flow for the period was positive at DKK 272 million against DKK 140 million last year, i.e. an improvement of DKK 132 million. The advance is due to continuing reductions in stock and a generally lower investment level.

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Branded business

Turnover for the Group's branded business totalled DKK 2,897 million against DKK 2,969 million for the same period last year. This represents a decrease of DKK 72 million or 2 per cent.

Developments in the branded business should be seen on the backdrop of a financial year with few new product launches and relatively few new shop openings.

The ordinary profit before tax in the Group's branded business was DKK 268 million against DKK 207 million last year. This is an improvement of DKK 61 million, or 29 per cent attributable to the increased gross profits and deliberate cost restraint.

Within the branded business, the Telecom activities accounted for a turnover of DKK 228 million against DKK 198 million for the same period last year. This represents growth of DKK 30 million or 15 per cent. The satisfactory result is due to the last year's successful product launches.

Developments in the markets

Percentage changes are calculated in local currencies

The UK, the Group's largest market, posted an increase in turnover of DKK 23 million or 9 per cent on last year.

In the period under review, Spain/Portugal achieved an increase in turnover of DKK 26 million or 18 per cent compared with the same period last year.

The Italian and French markets both posted increases – DKK 19 million (or 14 per cent) and DKK 2 million (or 1 per cent) respectively.

The Danish market saw an increase in turnover of DKK 3 million or 1 per cent on the same period last year. The Norwegian market advanced by DKK 4 million although, calculated in the local currency, this is an actual decline of 1 per cent. The Swedish market saw a decline in turnover of DKK 1 million or 5 per cent.

The German market showed a disappointing decrease in turnover of DKK 79 million or 17 per cent compared to the same period last year. The third quarter constituted a decline in turnover of DKK 19 million or 13 per cent, which is lower than the decline at the end of the half year.

The decline in the German market primarily occurred within the category "other" multibrand shops, which saw decline in average turnover of 33 per cent. Average turnover in the German B1 shops fell by 3 per cent.

Consequently, the Group has decided to accelerate quality improvements in the German distribution by offering "other" multibrand shops an upgrading to "shop in shop" or "B1" solutions – or, alternatively, to cease selling Bang & Olufsen's products. A number of shops – corresponding to the expected figure – seem to want to upgrade and the Group expects this to reduce the number of "other" multibrand shops. The enhancement of the distribution quality will occur over some years. The Group, therefore,

does not expect to see overall growth in the German market in the coming financial year.

The Dutch market continued its decline – by DKK 40 million or 17 per cent. The distribution is well organised, but as market penetration in Holland is significantly higher than in Germany, the slowdown in consumption has had a substantial impact. By contrast, the Belgian market advanced satisfactorily by DKK 7 million or 11 per cent.

The Swiss market suffered a decline in turnover of DKK 8 million or 5 per cent while Austria increased turnover by DKK 4 million or 9 per cent.

Turnover in the US market totalled DKK 252 million against 305 million in the same period last year, i.e. a decrease of DKK 53 million or 6 per cent in local currency. Overall, the Group's losses in the US market totalled DKK 59 million for the period. This comprised operating losses on continuing activities of DKK 33 million (against DKK 40 million for the same period last year) and non-recurring costs of DKK 26 million (against DKK 3 million last year). The Bang & Olufsen owned B1 shops, which opened before May 31 2001, showed an advance in turnover of 5 per cent. Current structural changes in the US distribution and organisation have intensified.

Not including Japan, Asian markets showed an increase in turnover of DKK 11 million or 10 per cent. Japan suffered a decrease in turnover of DKK 13 million or 19 per cent compared to the same period last year.

Expansion Markets, which comprise Russia, the Middle East, South America, Africa and the East European markets achieved an increase in turnover of DKK 15 million or 33 per cent.

Product launches

In December Bang & Olufsen, as planned, launched BeoVision 5 in the US market.

In January we launched a new cordless phone, BeoCom 4, a stand alone product which matches many different situations and environments. The phone emphasises simplicity – in terms of design as well as functionality.

Distribution development

At the end of the third quarter there were 635 B1 shops against 602 at the end of the third quarter last year.

A net increase of 17 B1 shops and 9 shop-in-shops was recorded during the period under review. The figures are net of both downgrades and shop closures aimed at enhancing the quality of the distribution. The B1 shops' share of the turnover is now 66 per cent against 62 for the same period last year.

Worldwide, 669 shop-in-shops are in operation, i.e. shops that sell products from other manufacturers but dedicate a special area to Bang & Olufsen. The shop-in-shops now account for 23 per cent of the turnover.

497 other shops sell Bang & Olufsen's products. These account for 11 per cent of the turnover.

Turnover in B1 shops with two full years of operation increased by an average of 1 per cent. The Group average covers wide variations within the individual markets.

Non-branded business

Bang & Olufsen Medicom a/s

Bang & Olufsen Medicom's turnover for the period totalled DKK 173 million against DKK 211 million last year. This represents a decrease of DKK 38 million or 18 per cent.

Bang & Olufsen Medicom continues to experience a decline in orders, leading to overcapacity in production. Bang & Olufsen Medicom continues to adjust capacity to the reduced activity levels. During the period new contracts for future development projects were signed with major pharmaceutical companies.

Bang & Olufsen ICEpower a/s

During the period under review, Bang & Olufsen ICEpower achieved a turnover of DKK 20 million against DKK 10 million last year, i.e. an increase of DKK 10 million.

The company's development can be regarded as reasonable. However, the continued investments in technology and product development mean that Bang & Olufsen ICEpower posted a loss of DKK 11 million. Last year the loss amounted to DKK 15 million.

Expectations for the financial year

Product launches

In March, Bang & Olufsen launched a new version of the classic BeoSound 3000, BeoSound 3200, with built-in CD memory in the shape of hard disk technology for storing many hours of music directly within the product.

Towards the end of the financial year Bang & Olufsen will launch an important acoustic product, which will break new ground in terms of technology as well as design – and which will set new standards for the high end of the audio market. Leading hi-fi experts have given very positive feedback.

The result for the year

In the Interim Report for the first six months we maintained that despite a somewhat weaker-than-expected growth in turnover, we would be able to achieve expected profits before tax of DKK 280 – 295 million.

Until now the Group has been able to increase earnings despite difficult market conditions. The Group has decided not to try to increase turnover through conventional pricing parameters, but to focus firmly on quality and earnings. The planned launches will be implemented as envisaged and focus on product development will continue unabatedly.

In the majority of our markets we are witnessing weakening trends in consumer demand leading to consumer reluctance and postponed decisions on major purchases, and consequently increased uncertainties in demand. This uncertainty is sought diminished through the improvement of the Group's gross profits and the tight cost control. The relatively high gross profits mean, however, that even modest fluctuations in weekly turnover have a significant impact on the result.

The previously announced expectations for a pre-tax profit of between DKK 280 and 295 million for the financial year 2002/03 are maintained. The uncertainties concerning the estimated profit, however, have significantly increased.

Appendix 1

Changes to accounting principles

As a consequence of the new Annual Accounts Act, which came into force on June 7, 2001 and the changes and updates made to a number of Danish accounting guidelines, certain changes to the accounting principles applied were introduced from June 1, 2002.

All comparative figures have been adjusted to reflect the changes in the accounting principles applied.

The changes in principle have affected the result for the period positively by DKK 30.3 million. The corresponding change for the first 9 months for the previous year is DKK 1.7 million.

Due to the changes, equity has increased by DKK 163 million as at June 1, 2002 and by DKK 161 million as at June 1, 2001.

The result for the period: (DKK million)

	1/6-28/2 03	1/6-28/2 02
<u>Operating profit:</u>		
Operating profit before changes to accounting principles	223.4	212.7
Development costs capitalised during the period	88.5	60.9
Amortisation, development costs	<u>(58.2)</u>	<u>(59.2)</u>
Total change	<u>30.3</u>	<u>1.7</u>
Operating profit after changes to accounting principles	<u>253.7</u>	<u>214.4</u>
<u>Result from ordinary operations before tax:</u>		
Result from ordinary operations before tax and before changes to accounting principles	221.0	200.5
Changes as a result of new accounting principles, cf. above	<u>30.3</u>	<u>1.7</u>
Result from ordinary operations before tax and after changes to accounting principles	251.3	202.2
Tax on ordinary result	<u>(75.9)</u>	<u>(82.5)</u>
Result for the period after tax	<u>175.4</u>	<u>119.7</u>

Parentheses denote negative figures or amounts to be deducted.

Equity is specified as follows:	1/6 02	1/6 01
Opening equity	1,244.1	1,146.9
Changes to opening equity:		
Capitalised development costs	165.6	163.5
Adjustment, deferred tax	(49.7)	(49.0)
Adjustment re. dividend	<u>46.9</u>	<u>46.9</u>
Adjusted opening equity	<u>1,406.9</u>	<u>1,308.3</u>

Parentheses denote negative figures or amounts to be deducted.

The following areas are subject to changes in the accounting principles applied:

Group goodwill

Past practice

Group goodwill is determined at the time of the acquisition as the difference between the original price and the acquired company's intrinsic value calculated in accordance with the Group's accounting principles. Group goodwill is depreciated directly over the equity.

New practice

Group goodwill is calculated at the time of the acquisition as the difference between the original price and the acquired company's intrinsic value calculated in accordance with the Group's accounting principles. Group goodwill and goodwill acquired from and including June 1, 2002 are recognised in the balance sheet and amortised on a straight line basis over the expected economic lifetime, which is determined on the basis of the Management Board's experience of the individual business areas, although a maximum of 20 years applies.

Development costs

Past practice

Product development costs are expensed in the year in which they are incurred and comprise costs relating to the Group's development departments, including salaries, wages, materials, services and depreciation of fixtures & fittings and plant used for development activities.

New practice

Development projects that are clearly defined and identifiable and are expected to be marketed as new products within potential future markets are recognised as intangible fixed assets.

Development costs are included at cost price as intangible fixed assets and are amortised over the expected useful life when the criteria for this have been met.

Development costs that do not meet the criteria for capitalisation in the balance sheet are included as cost in the Profit & Loss account when incurred.

Development projects comprise salaries and wages, materials, services and depreciation of fixtures & fittings and plant that directly or indirectly relate to the Group's development activities.

Capitalised development costs are measured at cost price with deduction of accumulated amortisation and impairment losses.

Following the completion of the development work, development costs are amortised on a straight line basis over the estimated economic useful life. The amortisation period is normally 3-6 years.

Dividend

Dividend for the financial year

Past practice

Proposals for dividend are included as a liability in the accounts.

New practice

Dividend is recognised as a liability in the accounts when approved by the Annual General Meeting. Proposed dividend is not recognised as a liability, but is shown as a separate item under equity.

Dividend receivable

Past accounting practice

Dividend receivable is recognised as current assets in the balance sheet when proposed.

New accounting practice

Dividend receivable is recognised in the balance sheet from the date of approval by the Annual General Meeting.

Mortgage debt

Mortgage debt is recognised at the amortised cost price. The introduction of the new Annual Accounts Act has no significant consequences for the Group.

Derivative financial instruments and hedging

Derivative financial instruments are initially recognised in the balance sheet at cost price and subsequently measured at market value. Derivative financial instruments are included in other receivables and other debt.

Changes to the market value of derivative financial instruments, which meet the criteria for hedging the market value of a recognised asset or a recognised

commitment, are included in the profit & loss account together with any changes in the market value of the hedged asset or the hedged commitment.

Changes to the market value of derivative financial instruments, which meet the conditions for hedging future assets or commitments, are recognised in the equity under retained earnings. Earnings and costs relating to hedged transactions are transferred from the equity capital when the hedged position is realised.

For derivative financial instruments, which do not qualify as hedging instruments, changes are included on a continuing basis at market value in the profit & loss account.

The change to the new Annual Accounts Act has no significant consequences for the Group.

Leasing

The Group has operating leasing contracts only.

Rental and leasing costs are expensed in the year in which they are incurred.

Appendix 2

Interim Report For the period 1/6 2002 to 28/2 2003

(DKK million)	Branded Business	Non-branded business			B&O a/s The Group
	Bang & Olufsen	B&O Medicom a/s	B&O ICEpower a/s	Other/ eliminations	
Turnover	2,896.8	172.9	19.9	(6.2)	3,083.4
Operating profit/loss	267.1	(2.7)	(10.7)		253.7
Result from ordinary operations before tax	267.9	(5.7)	(10.9)		251.3

Interim Report For the period 1/6 2001 to 28/2 2002

(DKK million)	Branded business	Non-branded business			B&O a/s The Group
	Bang & Olufsen	B&O Medicom a/s	B&O ICEpower a/s	Other/ eliminations	
Turnover	2,968.8	210.8	10.3	(0.6)	3,189.3
Operating profit/loss	215.7	13.2	(14.5)		214.4
Result from ordinary operations before tax	206.8	10.0	(14.6)		202.2

Parentheses denote negative figures or amounts to be deducted.

Appendix 3

Turnover and distribution, Bang & Olufsen AudioVisual a/s

Turnover apportioned into markets

(DKK million)	Group	
	Turnover 1/6 02 – 28/2 03	Growth local currency
United Kingdom	452	9%
Germany	383	(17%)
Denmark	361	1%
USA	252	(6%)
Switzerland	206	(5%)
Holland	186	(17%)
Spain/Portugal	172	18%
Italy	159	14%
France	154	1%
Asian markets, excl. Japan	112	10%
Expansion Markets	98	33%
Sweden	82	(5%)
Belgium	74	11%
Norway	56	(1%)
Austria	48	9%
Japan	37	(19%)
Other	<u>32</u>	
	<u>2,864</u>	

Parentheses denote negative figures.

Development in number of shops for Bang & Olufsen AudioVisual a/s

Shop segment	No of shops as at 28/2 03	Change during the period 1/6 02 – 28/2 03	Share of turnover per segment
B1	635	17	66%
Shop in shop	669	9	23%
Other	<u>497</u>	<u>(144)</u>	<u>11%</u>
Total	<u>1,801</u>	<u>(118)</u>	<u>100%</u>

Parentheses denote negative figures.

Definitions of shop segments:

B1	Shops which are dedicated retailers of Bang & Olufsen products.
Shop in shop	Shops with a dedicated sales area for Bang & Olufsen products.