

INTERIM REPORT

SECOND QUARTER OF THE 2012/13
FINANCIAL YEAR

09 January 2013



BANG & OLUFSEN

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AGENDA

SECOND QUARTER HIGHLIGHTS – Tue Mantoni, CEO

FINANCIAL RESULT FOR THE SECOND QUARTER OF 2012/13 – Henning Bejer Beck, CFO

STRATEGY UPDATE– Tue Mantoni, CEO

EXPECTATIONS TO THE 2012/13 FINANCIAL YEAR – Tue Mantoni, CEO

QUESTIONS & ANSWERS

FINANCIAL HIGHLIGHTS FOR THE SECOND QUARTER

- Second quarter revenue was DKK 819 million compared to DKK 776 million last year – a growth of 5.5 per cent despite headwind from the macro economy and negotiations with master dealers in mid-China and Brazil
- The products launched during the second quarter, the BeoVision 11 and the BeoPlay A9, are performing well. However, the success of Bang & Olufsen's new generation of innovative products resulted in the slow down in the sale of older products
- Gross margin was 43.7 per cent against a gross margin of 40.8 per cent in the first quarter and 43.8 per cent last year. This was driven mainly by an 11 percentage point improvement in the B&O PLAY margin compared to the first quarter
- Earnings before tax were DKK 23 million against DKK 41 million in the same quarter last year. The result was negatively impacted by DKK 13 million in higher amortisation charges and DKK 9 million in lower capitalised development costs
- Net working capital increased to DKK 927 million from DKK 533 million in the second quarter 2011/12 due to stock build up related to product launches, weaker than expected sales and trade receivables related to recently launched products

— NEW INNOVATIVE PRODUCTS LAUNCHED IN THE QUARTER —



BeoPlay A9

- The system integrates dedicated speaker units and amplifiers – delivering a total output of 480 watts
- Inspired Scandinavian design
- Wireless streaming with Apple AirPlay and DLNA

BeoVision 11

- A new generation of Bang & Olufsen TVs building on the well known design virtues and the acoustical expertise of Bang & Olufsen
- Introducing Bang & Olufsen Smart TV technology, delivered in an intuitive and easy-to-use way



BeoLab 12-1

- Share the same design DNA as its predecessors launched earlier this year, BeoLab 12-3 and 12-2 in a more compact package
- Completes the BeoLab 12 series of dedicated wall speakers
- Make a powerful yet discreet pair of rear speakers in a surround sound set up



Bang & Olufsen at CES in Las Vegas



BeoPlay A9 wins Best of Innovations award

- The BeoPlay A9 wins Best of Innovations award in the category High Performance Home Audio judged on materials, aesthetics and design qualities, unique features and how the design and innovation of the product compares

Store opening in Las Vegas

- New store opened in Fashion Show Mall after four years without presence in Las Vegas.
- The shop has a prominent location with a significant amount of luxury traffic

ICEpower launches several new products at CES

- ICEtheater 7 – an integrated amplifier and power supply solution and ICEextend a new frontend for ICEpower modules

Launch of new in wall speaker system

- Launch of a new built-in sound system that looks as stylish as it sounds - BeoLab 15/16

World premier on Bang & Olufsen 3D audio sound

- The 3D audio solution has been introduced in an Audi Q7 Concept Car, which will be unveiled in the Audi booth at CES



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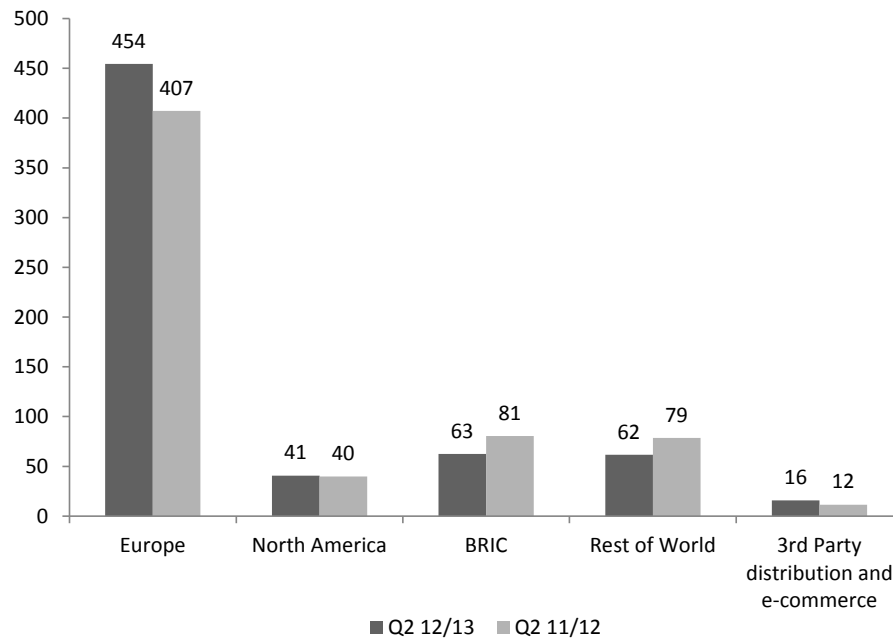
DEVELOPMENT IN REVENUE AND GROSS MARGIN

Revenue			
DKK million	Q2 12/13	Q2 11/12	Chg., %
AV	476	552	-14
B&O PLAY	159	65	+144
B2C	635	617	+3
Automotive	154	133	+16
ICEpower	28	30	-7
B2B	182	163	+11
Other	2	-5	-150
Group	819	776	+6

Gross margin			
DKK million	Q2 12/13	Q2 11/12	Chg., %-pts
AV	48.7	45.8	+2.9
B&O PLAY	32.8	33.9	-1.1
Automotive	38.4	39.5	-1.1
ICEpower	53.9	46.3	+7.6
Group	43.7	43.8	-0.1

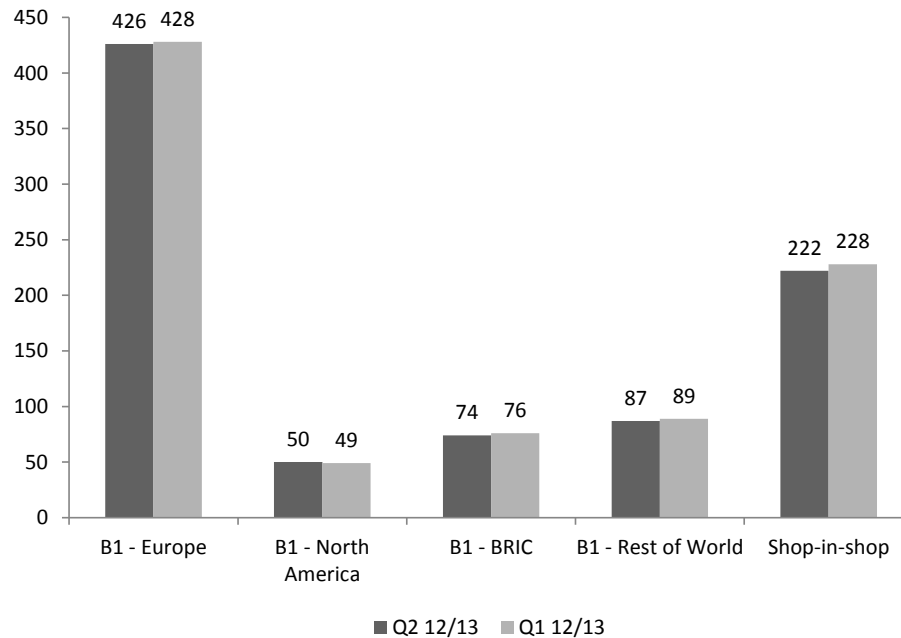
- Revenue for the second quarter was DKK 819 million compared to DKK 776 million last year
- Revenue growth is driven by strong growth in B&O PLAY and Automotive
- Total gross margin increased to 43.7 per cent from 40.8 per cent in the first quarter and remained flat compared to the same quarter last year, despite the launch of the BeoVision 11
- The gross margin in B&O PLAY improved by 11.5 percentage points compared to the first quarter, due to a change in product mix

REVENUE DEVELOPMENT PER REGION, CONSUMER BUSINESS (DKK MILLION)



- B2C revenue increased to DKK 635 million from DKK 617 million in the same quarter last year
- Revenue in Europe was DKK 454 million compared to DKK 407 million last year. The increase is mainly driven by the launch of the BeoVision 11 and the BeoPlay A9
- BRIC revenue fell by 22 per cent. This was partly due to ongoing negotiations with the master dealers in mid-China and Brazil
- Rest of World revenue fell by 22 per cent due to a later introduction of new products

DISTRIBUTION DEVELOPMENT



- The total number of B1-shops was 637 compared to 642 B1-shops at the end of the first quarter 2012/13
- B2C revenue per B1-shop (open more than 24 months) fell 6.5 per cent compared to the same period last year
- The total number of shop-in-shops was 222 compared to 228 shop-in-shops at the end of the first quarter 2012/13

CAPACITY COSTS

Capacity costs

DKK million	Q2 12/13	Q2 11/12	Chg., %
Development costs	-117	-87	+34
Distribution and marketing costs	-191	-175	+9
Administration costs	-23	-30	-22
Total capacity costs	-331	-293	+13

- Capacity costs increased to DKK 331 million from DKK 293 million in the same period last year
- Development costs increased due to DKK 13 million higher amortisation on development projects and DKK 9 million in lower capitalised development costs

Development costs

DKK million	Q2 12/13	Q2 11/12	Chg., %
Incurring development costs bef. cap.	131	123	7
Capitalised development costs	-66	-74	-12
Amortisation of development projects	51	38	+34
Development costs in the income statement	117	87	+34
Capitalisation (%)	50%	60%	

- Capitalisation percentage was 50 per cent compared to 60 per cent in the same quarter last year
- Distribution and marketing costs increased during the second quarter of the 2012/13 financial year by DKK 16 million from DKK 175 million to DKK 191 million
- DKK 8 million of the increase in distribution and marketing costs relates to Bang & Olufsen taking over ownership of stores – mainly in China and Hong Kong

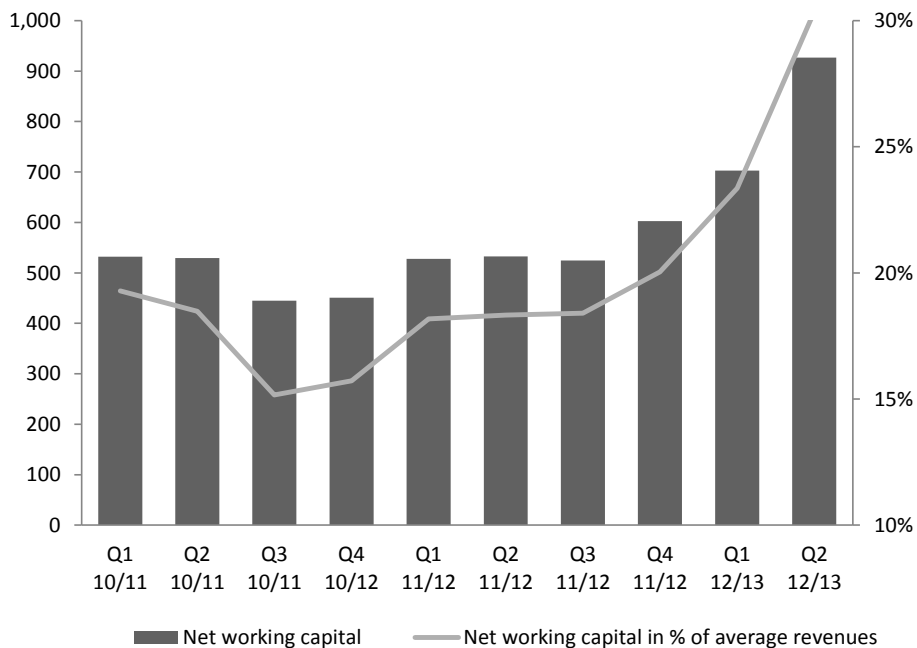
INCOME STATEMENT

Consolidated income statement

DKK million	Q2 12/13	Q2 11/12
Revenue	819	776
Gross profit	358	339
Earnings before interest and tax (EBIT)	26	47
Earnings before tax (EBT)	23	41
Earnings after tax	15	29
Gross margin, %	43.7	43.8
EBIT margin, %	3.2	6.0
Capitalised development costs	-66	-74
Amortisation of development projects	51	38
Other depreciations	28	20
EBITDA before capitalisation	40	32

- In the second quarter of the 2012/13 financial year, EBIT fell to DKK 26 million from DKK 47 million in the same period last year
- A lower level of capitalised development projects and higher amortisation of development projects results in an adverse impact of DKK 22 million in the quarter and explains the fall in EBIT
- The earnings after tax were DKK 15 million compared to 29 million in the same quarter last year
- EBITDA before capitalisation grew by 25 per cent compared to the same quarter last year

NET WORKING CAPITAL



- Net working capital increased by DKK 224 million from DKK 703 million in the first quarter to DKK 927 million
- The increase compared to the previous quarter mainly relates to higher trade receivables related to product launches during the quarter as well as weaker than expected sales
- A net working capital reduction programme has been implemented. This will increase the flexibility in the supply chain and the production plan has been adjusted accordingly
- As communicated in the first quarter, it is expected that net working capital will be reduced in the second half of the 2012/13 financial year

CASH FLOW

Cash flow		
DKK million	Q2 12/13	Q2 11/12
Earnings for the period	15	29
Amort., depr. and imp.	79	59
Change in receivables	-252	-106
Change in inventories	8	-15
Change in trade payables	18	121
Other	-8	17
Cash flow from operating activities	-139	104
Cash flow from investing activities	-69	-87
Free Cash Flow	-208	17

- Free cash flow was negative at DKK 208 million for the quarter compared to positive DKK 17 million last year
- The negative cash flow in the second quarter reflects the significant increase in trade receivables
- The improvement in the net working capital in the second half of the financial year, will significantly improve the free cash flow

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'LEANER, FASTER, STRONGER - MUST-WIN BATTLES

ACHIEVEMENTS

ON TRACK

1. Build Acoustics as our hero

- Established sound and acoustics innovation team
- Launched a number of new acoustics products such as the Beolab 12 series, BeoPlay A9, BeoLit 12, BeoPlay A8 and the BeoPlay A3

ON TRACK

2. Launch new product category

- In Q2 12/13 B&O PLAY grew 144% and represented 19% of group revenue in Q2
- Established distribution agreements with third party retailers such as Apple, John Lewis, Conran and many others
- Opened e-commerce platform

NEED FOR FURTHER ACTION

3. Optimise Retail Network

- New B1 store concept developed and approved by the Board
- Increased traffic in the B1 shops by introducing B&O PLAY

NEED FOR FURTHER ACTION

4. Grow BRIC

- National sales office has been established in Shanghai
- Taken control of the activities and distribution in Hong Kong and Southern and mid-China as well as in Brazil
- Created partnership with Sparkle Roll and A CAPITAL and created a 3 year full potential plan

ON TRACK

5. Transition R&D

- Established sourcing operations in Singapore
- Increased focus on the competencies where Bang & Olufsen is able to really stand out such as sound, design and user interface
- Created a more competitive price-value relationship in the TV segment

ON TRACK

6. Simplify & speed up execution

- Implementation of more trimmed and agile organisation
- The sales and marketing department has moved from Struer to Lyngby in Copenhagen
- Improved the timing of product launches and focused launches on "launch windows"

ACHIEVEMENTS

STRATEGIC REVIEW OF MUST-WIN BATTLE

"OPTIMISE RETAIL NETWORK"

- Ensuring the success of Must-win Battle –"Optimise Retail Network" is key to realising the full potential of Bang & Olufsen
- Closing stores is a necessary action to ensure long term growth
- Created a taskforce dedicated to the implementation of the Next Level Retail project

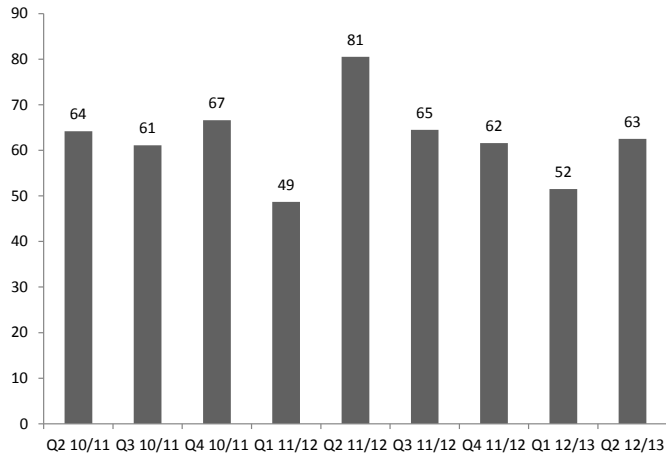
ACTIONS	IMPACT	OBJECTIVE
<ul style="list-style-type: none"> • Restructure retail network • Closures of up to 125 low performing stores within the next 12-18 months • Accelerate new retail partner attraction • Open Bang & Olufsen owned stores in selected locations 	<p>Medium-term</p> <ul style="list-style-type: none"> • Motivate high performing partners • Improve customer experience • Support the Bang & Olufsen Brand • Focus resources • Reflect changes consumer demand for luxury shopping experiences <p>Short-term</p> <ul style="list-style-type: none"> • Adverse revenue impact of up to DKK 100 million in the 2012/13 financial year 	<ul style="list-style-type: none"> • Grow Bang & Olufsen's long term revenue • Significantly improve health and profitability of the retail network • Ensure the retail network can market and represent the brand in the best possible way

STRATEGIC REVIEW OF MUST-WIN BATTLE "GROW BRIC"



- Bang & Olufsen has signed a letter of intent to acquire the master dealer in mid-China (including Shanghai and Beijing) and has reached an agreement to acquire the master dealer activities in Brazil
- Taking over these operations is expected to have an adverse effect on revenue of up to DKK 100 million in the 2012/13 financial year
- Initiatives taken earlier (e.g. Sparkle Roll partnership and opening of local sales office) in China are expected to show growth towards the end of the 2012/13 financial year

BRIC revenue (DKKm)



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EXPECTATIONS TO THE 2012/13 FINANCIAL YEAR

Compared to the expectations at the beginning of the 2012/13 financial year, the expectations have been adversely impacted by the following:

- Up to 125 stores are estimated to be closed within the next 12-18 months, of which a significant number of closings will happen within the 2012/13 financial year. This is estimated to have an adverse revenue impact of up to DKK 100 million in the 2012/13 financial year.
- The acquisition of the master dealer activities in mid-China and Brazil is expected to have an adverse effect on revenue of up to DKK 100 million

As a consequence of the above mentioned actions and the continued macroeconomic headwind, we revise the revenue outlook from previously double digit growth to revenue exceeding the 2011/12 financial year revenue of DKK 3,008 million.

The lower revenue will adversely impact EBIT. This will be partly offset by additional efficiency measures and an increased gross margin in the 2012/13 financial year. The outlook for Earnings before interest and tax (EBIT) is revised, so that the EBIT-margin is expected to remain positive, compared to the previous statement of an EBIT-margin higher than the 2011/12 financial year.

The EBIT guidance includes an expected adverse impact of more than DKK 100 million compared to last year from higher amortisation and lower capitalisation, while continuing a high level of product development activity.

The network restructuring is estimated to take 12-18 months, which implies that the transition phase in the "Leaner, Faster, Stronger" strategy will take one year longer than anticipated at the launch of the "Leaner, Faster, Stronger" strategy. The transition phase will therefore be three years (previously two years) and consequently the strategy implementation period will be extended from five to six years running from the financial year 2011/12 to the financial year 2016/17.

LEANER, FASTER, STRONGER

- The six “Must-win Battles” remain the strategic priorities to realise the full potential of Bang & Olufsen
- The “Leaner, Faster, Stronger” strategy plan remains the strategy with the aim of realising the full potential of the company, which is estimated to be revenue of DKK 8-10 billion and an EBIT-margin of more than 12%

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