

INTERIM REPORT FOR THE SECOND QUARTER OF THE 2013/14 FINANCIAL YEAR
16 JANUARY 2014

BANG & OLUFSEN

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AGENDA

SECOND QUARTER HIGHLIGHTS – Tue Mantoni, CEO

FINANCIAL RESULTS – Henning Bejer Beck, CFO

EXPECTATIONS TO THE 2013/14 FINANCIAL YEAR – Tue Mantoni, CEO

Q&A SESSION

HIGHLIGHTS

- Very strong reception of new products
- Strategic transformation efforts and focused investment in innovation are beginning to pay off
- Revenue and EBIT was slightly above last year, despite a tough comparison
- AV revenue shows early signs of stabilisation
- Expectations for the 2013/14 financial year are unchanged

PRODUCTS LAUNCHED DURING THE SECOND QUARTER



Left to right: BeoLab 17, BeoLab 19 and BeoLab 18

Immaculate Wireless Sound and WiSA

- The technology delivers 24-bit, unparalleled acoustic performance in a wireless surround setup
- Bang & Olufsen is the first company to launch wireless speakers, which incorporate the open WiSA standard, and therefore can connect to any WiSA compliant third-party television, Blu-ray player, AV receiver or the like

BeoLab 17

- First compact all-digital, active, wireless speaker, with stunning acoustic performance, place-anywhere flexibility and innovative design all in one package

BeoLab 18

- An iconic wireless column speaker, that reaches into the future with all-new components, a re-engineered digital sound engine and with the acoustic lens. The most striking visual feature is its lamella front, which is available in several options including solid oak

BeoLab 19

- Wireless, all-digital, active subwoofer, which aligns tight bass performance, place-anywhere flexibility and geometric grace

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AWARDS AT CONSUMER ELECTRONICS SHOW (CES) IN LAS VEGAS



BeoLab 17

- Awarded Design and Engineering Awards Honoree in the category 'Home Theater Speakers'
- Products chosen as an Honoree reflect innovative design and engineering of the entries. Examples include the first time various technologies are combined in a single product or dramatic enhancements to previous product designs

BeoLab 18

- Winner of the "Best of Innovations" award in the category 'High Performance Home Audio'
- The award is granted based on the following criteria:
 - Engineering qualities, based on technical specs and materials used
 - Aesthetic and design qualities
 - The product's intended use, function and user value
 - Unique and novel features and features that consumers would find attractive
 - How the design and innovation of this product directly compare to other products in the market place

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NEW BANG & OLUFSEN PRODUCTS AT CES IN LAS VEGAS

"If we start a movement where we start listening to music before we check emails, I think we've done something good for the world"

CEO Tue Mantoni

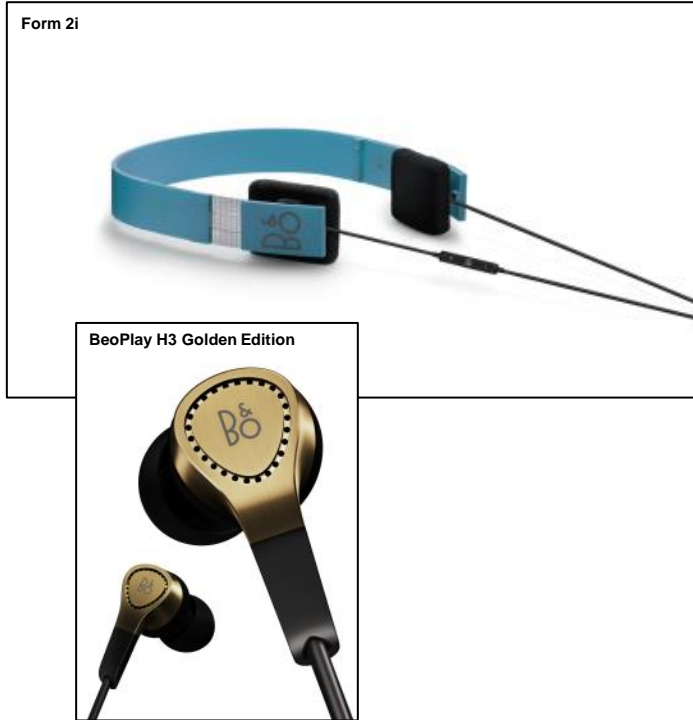


BeoSound Essence (Available Spring 2014)

- It makes listening to music as simple as turning on the light
- Features one-touch operation and two layered navigation (Remote control and BeoMusic App)
- The box is the centre for AirPlay streaming, DLNA streaming, Spotify Connect, QPlay and thousands of global internet radio stations
- It is a simple approach to accessing the ever-expanding array of digital music possibilities, whether they're in the cloud, on your computer, NAS, mobile phone or tablet

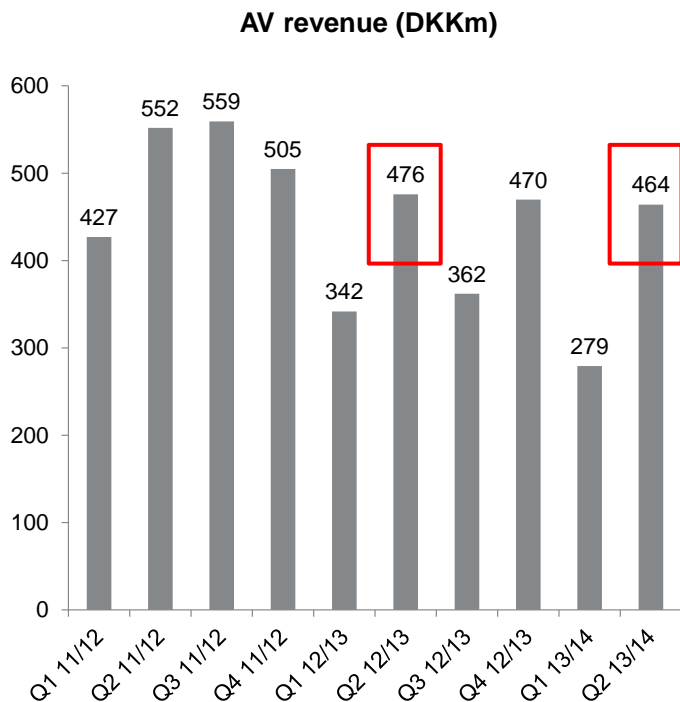
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NEW B&O PLAY PRODUCTS AT CES IN LAS VEGAS



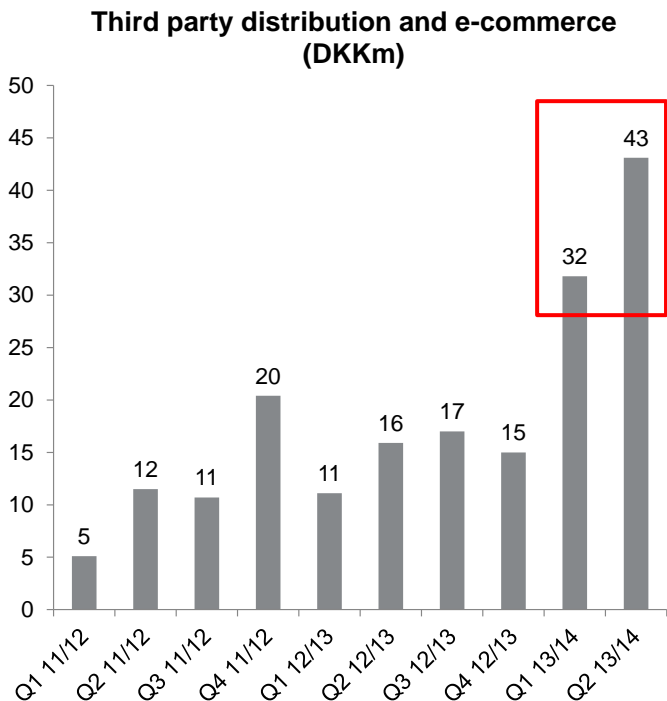
- **Form 2i (Available mid February 2014)** – The iconic headphone has been updated with new colours, a microphone together with a 3-button remote and improved comfort
- **BeoPlay H3 Golden Edition (Available mid February 2014)** – A golden coloured version of the popular in-ear headphone from B&O PLAY

AV SHOWS EARLY INDICATIONS OF STABILISATION



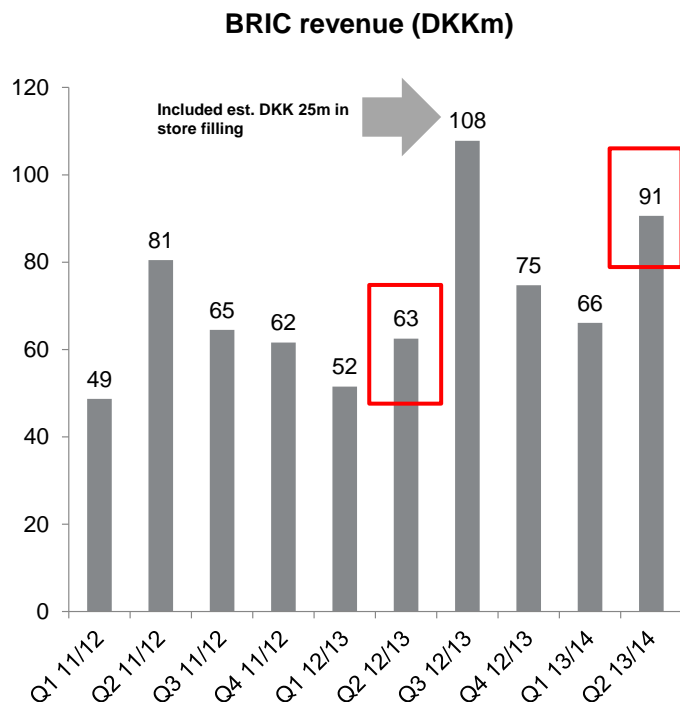
- Revenue in AV segment was DKK 464 million in the second quarter of the 2013/14 financial year, compared to DKK 476 million last year. This corresponds to a decrease of only 2 per cent
- The second quarter was only marginally impacted by the launch late in the quarter of the new speakers BeoLab 17, BeoLab 18 and BeoLab 19 compared to the same period last year where AV revenue, to a much higher degree, was favourably impacted by the launch of BeoVision 11
- Growth outside Europe mitigated the decline of 16 per cent in the B2C revenue in Europe

B&O PLAY THIRD PARTY DISTRIBUTION SHOWS STRONG GROWTH



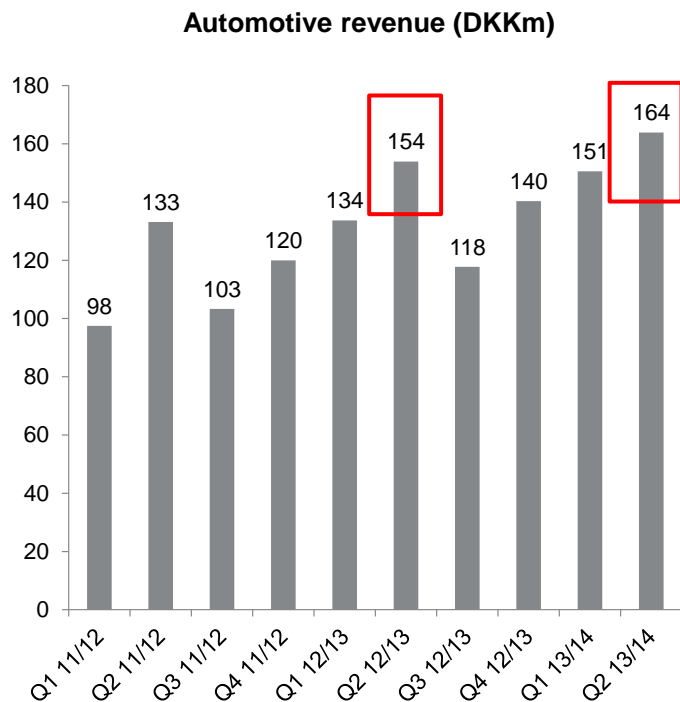
- Revenue in third party distribution and e-commerce increased to DKK 43 million in the second quarter, driven mainly by an increase in the number of third party outlets
- The new outlets include more shops with existing partners, as well as new partners primarily in the US market. New retail partners find B&O PLAY an attractive proposition due to the quality and breadth of the product offering
- The second quarter results confirm that 3rd party retail sales is now at a new, higher level
- The BeoPlay H6 and BeoPlay H3 continue to be important drivers for attracting new third party retailers

THE CHINA STRATEGY SHOWS TRACTION



- Revenue in BRIC increased by 45 per cent in the second quarter, driven mainly by strong growth in Bang & Olufsen's own stores in China
- Traction of the newly opened stores is strong
- 42 dedicated B&O PLAY shop-in-shops had been opened by the end of the second quarter of the financial year
- The third quarter is a tough comparison due store filling effects in the same quarter last year

STRONG AUTOMOTIVE PERFORMANCE CONTINUES



- Revenue in the Automotive segment was DKK 164 million in the second quarter of the 2013/14 financial year, compared to DKK 154 million last year. This corresponds to an increase of 6 per cent
- The second quarter last year was a tough comparison
- In September, a new Bang & Olufsen Sound System was launched for the new Audi A3 Cabriolet. The system features 13 active loudspeakers and delivers a total output of 625 watts

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INCOME STATEMENT

Consolidated income statement						
DKK million	2nd quarter			YTD		
	13/14	12/13	Index	13/14	12/13	Index
Revenue	822	819	100	1,388	1,419	98
Gross profit	351	358	98	578	603	96
EBIT	31	26	117	-34	-35	95
EBT	17	23	73	-51	-41	123
Earnings after tax	8	15	51	-45	-32	142
Gross margin, %	42.7	43.7	98	41.7	42.5	98
EBIT margin, %	3.7	3.2	117	-2.4	-2.5	98
Capitalised dev.	-84	-66	129	-147	-113	130
Amort. of dev. projects	59	51	116	119	102	116
Other depreciation	30	28	108	61	56	108
EBITDAC	36	40	90	-2	10	-17

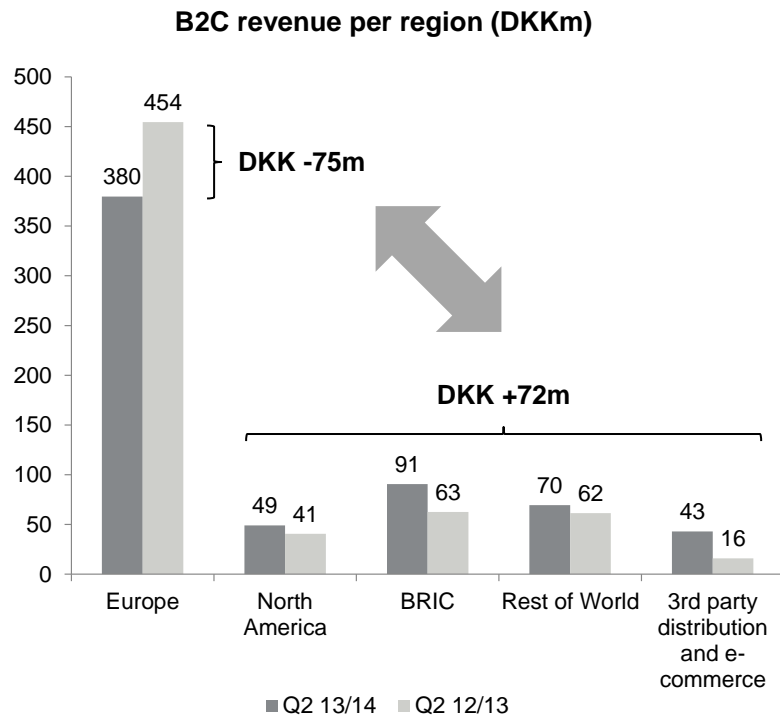
- Revenue was marginally higher in the second quarter of 2013/14 compared to the same quarter last year
- EBIT was DKK 31 million compared to DKK 26 million last year
- Net financial items in the second quarter were negative DKK 14 million compared to negative DKK 4 million in the second quarter last year. This was mainly due to exchange rate differences as a result of the devaluation of the CZK and the weakening of the HKD
- Earnings after tax were DKK 8 million compared to DKK 15 million in the same quarter last year
- 68 per cent of development costs were capitalised compared to 50 per cent in the same quarter last year. The higher level of capitalisation is due to the completion and near-completion of a number of development projects for recent and coming product launches

REVENUE

Revenue						
DKK million	2nd quarter			YTD		
	13/14	12/13	Index	13/14	12/13	Index
AV	464	476	98	743	817	91
B&O PLAY	168	159	105	286	258	111
B2C	632	635	99	1,029	1,075	96
Automotive	164	154	106	314	288	109
ICEpower	30	28	108	52	54	96
B2B	194	182	107	367	342	107
Other	-4	2	-	-7	2	-
Group	822	819	100	1,388	1,419	98

- Group revenue for the second quarter was DKK 822 million compared to DKK 819 million last year
- AV revenue declined by 2 per cent compared to the same quarter last year, which was favourably impacted by the launch of BeoVision 11
- B&O PLAY increased by 5 per cent. The growth was driven primarily by sales through third party channels, as new retail partners find B&O PLAY an attractive proposition due to the quality and breadth of the product offering
- B&O PLAY sales through the B1 and shop-in-shop distribution declined by 13 per cent, primarily driven by a tough comparison due to the launch of the BeoPlay A9 in the same quarter last year
- Automotive grew by 6 per cent compared to the same quarter last year

REVENUE PER REGION, B2C BUSINESS



- Revenue in Europe was DKK 380 million compared to DKK 454 million last year, corresponding to a decline of DKK 75 million
- The revenue decline in Europe, was mitigated by an increase of DKK 72 million in the other B2C regions and 3rd party distribution and e-commerce

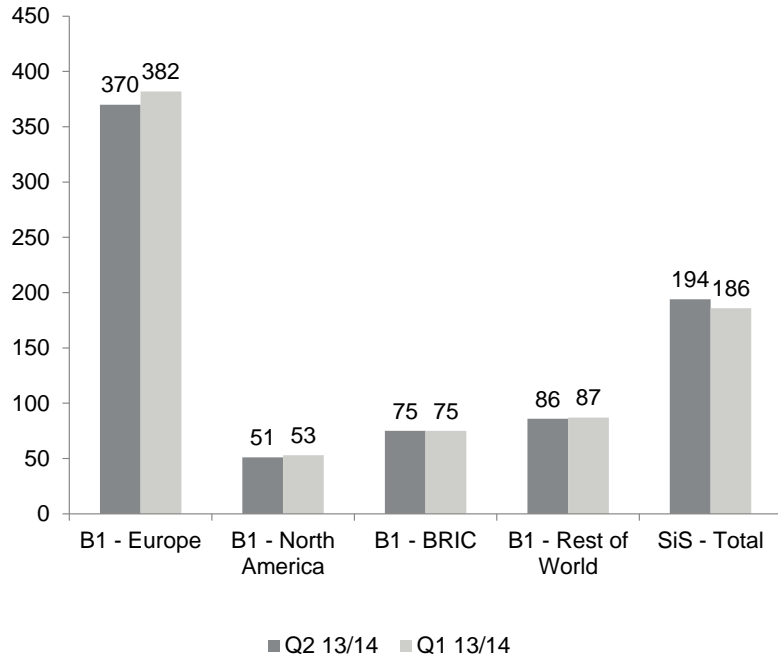
GROSS MARGIN

Gross margin						
%	2nd quarter			YTD		
	13/14	12/13	Chg.	13/14	12/13	Chg.
AV	46.5	48.7	-2.2	47.2	48.4	-1.2
B&O PLAY	35.2	32.8	2.4	31.3	28.4	2.9
Automotive	36.1	38.4	-2.3	34.8	36.3	-1.5
ICEpower	58.0	53.9	4.1	54.8	54.5	0.3
Group	42.7	43.7	-1.0	41.7	42.5	-0.8

- Group gross margin was 42.7 per cent compared to 43.7 per cent in the same quarter last year. The gross margin last year was positively affected by indirect production costs from the build up of inventory
- The gross margin in AV was 46.5 per cent compared to 48.7 per cent last year. The gross margin was adversely affected by a change in product mix and the above mentioned effect from indirect production costs
- The gross margin in B&O PLAY was 35.2 per cent compared to 32.8 per cent last year. The increase was driven mainly by a change in product mix
- The gross margin in Automotive was 36.1 per cent compared to 38.4 per cent last year. The decrease was driven mainly by a change in product mix

DISTRIBUTION DEVELOPMENT

Number of B1 and shop-in-shop



- There was a net reduction of stores in Europe of 12 shops, which was comprised of 8 openings and 20 closures
- The pipeline of new partners in Europe is beginning to show positive momentum. Although there continues to be net closure of stores, the stores that have opened have a higher revenue potential than those closing
- The number of stores remained unchanged in BRIC and decreased in North America (-2) and in Rest of World (-1)
- The number of shop-in-shops increased to 194 from 186 in the previous quarter, driven by an increase in dedicated B&O PLAY shop-in-shops
- At the end of the first quarter there were 42 dedicated B&O PLAY shop-in-shops in China

CAPACITY COSTS

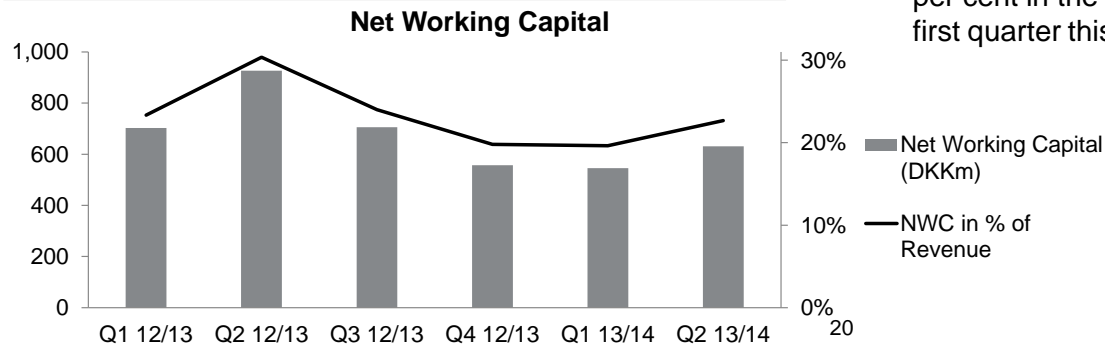
Capacity costs						
DKK million	2nd quarter			YTD		
	13/14	12/13	Index	13/14	12/13	Index
Development	-100	-117	85	-197	-229	86
Dist. and marketing	-199	-191	104	-371	-367	101
Administration	-22	-23	93	-44	-43	103
Total cap. costs	-321	-332	97	-612	-638	96

- Capacity costs decreased to DKK 321 million from DKK 332 million in the same quarter last year
- Development costs were DKK 100 million in the second quarter compared to DKK 117 million in the same quarter last year. The decline was mainly driven by a higher level of capitalisation
- Distribution and marketing costs increased by 4 per cent to DKK 199 million compared to DKK 191 million in the same quarter last year, due to increased marketing spend on newly launched products and a generally high level of marketing activities during the high-season
- Administration costs decreased to DKK 22 million from DKK 23 million in the same quarter last year

CASH FLOW AND NET WORKING CAPITAL

Cash Flow				
DKK million	2nd quarter		YTD	
	13/14	12/13	13/14	12/13
Earnings for the period	8	15	-45	-32
Amort., depr. and imp.	90	79	179	159
Change in receivables	-156	-252	-98	-115
Change in inventories	1	8	-62	-183
Change in trade payables	82	18	98	-17
Other	-21	-8	-40	-25
Cash flow from operating activities	3	-139	32	-214
Cash flow from investing activities	-55	-69	-154	-139
Free Cash Flow	-52	-208	-121	-352

- Free cash flow was negative DKK 52 million for the quarter compared to negative DKK 208 million in the same quarter last year
- Net working capital was DKK 630 million corresponding to an increase of DKK 84 million compared to the previous quarter, but a decrease of DKK 297 million compared to the end of the second quarter last year
- The net working capital of DKK 630 million corresponds to 23 per cent of the last 12 months' revenue compared to 30 per cent in the same quarter last year and 20 per cent in the first quarter this financial year



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EXPECTATIONS TO THE 2013/14 FINANCIAL YEAR

- Revenue is expected to be moderately above the level in 2012/13
- The rejuvenation and strengthening of the Bang & Olufsen product portfolio and a transformation of the retail network will continue
- Growth is expected in Automotive and B&O PLAY, albeit at a reduced rate compared to the 2012/13 financial year
- A continued focus on operational and sourcing efficiencies and an increased share of sales of high margin products are expected to increase the gross margin to a level slightly above the level in the 2012/13 financial year
- Capacity costs excluding the increased costs of own retail are expected to be reduced. The costs related to own retail will increase compared to the 2012/13 financial year in particular due to the takeover of the retail operations in China
- The EBIT margin is expected to show significant improvement compared to 2012/13 financial year to a level around zero. However, the EBIT margin is highly sensitive to the development in the revenue

Q&A

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