

Copenhagen Stock Exchange
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Bang & Olufsen to transfer Danish Electronics Factory to Flextronics as part of a five-year manufacturing agreement

Bang & Olufsen today announced that it will transfer its Danish electronics factory in Skive to Flextronics, the industry's leading EMS (Electronic Manufacturing Services) provider. Under the terms of the agreement, Flextronics will acquire the buildings, equipment, and employees, and become Bang & Olufsen's largest sub-supplier of advanced electronic parts.

"With Flextronics as our partner, we're confident that we have a development and production partner who recognizes the strengths of the electronics factory, and wishes to develop them even further," said Peter Thostrup, Executive Vice President of Bang & Olufsen.

As part of the overall transaction, which is expected to close in June 2004, the two companies will enter into a five-year manufacturing agreement that is expected to generate an incremental US\$85 (DKK 500) million of revenues per year for Flextronics. In exchange, Flextronics will purchase the assets for approximately US\$16 (DKK 96) million including related inventory. There will be no purchase price premium paid in the transaction.

Bang & Olufsen will gain access to a wide range of technologies, and access to high-quality manufacturing as well as maintain the high degree of flexibility in its ability to realize advanced design concepts in close cooperation with Flextronics. Additionally, Bang & Olufsen will be able to source electronic key components at lower costs than currently possible and focus its financial and engineering resources on innovation, new product development, and continued high-level quality assurance.

Bang & Olufsen and Flextronics have enjoyed a strategic relationship for more than 10 years. In this new phase of their partnership, Bang & Olufsen will continue to design and develop electronics modules to support its innovative and unique products, while Flextronics will provide its manufacturing expertise to produce these modules at a very competitive cost.

"In today's competitive global marketplace, we see the need to work closely with a company like Flextronics because we believe that by using their world-class EMS capabilities, they will be able to help us fulfill our objective in strengthening the profitability and agility of our company, and in addition, we believe that this is a great way of ensuring the long-term survival of the electronics factory in Skive," said John Bennett-Therkildsen, Director of Bang & Olufsen Operations. "For these reasons, transferring the factory to Flextronics makes obvious strategic sense," Bennett-Therkildsen added.

Mike McNamara, Chief Operating Officer of Flextronics, stated, "We believe this long term agreement makes both strategic and financial sense as it builds on a long-standing relationship between the two companies. Bang & Olufsen, the market leader for high-end home entertainment systems, required a partner with strong NPI (New Product Introduction) capabilities for electronic modules. The Skive factory, with its highly experienced team in close proximity to Bang & Olufsen's headquarters and final assembly operations, are ideally placed to provide the highest standard of prototyping and NPI services to the company."

He added, "Additionally, this provides Flextronics with a potential opportunity to expand our business relationship by increasing our service offering to Bang & Olufsen and other Danish companies. From a financial standpoint, it makes sense because we receive a long-term manufacturing agreement with all of the required contractual protections for acquiring a facility from a customer while providing us with our required return on invested capital and an operating margin in excess of our expected EMS average because of the complexity of the product build."

By collaborating with Flextronics in the realm of development and volume production, Bang & Olufsen will continue to have close business ties with the factory in Skive. The factory has supplied components to Bang & Olufsen since 1965 and is known for its flexibility and commitment to high standards in quality.

"It is, of course, an important decision to transfer a factory like Skive," said Peter Thostrup. "The factory possesses unique competencies as well as dedicated employees who have served Bang & Olufsen for many years. However, we believe the partnership with Flextronics will provide the factory with the best possible opportunities to retain and enhance its competitiveness."

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