

*N.B. In the event of any discrepancy between the oral and written versions, the oral version prevails.*

## **THE CHAIRMAN'S ORAL REPORT TO THE ANNUAL GENERAL MEETING ON 18 SEPTEMBER, 2009**

I am very pleased to welcome all our shareholders to the annual general meeting.

The Board has appointed lawyer Eigil Lego Andersen to chair the meeting, as he has done in previous years. I hereby give the floor to the Chairman of the meeting.

*(The Chairman of the meeting confirms the legitimacy of the Annual General Meeting, goes through the agenda etc.*

*The Chairman of the meeting points out that item 1, the Board of Directors' report, and item 2, the presentation of the audited accounts, have been combined. He gives the floor back to the Chairman.)*

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**THE BOARD OF DIRECTORS' REPORT, INCLUDING THE PRESENTATION AND APPROVAL OF THE AUDITED ANNUAL ACCOUNTS FOR THE FINANCIAL YEAR 2008/09 ETC.**

The 2008/2009 financial year was a particularly tough year for Bang & Olufsen, not only for the company and its employees, but also for you, our shareholders. It was pleasing to see the support given by shareholders by fully subscribing to the share issue that was necessary to underpin Bang & Olufsen's future.

The price the A shareholders had to pay was the share classes had to be combined. As a result, since May, there has been only one share class with fully negotiable shares. The issue raised in the region of DKK 433 million after costs for Bang & Olufsen.

At the beginning of January 2008, the Board of Directors unanimously carried out a change to the company's top management. This was not the least prompted by unsuccessful production launch and unsatisfactory sales. I stated at the time that it would take 1-2 years to reverse this trend.

18 months on, although we have posted highly unsatisfactory results, we should be pleased that the plans and expectations that we worked on at the start of the calendar year 2009 - and which were published in the sales prospectus - have been realised with the results for 2008/09.

This is not the least owing to the important adjustments to the organisation and the rationalisation and restructuring measures, but also, and perhaps most significant of all, targeted product development.

Thanks to these initiatives, Bang & Olufsen succeeded in reducing its cost base by around DKK 550 million compared to the budget for 2008/09. This means that the company has adjusted to a lower sales volume and a lower break-even turnover.

Consequently, in the spring, we announced that we expect to break even in the 2009/2010 financial year, an announcement that analysts and the media did not believe. The statement was repeated on 11 August, 2009. Since 11 August, our share price has risen by approx. 52 per cent. But I'll return to this later.

First, the accounts for the period 1 June, 2008 to 31 May, 2009.

The global financial crisis has developed into a global economic recession which, in turn, has resulted in a strong decline in personal consumption. This has affected almost all product categories, with sales of luxury goods being particularly hard hit. The result was unsatisfactory sales and consequently, highly negative results.

Net turnover in 2008/09 was DKK 2,790 million against DKK 4,092 million last year. The operating loss was DKK 496 million while the result before tax was negative at DKK 523 million.

Traditionally, 25 per cent of Bang & Olufsen's sales should consist of new products, defined as sales in the first 12 months following the launch. In 2008/2009, new products accounted for just 11 per cent of the turnover.

For Bang & Olufsen, the decline in sales was significant in the large, well-established European markets: Denmark, Germany and the UK suffered a DKK 515 million fall in turnover compared to 2007/08. The emerging markets such as the Far East and Russia were less hard hit.

Sales to the automotive industry have developed positively, while sales to hotels and property developments have been hit by the recession. As a result, major hotel and construction projects have either been cancelled or postponed.

The gross margin for the 2008/09 financial year was 39.6 per cent against 46.2 per cent in 2007/08. The lower gross margin is primarily due to the fact that some of Bang & Olufsen's production costs are fixed.

Operating losses amounted to DKK 496 million of which DKK 106 million can be attributed to costs connected with the extensive restructuring, which Bang & Olufsen carried out during the financial year.

The results have been negatively affected by the Group's maintained high level of development activities. The results of these already materialised in the spring of 2009 in the form of successful product launches which have all met – or improved a little upon - the timetables.

Within the product development area, only limited savings have been implemented and exclusively in respect of rationalisation measures. Expensed development costs were at DKK 463 million compared to DKK 545 million the previous year while incurred development costs totalled DKK 537 million against DKK 530 million the previous year. DKK 201 million was capitalised compared to DKK 131 million the year before. The increase in capitalisation is owing to the targetted effort put into a number of products that are approaching their launch date.

The high level of activity in terms of product development stems from the wish to increase the number of important product launches in 2009/10 as well as the development of the joint digital technology platform, which will contribute to greater efficiency in product development in the future.

After the close of the financial year, we lost two lawsuits in France instigated by French dealers. At first, Bang & Olufsen won both cases, but then lost on appeal. The cases are now scheduled for a third hearing. Around DKK 12 million has been provided for in the form of non-recurring costs and, therefore, impact negatively on the result before tax.

Provisions for losses on trade receivables and dealer loans totalled DKK 61 million compared to DKK 48 million for the financial year 2007/08.

It has been crucial for Bang & Olufsen to reduce the break-even turnover through ongoing cost reductions.

The cost reductions have already had a significant impact on the 2008/09 financial year. Distribution and marketing costs fell by DKK 75 million equating to 7.5 per cent. Administration costs etc. fell by DKK 44 million from DKK 149 million equating to 30 per cent.

The result before tax was negative at DKK 523 million against a positive result of DKK 154 million the previous year. After tax, the result for the year was negative at DKK 383 million against a positive result of DKK 112 million for the 2007/08 financial year.

With regard to the balance sheet, significant efforts have been made to reduce capital tie-up in the company. Inventories have been reduced by DKK 203 million, i.e. 25 per cent, while receivables have been reduced by DKK 211 million, i.e. 30 per cent.

With regard to accounts payable, these have only fallen by 14 per cent, which is due to the fact that we have succeeded in improving the payment terms in respect of our suppliers.

With regard to equity, this has been negatively affected by operating losses whereas capital contribution has been positively affected.

The Board of Directors aims at maintaining solvency above 50 per cent. We have succeeded in this in that solvency was 57 per cent as at 31 May, 2009.

With regard to market development, the Group saw a significant fall in turnover in all markets during the 2008/09 financial year. The general fall in turnover is largely owing to the global recession which has caused a substantial decline in personal consumption. The market for exclusive audio and video products is sensitive to market fluctuations which has resulted in declining sales.

The fall in turnover can also be attributed to less successful and insufficient product launches. In previous years and in the first half of the 2008/09 financial year, Bang & Olufsen launched very few new products and certain product launches failed to meet sales expectations.

Behind me, you can see the turnover development for the individual countries where it is clearly evident that the largest decline is in Europe while the decline in overseas markets is lower.

With regard to distribution development, there was a net reduction of 64 in the number of B1 shops as expected. The reduction primarily relates to European markets while there was a net addition of 1 B1 shop in China and 4 B1 shops in Russia and the Ukraine.

As at the end of May 2009, there are 758 B1 shops across the world compared to 822 shops at the end of the 2007/08 financial year.

Sales to the automotive industry developed positively with growth of DKK 51 million in the financial year, i.e. a growth of 41 per cent, and with a positive operating result.

During the year, the partnership with Audi was further expanded to include Bang & Olufsen Sound Systems for Audi A4/S4, Audi A5/S5, Audi R8 and Audi Q5 as well as Bang & Olufsen Advanced Sound Systems for Audi A8/S8 and Audi Q7.

The development of other sound systems in partnership with Audi is going according to plan, including the development of a 2<sup>nd</sup> generation Advanced Sound System for several of Audi's models. The initial models on this platform are expected to be launched during the 2009/10 financial year.

The partnership with Aston Martin has developed satisfactorily and BeoSound DBS and BeoSound DB9 systems, specially developed for Aston Martin, have seen satisfactory sales. It was recently announced that Bang & Olufsen will also supply sound for Aston Martin's sports cars V12 and V8 as well as the new four-door sports car Rapide.

The collaboration with Mercedes-AMG is proceeding according to plan and at the ongoing Motor Show in Frankfurt, a specially developed sound system for Mercedes-Benz SLS AMG was unveiled.

Sales to luxury hotels and exclusive property developments across the world – known as Enterprise – have been negatively affected by the global downturn for large hotels and building projects. Enterprise, however, achieved a satisfactory turnover for fourth quarter of the 2008/09 financial year.

By tradition, Bang & Olufsen Enterprise's sales have been in Europe. In the 2008/09 financial year, however, sales in the Middle East saw satisfactory growth.

In the second half of 2008/09, ICEpower saw a decline in orders from the company's largest customers, which had a negative impact on the result. A high level of research and product development activity, however, was maintained.

ICEpower technology is important across Bang & Olufsen's product portfolio and is included in many main products.

As regards product launches during the financial year, we succeeded in launching a range of products in the second half of the financial year.

The digital music system, BeoSound 5, which combines the best from Bang & Olufsen's long-standing tradition for producing sublime audio systems with the digital present and future, was launched in March 2009. BeoSound 5 is remarkable for its intelligent MOTS function, which analyses the music collection and can locate music that corresponds to the music listened to in terms of syncopation, key tonality and rhythm.

Most spectacular was the new 103 inch BeoVision 4 plasma TV. The new TV has set new standards in terms of size and functionality in the global market.

In March, the Group launched the LCD TV BeoVision 8 in a 40 inch version, equipped with the latest technology. BeoVision 8-40, which is regarded as an "entry product", is an important product for Bang & Olufsen as, with its size and attractive price point, it closes a gap in the current product portfolio.

At the end of the financial year, BeoVision 7-40 was updated by a blu-ray player with the new DVB-HD module, which offers the potential for film experience of the highest quality.

The newly appointed President and CEO, Kalle Hvidt Nielsen, took up his post at the start of the 2008/2009 financial year.

The development in Bang & Olufsen's share price has been characterised by the Group's offer of B shares with preferential rights for the company's existing shareholders in the ratio of 1:2 in May. This means that the number of shares has trebled with a corresponding reduction in the price. On the backdrop of

this, it is, of course, not fair to draw direct comparisons between the share price at the close of the financial year with the share price at the beginning. Unfortunately, we have seen this in some Danish media.

In order to have an accurate basis for comparison, the share price must be adjusted to reflect the fact that the number of shares has trebled and that shareholders have only paid 2 times 19 kroner for the subscription rights.

At the start of the 2008/09 financial year, the share price was 264.50. To achieve a comparable price, the 2 times DKK 19 should be added, i.e. DKK 38, to the 264.50 and subsequently divided by 3. This means that the adjusted price of 264.50 equates to a price of 101.83.

The price at the end of the 2008/09 financial year was 44.50.

Although the development in the share price was unsatisfactory in the preceding financial year, we should be pleased that developments in the share price since the close of the financial year have been particularly satisfactory since it has increased by around 55 per cent from 44.50 to the current price of 69.

With regard to dividend for the 2008/09 financial year, the Board of Directors recommends that no dividend be paid.

On 11 August, 2009 the expectations for this year's accounts were published. On the backdrop of the implemented restructuring initiatives combined with a strong product launch portfolio, a break even result before tax is expected for the 2009/10 financial year based on a slightly lower turnover than the previously announced DKK 3,200 million. An improvement in the result, however, can only be expected in the second quarter at the earliest based on the planned product launches.

With regard to the new products that will arrive in the market in the 2009/10 financial year, the Group has already launched BeoTime, which combines an alarm clock and a remote control. The clock can, therefore, operate the TV and music system in the bedroom.

During the autumn, the intention is to launch a new concept for fixed network telephony where, over the years, Bang & Olufsen has also enjoyed a strong position. The new telephone includes a loudspeaker for hands-free conversations and conference calls. The concept is also designed for use with internet telephony. As with previously launched telephones from Bang & Olufsen, the telephone has a superb sound quality.

On the video front, the autumn is expected to see the launch of a new TV family with a unique design expression which offers a range of placement options in that it will allow viewers to turn the screen for direct viewing from different angles. The new TV can also be mounted on an elegant stand if floor placement is preferred.

The launch of a brand new model for the BeoVision 7 family is expected before Christmas. This will be a 55 inch TV with sublime sound quality and with a built-in digital surround sound module and with an option for an integrated Blu-ray player.

An addition to the loudspeaker portfolio will be launched in the spring of 2010. This is a new subwoofer that builds on a technology that eliminates vibrations.

Towards the end of the financial year, the Group expects to launch a new music system for playing digitally stored music linked to an iPod and a BeoSound 5 system.

Over the coming year, Bang & Olufsen will have a strong new product portfolio within both audio and video with a cost structure adapted to the new market conditions, a newly established strong leadership and a distribution structure reflecting market conditions.

Consequently a break-even result is expected for this year. The target for the years ahead is to re-establish Bang & Olufsen as a profitable, growth-oriented business.

Finally, I would like to thank the Board of Directors and the Board of Management for a good working partnership. I would also like to thank Bang & Olufsen's many employees in Denmark and abroad for their significant contribution throughout the year.