



NKT AGM 2015 - CHAIRMAN'S REPORT

[Slide no.]

[1 – Front page]

[2 – Group structure]

From the outside, NKT probably looks much as it usually does. A Group with a Board of Directors, with Group functions and with three business units. But in 2014, very little was "as usual" about NKT's development.

[3 - Key messages]

Exactly one year ago I spoke on this rostrum about the changes which we, the Board of Directors, had made to NKT's management structure, about our plans to bring future growth to Nilfisk, about the new DRIVE programme in NKT Cables, and about our strategy to increase sales to commercial customers in Photonics Group. These were all measures intended to contribute to additional value creation. Today, I am pleased to be able to report that all the initiatives produced positive results in 2014.

NKT's core – active ownership – has been strengthened, and we believe it is also the model that can best accelerate value creation in our businesses. This is reflected in the clear strategic direction that we have now set for the years ahead. From this it is also evident that we see ourselves as the best owner of our three businesses. They are not for sale, despite much speculation in that regard.

To this we must add a good financial performance that exceeded expectations, and which even after the payment of dividends will give us considerable financial headroom for further developing our businesses and for acquisitions if the right opportunities present themselves. In short therefore, 2014 was a good year for NKT.

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[4 – Income statement 2014]

Looking at the financial results, we find that NKT realised a revenue of DKK 15,863 million – an improvement of DKK 54 million on 2013. Operational EBITDA increased by 17% or DKK 184 million to DKK 1,269 million, and as can be seen from the right-hand graph, we are continuing the positive trend from recent years. At NKT, we adjust operational EBITDA for one-off items to show the underlying earnings. In 2014, the one-off items consisted both of a gain of DKK 97 million for divestment of a small business belonging to Nilfisk, as well as costs that were primarily related to the improvement programme



running in NKT Cables. On account of this programme the one-off items rose to DKK 208 million. Profit for the year was DKK 280 million, an improvement of DKK 27 million compared with 2013.

As can be seen at the bottom of the page, we made a substantial reduction in working capital, which thus reached its lowest level since 2010. This reduction was the primary reason why cash flow from operating activities rose by just over DKK 1 billion. Net interest-bearing debt fell by almost DKK 1 billion to DKK 1,035 million or 0.9x EBITDA – and this was the lowest level since 2007. The improved income and lower debt meant that the return on capital employed increased by 2.7%-points to 9.4%.

[5 – Strong financial headroom]

We have cash resources available of DKK 4.6 billion, and this gives substantial financial headroom to further develop our businesses both organically and through acquisitions.

[6 – Guidance 2014]

We are pleased to report that we largely fulfilled our expectations for 2014. We delivered an organic growth of 1% and an operational EBITDA margin of 9.6% against expected 9-9.5%. We did so because largely we realised the targets we had set in each of our businesses. I shall revert a little later to developments in our businesses.

[7 – Outlook 2015]

Looking ahead to 2015, we are expecting an organic growth of up to 3% and an improved operational EBITDA margin of up to 1%-point. These expectations are based on each of our businesses performing as outlined on the screen: i.e. good organic growth in Nilfisk and an EBITDA margin on a par with 2014; flat organic growth in NKT Cables, but a continued improvement in earnings; and both high growth and higher EBITDA margin for Photonics Group.

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[8 – NKT's active ownership model]

As stated, in August 2013 the Board of Directors implemented a new NKT management structure, and our businesses now report directly to the Board. At the same time we set up a chairmanship body for each business unit with a view to providing a faster and smoother decision-making process at both strategic and operational level. Each chairmanship body consists of two members of the Board of Directors with specific competences and knowledge in relation to the particular business unit, the Group Executive Director & CFO of NKT Holding, and the business unit's Management Team.



This active ownership model is not conventional, at least not for listed companies. The Board of Directors, the chairmanship bodies, and NKT's Group Functions work closely together with the Business Unit managements on optimising value creation. This is a highly dynamic structure which supports the strategic dialogue and facilitates quicker decision-making on issues such as key investments.

[9 – NKT's strengths]

We believe that NKT's present structure is still the right framework for further developing our businesses. If we look at our companies as such, it may be difficult to spot synergies. However, we see a number of strengths in our structure, particularly within four areas:

- 1) The ability to attract the right competences, both at management level and employee level
- 2) Access to capital markets
- 3) Potential for collecting and sharing knowledge, benefits of scale, and cross-functions; for example, in 2014 we set up a Group function for Indirect Procurement
- 4) Risk management and compliance with rules, regulations, standards, etc.

These are all areas where we stand stronger together than we would individually.

[10 – Megatrends]

NKT's strategic direction also finds inspiration in a number of the megatrends driving global economic and social development. Several of these trends contain possibilities for our businesses, and they form part of our decisions on investments, acquisitions and divestments, but also on how we develop our companies further. The megatrends which we primarily monitor and analyse are:

- 1) Increasing urbanisation – this is important to Nilfisk as regards increased use of automated cleaning equipment, and to NKT Cables as regards the need for more high-speed intercity railways
- 2) The demand for sustainable energy sources – this is important to NKT Cables as its products are used e.g. for offshore wind parks, and to Photonics Group as its solutions are used for e.g. monitoring power cables, and for oil and gas pipelines
- 3) Growing need for health services – this is important to Photonics Group as its solutions can be used e.g. for diagnosing glaucoma and certain forms of cancer at a much earlier stage than today.

[11 – NKT strategic goals]

Through our active ownership we are firmly committed to position all our businesses among the leading companies within their line of industries. We will work to increase growth and to improve earnings so that we create value for our shareholders. We have defined three strategic goals:



- 1) Achieve organic growth which exceeds market level
- 2) Achieve +15% return on capital employed
- 3) Maintain ability to pay shareholders around one third of profit for the year

[12 – Strategic themes in business units]

We have also defined the strategic hub for each of our businesses. The goals I have just mentioned naturally apply to the businesses, and to achieve them the primary focus will be:

- 1) Nilfisk – on growth
- 2) NKT Cables – increased profitability in general, profitability in relation to capital employed in particular
- 3) Photonics Group – increased sales to more commercially focused industrial customers

In our 2014 Annual Report we describe how Photonics Group has already redefined its business strategy to realise this objective. Nilfisk will present its strategy in the Q1 Interim Report 2015 due on 13 May. NKT Cables is formulating its strategy right now and it will appear at the end of August in NKT's Q2 Interim Report 2015.

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[13 – Nilfisk key messages]

In 2014 Nilfisk initiated a number of measures to increase future growth. Jonas Persson took over as Chief Executive Officer in January, and with his arrival focus was given to increasing Nilfisk's market presence and expanding the sales and service organisation to get closer to the customer, a very important competitive parameter in this industry. And to make it easier still for the customer to survey all Nilfisk's products and brands, it has been decided that as per 1 April, the company's name and main brand will be simply: Nilfisk. All these measures are also key elements in the new business strategy. Also, it has not gone unnoticed by the Board of Directors that in 2014 Nilfisk delivered strong organic growth of 6% and a 17.6% return on capital employed.

[14 – Product development]

Nilfisk has the market's broadest product portfolio in floor care equipment, vacuum cleaners, high-pressure washers and outdoor equipment such as sweepers, mowers and snow removers. In 2014 Nilfisk launched 46 new products and product versions, and as in previous years spent around 3% of revenue on product development.



[15 – Nilfisk revenue]

Nilfisk's primary markets are commercial and industrial customers while private consumers represent around 10% of revenue. Company products are sold in more than 100 countries split into three regions: 1) EMEA i.e. Europe, the Middle East and Africa; 2) The Americas, comprising both North and South America; and 3) APAC which is Asia and the Pacific region.

[16 – Nilfisk financial highlights + organic growth]

Nilfisk's 6% organic growth was higher than expected and was primarily driven by EMEA which increased by 8% and by the Americas which increased by 3%. APAC realised negative growth of 2%.

At the start of 2014, Nilfisk commenced the roll-out of a Commercial Excellence programme. The programme's aims include delivering more product cross-sales and increased service sales in the medium and long term. Roll-out is completed in six European countries and is planned for implementation in a further seven countries in 2015. Nilfisk has also invested very heavily in its sales and service organisation to get closer to customers and to support its Commercial Excellence programme. Within the framework of these customer-oriented activities we have welcomed around 70 new people to NKT.

Despite these investments, Nilfisk increased its operational EBITDA by DKK 21 million to DKK 799 million. These long-term investments did, however, slightly impact EBITDA margin, which decreased by 0.2%-points to 11.7%. We are planning further investments in sales and service in 2015 and therefore expect EBITDA margin to be on par with 2014.

[17 – Nilfisk strategy]

Nilfisk presented its strategy for 2015-2018 internally in March this year and will do so externally in May. However, by now I can already say something about the main themes which are in line with what I have just been discussing. We intend to:

- 1) Maintain a strong focus on increased growth
- 2) Strengthen sales through the Commercial Excellence programme
- 3) Enter new markets and segments
- 4) Focus on service as an important parameter for growth
- 5) Exploit our strong brand.



With these measures, and with active pursuit of the opportunities for growth by acquisition, Nilfisk is well prepared to protect its global market leadership and in the longer term to increase income and the return on capital employed.

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[18 – NKT Cables key messages]

The dominant theme for NKT Cables in 2014 was the DRIVE programme. This was initiated to improve operations and thereby increase earnings and the return on capital employed. Both parameters were improved significantly in 2014, with the operational EBITDA margin increasing to 8.0% and the return on capital employed to 4.2%.

[19 – New CEO]

Although DRIVE had the effect of saving DKK 169 million, a substantially higher amount than expected, the Board of Directors wished to further accelerate the company's transformation. In November, the Board therefore appointed the Group Executive Director and CFO of NKT Holding, Michael Hedegaard Lyng, to head NKT Cables' development as its CEO.

[20 – NKT Cables key messages]

It was also important to secure orders for high-voltage submarine cables. In 2014 we received two large cable orders for offshore wind parks, the first from the Dutch Gemini consortium, and the second from Denmark's DONG Energy. With these orders, the production of submarine cables is assured for the whole of 2015.

Finally, I would mention that the European Commission fined NKT DKK 29 million for alleged price fixing in the cable industry. The Commission explicitly stated that NKT's alleged role in the matter was considered extremely limited, and NKT was the only company to have its fine reduced. We did not and we do not agree with the Commission's view that NKT has done anything wrong, and we have therefore appealed the Commission's decision.

[21 – NKT Cables' Business Line structure]

NKT Cables has operations in three principal areas of business:

- 1) Projects: submarine and onshore high-voltage cables - all manufactured at the production facilities in Cologne
- 2) Products: low and medium-voltage cables for European customers such as power companies and the building, automotive and rail industries



- 3) APAC: manufacture of medium and high-voltage cables, and cables for high-speed railways for the Asian and Pacific markets

[22 – NKT Cables financial highlights + organic growth]

Overall, NKT Cables delivered a negative organic growth of 5%. The Products business generated positive growth of 5%, but this was offset by an expected decrease in revenue for both Projects and APAC. The negative growth of 12% realised by Projects was partly due to lower sales of onshore high-voltage cables, and partly to the fact that, compared with 2013, we had less submarine cables orders with both production and installation work. Installation generates significantly higher revenue, but has only a minor effect on earnings. The development in APAC must be seen in the light of a very strong 2013 performance.

NKT Cables increased its operational EBITDA by 45% or DKK 149 million. As previously mentioned, the EBITDA margin also rose to 8.0% - a marked improvement of 2.4%-points compared with the previous year and also better than we had expected. The increase was primarily attributable to the impact of the DRIVE programme.

[23 –DRIVE programme three phases]

We are currently halfway through the DRIVE programme's Phase 1 which we call 'Get Fit'. Phase 1 focuses on improvements in operations, and thus also improvements in costs and earnings. We started out by identifying around 80 savings initiatives, and we are now well under way with the implementation.

We have also made a start on Phase 2, called 'Be Excellent'. This phase is focused on general excellence of all our business functions. Two examples are the sales and tender processes - how NKT Cables manufactures, prices and sells its products, in which markets they are sold, and how a tender process for a major project can be optimised to the benefit of both ourselves and our customer.

[24 – Impact of DRIVE]

As previously stated, the DRIVE programme generated savings of DKK 169 million. However, we also incurred one-off costs of around DKK 200 million, much of which were related to 271 full-time job redundancies. In 2015 we will unfortunately see around 180 further redundancies as part of the DRIVE programme.

The knowledge we have gained over the past year has led to identification of a number of additional economy measures. We are therefore extending Phase 1 into 2016 and have revised upwards the



estimated total annual savings at start-2017 from DKK 300 million to DKK 400 million. At the same time we expect one-off items to increase to around DKK 320 million owing to the costs linked to the extra savings initiatives.

Overall, DRIVE has made an excellent start, and we are seeing the expected impact on earnings. However, we still have a long way to go and much hard work to do to achieve our overall objective.

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[25 – Photonics Group key messages]

In 2014, Photonics Group redefined the strategic focus for two of its three segments. In future the Imaging segment will primarily target biotech customers, while the Sensing segment will principally be marketed to the energy sector. As part of this change, Photonics Group set up a new business in the US selling monitoring systems for onshore oil and gas lines. The turnaround process for the Fiber Processing segment is going to plan, and we are now examining the future strategic options for this segment as well as whether NKT is still the best owner.

In 2014, Photonics Group delivered organic growth of 9% and a significant increase of 4.9%-points in EBITDA margin.

[26 – Søren Isaksen]

Last but not least, Søren Isaksen has decided to retire and will therefore be stepping down. Søren Isaksen joined NKT in 1978 and has therefore had a 36-year career with NKT, most recently as Chairman of Photonics Group. Thank you, Søren, for your longstanding contribution to NKT, and good luck with the next chapter of your life. Søren's duties will in future be undertaken by Photonics Group's chairmanship body.

[27 – Main products]

Photonics Group manufactures and markets products for: 1) Imaging - lasers which make it possible to create pictures of very small structures such as skin cells, 2) Sensing - lasers for use in monitoring and measuring equipment and 3) Fiber Processing - equipment for manufacturing components for lasers and optical sensors.

[28 – Photonics Group financial highlights + organic growth]

In 2014, Photonics Group delivered 9% organic growth which was primarily driven by the Sensing and Fiber Processing segments. However, progress was also made in the Imaging segment, which achieved



its biggest single order to date when the leading customer extended a frame agreement by 18 months. Photonics Group increased its EBITDA substantially, from DKK 6 million to DKK 21 million.

[29 – Nobel Prize-winning technology]

The use of Photonics Group products in commercial solutions is gathering speed. One proof of this is the inclusion of our SuperK laser in Leica's new generation of so-called STED microscopes, which enable cell details to be viewed on a nano scale. These microscopes are used to detect e.g. early-stage cancers, and they incorporate the same basic technology as that which gained among others Germany's Stefan W. Hell the 2014 Nobel Prize for Chemistry.

[30 – Photo]

As I trust will be evident from the brief review I have just given, the Board of Directors has taken many steps to accelerate the development of the businesses under its active ownership, and these initiatives are yielding positive results.

--- short pause ---

[31 – Board of Directors' self-assessment]

Each year the Board of Directors conducts a self-assessment in which we consider a variety of issues such as whether the Board has the right skills and focus, and whether our meeting structure could be improved. In 2014 we enlisted external assistance for the assessment process which took the form of individual and on-line interviews and subsequent discussion.

The assessment concluded that the Board of Directors functions smoothly, pursues the right discussions, has room for dissent, and reaches the right conclusions. Our Board model is relatively untried, our meetings are many and lengthy, and the materials required are voluminous. As Chairman I have therefore been assigned the task of improving the structure with regard to both meetings and materials.

[32 – Proposed remuneration for the Board of Directors]

The Board of Directors is satisfied with developments in 2014 and with the work that it has carried out. Our active ownership model is showing its worth and has increased the connectivity between goals, tools and results in each business unit. The operating structure - chairmanship bodies, committee work and involvement of relevant competences - works, and we believe that the number of committees and meetings is commensurate with NKT's size and complexity.



We therefore recommend that the General Meeting approve a remuneration for 2015 which is unchanged from 2014. The remuneration amounts can be seen on the screen behind me.

[33 – Nomination of new Board member]

Somewhat later today we will be bidding farewell to Lone Fønss Schrøder who is not standing for re-election to the NKT Board of Directors. I would like to express my thanks to Lone for her contribution to the Board since she was first elected in 2008 and wish her good luck in the future.

This also means that we must propose a new candidate for election to the Board of Directors. The person we propose is Jutta of Rosenborg, who possesses solid directorship experience from a number of Danish and international listed companies. We believe that Jutta has both the right experience and the competences that can contribute to NKT's value creation. Election of Board members is Item 7 on the agenda.

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[34 – Proposed dividend]

Much progress was made in NKT in 2014, and we also made strides in earnings performance. As in previous years, approximately one third of the company's net profit for the year will be distributed to our shareholders. We therefore recommend the General Meeting to approve a dividend of DKK 4 per share for 2014. This corresponds to a total of DKK 95.7 million and 34% of the profit for the year.

[35 – Development in NKT share price]

In 2014, NKT's share price increased again – by 24% to be precise – and the trend has continued in the first three months of 2015. After payment of dividend, the yield to shareholders has therefore been 44% since I stood on this rostrum at last year's general meeting.

We are on the right track and we have taken substantial steps towards ensuring both growth and income in all our businesses. On behalf of all members of the Board of Directors I wish to thank all our employees and business partners for their support and positive efforts. I must also thank our shareholders for their confidence and faith in NKT as a continued good investment.

Thank you.