

# Interim Report

Q3 2018



# NKT

*Power to life since 1891*

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# Key messages

## Q3 2018

In Q3 2018, the overall results for NKT A/S were as expected. The NKT business lines Solutions and Service & Accessories delivered satisfactory results, whereas profitability for Applications was unsatisfactory. NKT Photonics maintained its momentum, and increased both revenue and profitability compared to Q3 2017.

NKT has since end-Q2 2018 added four large high-voltage orders to its order backlog, two in Q3 2018 and two after the balance sheet date, with a total contract value for NKT of approx. EUR 520m. However, as only Hornsea 2 and Moray East will have material production impact for Karlskrona in 2019, the activity and profitability level in 2019 will be negatively impacted by the relatively low level of projects awarded in the market during the last 12 months.

In September 2018, NKT A/S issued an EUR 150m hybrid security and finalized a new committed revolving credit facility of EUR 300m with a 4-year maturity. The new financing structure has replaced all existing committed bank facilities, and concluded the refinancing process.

Due to unexpected external factors impacting two ongoing high-voltage projects, NKT is lowering its expectations for 2018 for operational EBITDA to EUR 70m. Furthermore, the current, preliminary financial outlook for NKT is that operational EBITDA is expected to be approx. EUR 10-30m in 2019 due to lower earnings in the Solutions business line. See more details on the financial outlook for 2018 and 2019 on page 4-5.

Amounts in EURm	NKT				NKT Photonics			
	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017
Revenue	367.0	396.6	1,125.3	1,060.7	15.2	11.2	45.2	29.9
Revenue in std.metal prices	286.9	303.2	847.8	776.5	15.2	11.2	45.2	29.9
Organic growth	-1%	24%	6%	9%	21%	0%	22%	2%
Operational EBITDA	26.1	43.8	78.6	104.5	1.5	-0.8	1.0	-2.2
Operational EBITDA margin*	9.1%	14.4%	9.3%	13.5%	9.9%	neg.	2.2%	neg.
Working capital			61.2	-37.6			20.9	17.0
Working capital % of revenue, LTM			-0.5%	0.7%			31.1%	32.3%
RoCE**			2.9%	8.7%			neg.	neg.

\* Std. metal prices

\*\* RoCE is calculated on Operational EBIT, LTM, as a percentage of average capital employed as defined in Note 4 on page 28




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# 286.9m

## Revenue (std. metal prices), EUR

Down from EUR 303.2m in Q3 2017. Applications was negatively impacted by weather-related installation restrictions in Sweden, and Solutions and Service & Accessories developed in line with expectations

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# -1%

## Organic growth

The development was mainly due to a slowdown in Applications and Service & Accessories compared to 1st half 2018. In the first nine months of 2018, the organic growth was 6%

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# 26.1m

## Operational EBITDA, EUR

Solutions and Service & Accessories delivered satisfactory earnings, while results in Applications primarily was impacted negatively by weather-related installation restrictions in Sweden

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# 0.65bn

## High-voltage order backlog, EUR

Equivalent to an increase of EUR 0.13bn compared to end-Q2 2018, driven by contract awards for the projects Hornsea 2 and Triton Knoll. Johan Sverdrup 2 and Moray East with a total contract value of approx. EUR 260m were awarded after the balance sheet date and not included at end-Q3 2018

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# 15.2m

## Revenue, EUR

Up by EUR 4.0m against Q3 2017, driven by broad-based positive performance across products and business segments

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# 21%

## Organic growth

Growth momentum from 1st half 2018 was maintained and organic growth has been 22% for the first nine months of 2018

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# 1.5m

## EBITDA, EUR

Increased by EUR 2.3m on Q3 2017, driven by the growth in revenue. NKT Photonics continues to invest in creating a stronger organizational platform

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# 22%

## Order intake growth

Solid improvement across a broad range of business segments, and increased market penetration

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# Financial outlook

## 2018 financial outlook

The 2018 financial outlook for NKT has been updated, whereas for NKT Photonics, it is unchanged from Company Announcement No. 1 of 27 February 2018.

For **NKT**, revenue\* is still expected to be approx. EUR 1.0-1.1bn. The operational EBITDA is now expected to be approx. EUR 70m (previously in the lower end of approx. EUR 90-110m).

Currently, NKT is unexpectedly impacted by external factors related to two ongoing high-voltage projects. This will impact expectations to operational EBITDA negatively by approx. EUR 20m. Around a third of the amount is delay of earnings now to be recognized in 2019 instead of 2018, whereas the remaining relates to increased costs for the projects. The challenges comprise:

- The extraordinary low water level in the river Rhine due to a dry summer is expected to continue for an extended period of time. It will cause delivery delays from the factory in Cologne to the logistics centre in Rotterdam for a high-voltage project, expectedly into 2019. In order to avoid production interruptions for other projects, additional expenses to storage, river barges and turntable capacity will occur.

- The second high-voltage project has been delayed as a sub-supplier has damaged the cable during installation. The higher cost level for the project is relating to consequential damages that are not covered by the sub-supplier.

One-off costs are expected to be approx. EUR 27-28m, compared to previously approx. EUR 20m. NKT has accelerated costs to organizational changes, incurred additional costs related to the EU cartel case, and has provided for severance costs related to the departure of the CEO.

For **NKT Photonics**, revenue is still expected to be approx. EUR 65-70m and the EBITDA is still expected to be approx. EUR 10m, with further progress in 2019 and beyond in line with the previously announced medium-term targets.

\* Std. metal prices

## Preliminary 2019 financial outlook

Although NKT has won its fair share of tenders for high-voltage projects in its relevant markets including the recently announced Triton Knoll, Johan Sverdrup 2 and Moray East projects, the period since August 2018 has not resulted in awards of enough projects that will impact earnings materially in 2019, which accordingly will be lower than in 2017 and 2018.

The relatively low level of high-voltage project awards during 2017 and 2018 has led to increased competitive pressure in the market, which impacts profitability negatively on specific projects. In 2019, EBITDA will be lower mainly on the high-voltage factory in Karlskrona as fewer projects are to be executed, and will thereby lead to a lower absorption of fixed costs. Only production of the Hornsea 2 and Moray East projects in Karlskrona will have material financial impact in 2019. All other projects in the current pipeline are expected to have material financial impact after 2019.

With this impact from the Solutions business line, the operational EBITDA for NKT is currently expected to be approx. EUR 10-30m in 2019. This outlook does not include NKT Photonics.

The low end of the outlook range is based on the following main assumptions:

- Satisfactory execution on projects in the existing high-voltage order backlog
- NKT will not receive additional large high-voltage orders impacting 2019
- The profitability level in Applications will start to improve among others to be driven by benefits of ongoing improvement initiatives

The high end of the outlook range is based on the following main assumption in addition to the above-mentioned:

- NKT will secure additional high-voltage projects with some financial impact in 2019 for production in Karlskrona

NKT is currently reviewing its cost structure and plan to initiate cost reductions in the near future. This is among others to address the lower capacity utilization in Karlskrona during 2019, without hindering anticipated growth in the coming years.

NKT will provide a more detailed 2019 financial outlook and an update on the above-mentioned assumptions and initiatives latest in the Annual Report 2018 to be released on 28 February 2019. This will also include a 2019 financial outlook for NKT Photonics.

Based on the current tender activity level it is expected that the project award level in the market will improve in 2019. The timing of the project awards is however subject to uncertainty, and the process from project award to material financial impact can be long.

The operational EBITDA for NKT is expected to improve again in 2020 compared to 2019. The earnings contribution from the current high-voltage order backlog as of mid-Q4 2018 is expected to be almost at the same level in 2020 as in 2019. Furthermore, NKT expects to take its fair share of high-voltage project awards in its relevant markets during 2019 with some positive financial impact in 2020.

During Q3 2018, NKT A/S issued an EUR 150m hybrid security and finalized a new committed revolving credit facility (RCF) of EUR 300m. The RCF agreement is subject to financial covenants with agreed remedies in the form of security over NKT Photonics and the vessel NKT Victoria. Key covenants will not apply when the ratio of loan to value of collateralized assets meet agreed thresholds.

With the refinancing process completed, NKT A/S expects to have sufficient financial headroom to manage the lower activity level expected in 2019 and the subsequent expected pick-up in 2020 based on the current business outlook.

# Financial review

**The organic growth for NKT in Q3 2018 was -1%, which was negatively impacted by weather-related installation restrictions in the Swedish medium-voltage market. The operational EBITDA was driven by Solutions with satisfactory project execution. The free cash flow was negatively impacted by higher working capital.**

## Revenue negatively impacted by the Swedish market

In Q3 2018, the revenue\* amounted to EUR 286.9m, down 5% from EUR 303.2m in Q3 2017. Currency movements explained 4%-points of the decrease, in particular the weakening of SEK against EUR. The organic growth in Q3 2018 was -1%, which was negatively impacted by installation restrictions in the Swedish medium-voltage market due to risks of wildfires during July and August.

Revenue\* for NKT for the first nine months of 2018 totalled EUR 847.8m, against EUR 776.5m for the same period in 2017. The organic growth in the first nine months of 2018 was 6%.

## Operational EBITDA lower than Q3 2017

The operational EBITDA of EUR 26.1m in Q3 2018 was EUR 17.7m below Q3 2017. This primarily reflected the composition of projects in Solutions, where average project margins and capacity utilization were lower, combined with unsatisfactory profitability in Applications.

The operational EBITDA margin\* in Q3 2018 was 9.1% compared to 14.4% in Q3 2017. On LTM basis the operational EBITDA margin\* was 10.0%, which was 1.3%-points down on end-Q2 2018.

In the first nine months of 2018, the operational EBITDA amounted to EUR 78.6m, against EUR 104.5m in the first nine months of 2017.

Total one-off costs in Q3 2018 amounted to EUR 9.8m. EUR 1.5m were costs related to the integration of the acquired ABB HV Cables activities. Since the acquisition was announced

in September 2016 until end-Q3 2018, integration costs have totalled EUR 27m. Total integration costs are still expected to be approx. EUR 35-40m.

## Key financials

Amounts in EURm	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	FY 2017
<b>Income statement</b>					
Revenue	367.0	396.6	1,125.3	1,060.7	1,428.9
Revenue in std. metal prices	286.9	303.2	847.8	776.5	1,058.0
Operational EBITDA	26.1	43.8	78.6	104.5	138.3
One-off costs	-9.8	-7.5	-20.4	-27.2	-44.9
EBITDA	16.3	36.3	58.2	77.3	93.4
Depreciations and amortisations	-19.3	-23.0	-58.4	-52.0	-73.5
Impairment	0.0	0.0	0.0	0.0	-0.9
Operational EBIT	6.8	20.8	20.2	52.5	63.9
EBIT	-3.0	13.3	-0.2	25.3	19.0
Financial items, net	-2.2	-3.4	-5.9	-10.7	-13.8
EBT	-5.2	9.9	-6.1	14.6	5.2
Tax	2.6	-3.1	3.5	-2.4	-6.4
Profit for the year	-2.6	6.8	-2.6	12.2	-1.2
<b>Cash flow</b>					
Cash flow from operating activities	-35.5	29.6	-127.5	15.2	78.2
Cash flow from investing activities excl. acq. & div.	-8.7	-13.0	-28.3	-41.9	-63.0
Free cash flow	-44.2	16.6	-155.8	-26.7	15.2
<b>Balance sheet</b>					
Capital employed	1,158.3	1,120.7	1,158.3	1,120.7	1,040.5
Working capital	61.2	-37.6	61.2	-37.6	-106.5
<b>Financial ratios and employees</b>					
Organic growth	-1%	24%	6%	9%	7%
Operational gross margin*	40.2%	45.8%	43.0%	47.4%	47.7%
Operational EBITDA margin*	9.1%	14.4%	9.3%	13.5%	13.1%
RoCE	2.9%	8.7%	2.9%	8.7%	7.5%
Full-time employees, end of period	3,424	3,389	3,424	3,389	3,393

\* Std. metal prices

In addition, EUR 4.7m were costs related to implementing EXCELLENCE 2020 strategy initiatives and the cost base adjustment announced in the Q1 2018 Interim Report.

Lastly, an amount of EUR 3.6m were related to the European Commission's investigations into alleged cartel with regard to high-voltage power cable projects that were concluded in 2014. NKT has decided to further appeal the decision before the European Court of Justice.

NKT has accelerated costs to organizational changes, incurred additional costs related to the EU cartel case, and has provided for severance costs related to the departure of the CEO. These costs were not included in the previously expected one-off costs of approx. EUR 20m. One-off costs for 2018 are hereafter expected to be approx. EUR 27-28m.

### Working capital of EUR 61m at end-Q3 2018

The working capital increased by EUR 46.4m at end-Q3 2018 compared to the previous quarter. This development was driven by finalization of projects in Solutions, and by higher inventory levels in Applications due to lower than anticipated sales.

The working capital ratio, LTM, was -0.5% at the end of Q3 2018, which was 1.2%-points higher than at end-Q2 2018.

### Cash flow mainly driven by working capital development

In Q3 2018, the free cash flow was EUR -44.2m, compared to EUR 16.6m in Q3 2017. The difference was mainly because of the increase in working capital due to the progress in the high-voltage project portfolio. The investment level was EUR 4.3m lower in Q3 2018 than in the same quarter in 2017.

### RoCE decreased as expected

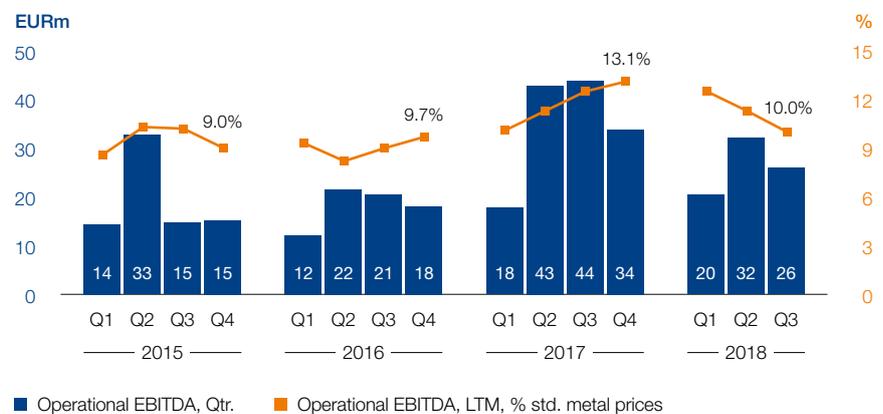
The lower earnings level also negatively impacted RoCE, LTM, which was 2.9% in Q3 2018 against 4.1% for Q2 2018. The capital employed increased by EUR 54.0m from Q2 to Q3 2018, primarily driven by the development in working capital.

## Revenue development and organic growth

Amounts in EURm	Q3 2018
Q3 2017 revenue*	303.2
Currency effect	-13.1
Acquisitions	0.0
Divestments and reclassifications	-1.1
Q3 2017 adjusted revenue*	289.0
Organic growth	-2.1
Q3 2018 revenue*	286.9
Organic growth %	-1%

\* Std. metal prices

## Operational EBITDA



## Working capital



# Business Lines

## Q3 2018 Reviews

**The segment reporting structure for NKT comprises three business lines:**

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### **Solutions**

This business line includes high-voltage power cable solutions. NKT provides a broad range of solutions available for onshore and offshore purposes and can supply both AC and DC power cables. With its cable-laying vessel, NKT Victoria, NKT can offer customers end-to-end turnkey solutions including full installation services.

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### **Applications**

This business line offers customers a broad range of low- and medium-voltage power cables. NKT markets high-quality products that conform to regulatory requirements for flame-retardant material and has developed ergonomic solutions. Telecom power cables are also developed and marketed.

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### **Service & Accessories**

This recently established business line focuses on asset management services for onshore and offshore power cables. In addition, a full portfolio of power cable accessories is offered across medium- and high-voltage categories.

# Business review

## – Solutions

# 166m

**Revenue\*, EUR**  
(Q3 2017: EUR 183m)

# 0%

**Organic growth**

# 27.5m

**Operational EBITDA, EUR**  
(Q3 2017: EUR 38.1m)

### Highlights – Solutions

- Q3 2018 earnings were in line with expectations
- Pick-up in high-voltage project awards since end-Q2 2018, but only Hornsea 2 and Moray East will have material production impact for Karlskrona in 2019
- Activity and profitability level will be negatively impacted in the remainder of 2018 and in 2019 due to relatively low level of projects awarded during the last 12 months

### Flat underlying revenue development

The organic revenue development from Q3 2017 to Q3 2018 has been flat. Revenue in absolute terms was negatively impacted by currency movements and a reclassification of revenue in which EUR 5m was transferred from Solutions to Service & Accessories as a small department in Solutions has been organizationally moved.

The revenue\* amounted to EUR 466.8m for the first nine months of 2018, against EUR 411.2m for the same period in 2017. The increase was primarily driven by the acquired ABB HV Cables activities contributing with two additional months in 2018 than in 2017. The organic growth in the first nine months of 2018 was 6%.

### Operational EBITDA in line with expectations

The operational EBITDA in Q3 2018 developed in line with expectations although EUR 10.6m lower than in Q3 2017, reflecting lower average project margins and lower capacity utilization in Karlskrona. The margins and execution on the specific projects, combined with the amount of installation work, will impact overall profitability across the reporting periods. The operational EBITDA margin\* was 16.5% in Q3 2018, against 20.8% in Q3 2017.

In the first nine months of 2018, the operational EBITDA amounted to EUR 72.3m, against EUR 78.7m in the corresponding period of 2017.

### Execution on existing order backlog as expected

During Q3 2018, NKT delivered execution as expected on various projects across the production sites in Cologne and Karlskrona.

NKT Victoria, the company's cable-laying vessel, registered satisfactory deployment in Q3 2018, with installation of offshore projects from the order backlog.

In Norway, the power cables for the Johan Sverdrup 1 oil platform were installed by NKT Victoria and handed over to the customer Equinor. Power cable system deliveries were also finalized for the UK's Walney Extension wind farm and the offshore wind farm Rentel in Belgium.

Market conditions at the lower end of the high-voltage AC onshore market remained unsatisfactory, with continued imbalance between supply and demand. However, in the high end of the AC onshore market, NKT has been awarded a frame contract for supply of 400kV power cables in Germany. The agreement covers projects to be awarded until end-2020.

### Increased market activity without significant short-term impact

After a period during 2017 and 1st half 2018 with a relatively low level of project awards in the high-voltage market, it started to improve during 2nd half 2018.

Though the recent development is positive, the limited number of awards to NKT during the last 12 months will impact the activity level for the Solutions business line in the remainder of 2018 and in 2019. The limited order intake will prevent NKT from achieving optimal production and installation flow during 2019 in Karlskrona as it takes time to return to high capacity utilization across the different production phases.

NKT has secured four large offshore projects during 2018, but only Hornsea 2 and Moray East will have material production impact for Karlskrona in 2019, and will thereby lead to a lower

\* Std. metal prices

absorption of fixed costs. All other projects in the current pipeline are expected to have material financial impact after 2019.

The current imbalance between supply and demand has also led to increased competitive pressure in the market, which impacts profitability negatively on specific projects .

### Two UK offshore wind project awards in Q3 2018

During Q3 2018, NKT was awarded two offshore wind contracts in the UK. The first contract, received in July, was to supply more than 190 km of 220 kV high-voltage AC XLPE offshore export cable system for the *Hornsea 2* offshore wind farm. The contract value is over EUR 145m (EUR 110m in std. metal prices). The production in Karlskrona was initiated towards end-Q3 2018.

In August, the previously announced Preferred Supplier Agreement to supply approx. 100 km of 220 kV AC offshore export cables and approx. 144 km of 66 kV array cables for the *Triton Knoll* offshore wind farm became a firm order. The contract value for NKT is approx. EUR 115m (approx. EUR 96m in std. metal prices). The cables will be produced in Cologne and is expected to start up in 2019.

### Order backlog of EUR 0.65bn

With these two offshore wind projects the company’s high-voltage order backlog increased to EUR 0.65bn (EUR 0.55bn in std. metal prices) at end-Q3 2018, up from EUR 0.52bn at end-Q2 2018. Around 20% of the backlog is expected to be realized in Q4 2018, around 45% in 2019 and the remaining approximately 35% in 2020 and beyond.

Since end-Q3 2018 the high-voltage order backlog has expanded with

further two large contracts. In October, NKT was selected to supply and install an 80 kV high-voltage DC offshore power cable system for the *Johan Sverdrup 2* oil field project in Norway. The production will take place in Karlskrona and expected production start-up is end-2019.

In November, NKT signed the agreement to manufacture and install approx. 175 km of 220 kV AC offshore export cables for the *Moray East* project in UK. The cables will be produced in Karlskrona and is expected to start in 2019.

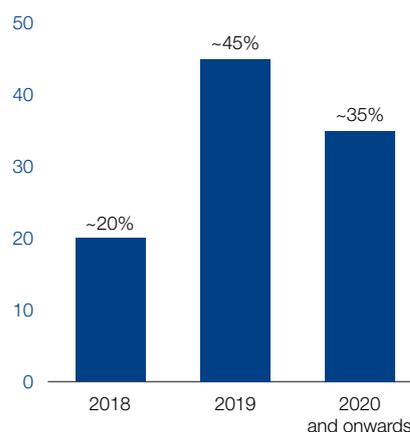
The total contract value of these two projects is approx. EUR 260m (approx. EUR 222m in std. metal prices), and was not included in the order backlog as of end-Q3 2018.

### Attractive market potential in medium- to long-term

Despite the short-term implications for Solutions, NKT still views the outlook for the high-voltage market as attractive in the medium- to long-term. Tender activity is in progress on a number of projects across geographies and market segments. NKT is increasingly pursuing project opportunities outside of Europe such as new offshore wind projects in the US and Taiwan.

Although the timing of project awards, particularly in the interconnector market, is subject to uncertainty, these

### Expected revenue distribution of high-voltage order backlog (EUR 0.65bn) at end-Q3 2018



anticipated awards are expected to make the supply and demand situation for the cable manufacturers more favourable.

During 2017 and 2018 the market has primarily been impacted by postponements of large interconnector DC projects. There has been no systemic reason for these postponements, the projects have been deferred, among others, due to political, legal approval and permit factors. However, more large-scale projects, such as the German high-voltage DC corridor projects, are currently progressing according to expectations.

### Large project awards for NKT since end-Q2 2018

Project	Contract value (EURm)	Award time
Hornsea 2	+145m	Q3/18
Triton Knoll	~115m	Q3/18
<b>Not included in order backlog at end-Q3/18:</b>		
Johan Sverdrup 2	~110m	Q4/18
Moray East	~150m	Q4/18

# Business review

## – Applications

# 97m

**Revenue\*, EUR**  
(Q3 2017: EUR 103m)

# -2%

**Organic growth**

# 0.2m

**Operational EBITDA, EUR**  
(Q3 2017: EUR 3.3m)

### Highlights – Applications

- Profitability unsatisfactorily low in Q3 2018
- Organic growth negatively impacted by weather-related installation restrictions in Sweden
- Efficiency initiatives continued to impact earnings negatively, but benefits are expected to materialize gradually during 2019 and onwards

### Revenue lower than Q3 2017

In Q3 2018, the revenue\* was EUR 6.0m lower than the corresponding period in 2017. The development corresponds to organic growth of -2%. The change in currencies, especially the depreciation of SEK against EUR, also had a negative impact on the absolute revenue development.

In the first nine months of 2018, the revenue\* was EUR 304.0m, against EUR 313.1m in the first nine months of 2017. The comparison period included revenue\* of EUR 14.3m from the divested Automotive business. The organic growth in the first nine months of 2018 was 4%.

### Operational EBITDA not satisfactory

The profitability level in Applications remained unsatisfactory in Q3 2018. This has been caused by external challenges on certain markets, and ongoing implementation of initiatives to improve future performance.

In Q3 2018, the operational EBITDA decreased by EUR 3.1m compared to Q3 2017. This development was mainly driven by weather-related installation restrictions in Sweden, as well as a lower revenue level in Denmark and Germany. Furthermore, the currency effect caused by the SEK depreciation impacted earnings negatively.

NKT is currently rolling out initiatives to improve the operational efficiency as part of the EXCELLENCE 2020 strategy. Key aspects of the initiatives are:

- 1) Move from country-based to global setup with a supply chain function ensuring best practice sharing, knowledge exchange and improved planning across sites. Operation of the production sites across all geographies is headed by the

company's COO and is planned to lead to higher factory output.

- 2) Roll-out of a uniform IT platform to improve efficiency and transparency across sites.
- 3) Implementation of a new operating system across factories. The initiative will standardize and optimize processes with among others a leaner setup and improved production planning and execution. The focus is currently on the medium-voltage production facilities, where a range of improvement possibilities have been identified. These will then be implemented as part of the operating system.
- 4) Partnership agreement with an external provider to optimize maintenance and repair of machinery.

During the implementation phase of these initiatives, the profitability level will be negatively impacted. The initiatives are transforming the structure of NKT, and the ways of working will be changed moving forward. The number and magnitude of changes are currently leading to less operational efficiency. This is expected to persist for some quarters to come, with gradual improvements expected to materialize during 2019 and onwards.

When these initiatives have been implemented they will create a more efficient and scalable platform with higher production throughput for the business line.

In the first nine months of 2018, the operational EBITDA amounted to EUR 4.2m, against EUR 20.1m in the corresponding period of 2017. In the comparison period, the divested Automotive business contributed EUR 3.3m, and 2017 had a more favourable country and product mix.

\* Std. metal prices

### Swedish market recovery halted by installation restrictions

The organic growth in Q3 2018 for Applications was negatively impacted by challenging market conditions in Scandinavia, while the Eastern European markets contributed positively.

In Sweden, the installation of medium-voltage power cables was impacted by digging restrictions due to risks of wildfires during July and August 2018. This prevented the expected market recovery after a slow start to 2018, and impacted NKT negatively. The market conditions, particularly for building wires in Denmark were impacted by intensified competitive pressure in

Q3 2018 leading to declining revenue development for NKT.

In Germany, the competitive pressure was also increasing in Q3 2018, which had negative impact for NKT.

In Poland and Czech Republic, NKT delivered satisfactory performance in Q3 2018. However, the Polish market growth rate has slowed down compared to 1st half 2018.

The improved market position in France continued to benefit revenue for NKT in Q3 2018. Since production start at the beginning of 2018, NKT has executed on a large frame contract.

### Securing future revenue

During Q3 2018, NKT entered a new frame contract to improve its presence further in the French market, which will have impact going into 2019. This will further add to a more diversified geographical exposure as France had a limited contribution to NKT before 2018.

Furthermore, NKT entered into a few new contracts in the telecom power cable market in Q3 2018. This part of the business is a relatively small revenue contributor, but is believed to offer growth opportunities.



# Business review

## – Service & Accessories

# 31m

**Revenue\*, EUR**  
(Q3 2017: EUR 24m)

# -1%

**Organic growth**

# 2.1m

**Operational EBITDA, EUR**  
(Q3 2017: EUR 2.8m)

### Highlights – Service & Accessories

- Satisfactory financial results in Q3 2018
- No large offshore cable repairs were conducted during the quarter
- NKT to divest its railway business

### Revenue performance as expected

The revenue development for Service and Accessories was in line with expectations in Q3 2018 though the

organic growth slowed down to -1%. The absolute increase in revenue in Q3 2018 compared to Q3 2017 was primarily driven by a reclassification of revenue in which EUR 5m was transferred from Solutions to Service & Accessories as a small department in Solutions has been organizationally moved.

Revenue\* for the first nine months of 2018 was EUR 97.9m, against EUR 64.1m in the corresponding period of 2017. The organic growth for the first nine months of 2018 amounted to 15%.

### Earnings reflect revenue composition

Due to the relatively small size of the company's Service & Accessories business and the unpredictable nature of service operations in their existing form, fluctuations in earnings and profitability will occur from quarter to quarter, particularly depending on the number of large offshore cable repairs.

Driven by lower activity level in the service business in Q3 2018, profitability was lower than in the two preceding quarters but stayed at a satisfactory level.

The operational EBITDA for the first nine months of 2018 amounted to EUR 11.7m, against EUR 9.1m for the same period in 2017.

### No large offshore repairs in service business

During 2018, the service business has proven its attractiveness to both the offshore and onshore cables markets.

The performance in Q3 2018 was satisfactory, with NKT executing on a number of onshore cable maintenance and repair projects. The quarter included no significant offshore cable repairs.

NKT is gradually expanding its portfolio of service agreements in both the offshore and onshore cable markets. New market opportunities are continuously arising, and negotiations are in progress with a number of cable operators interested in the company's offerings.

### Satisfactory development in accessories business

In Q3 2018, the accessories business delivered satisfactory growth.

Geographically, the main contributors to revenue growth were regions outside Europe. NKT has improved its market position in the Middle East, which has been targeted as a specific growth region, and a number of contracts were secured in Q3 2018. The Australian business is also developing positively, while the US market has been impacted by project postponements.

In Europe, the German market remained challenging during Q3 2018, although there have been signs of improvement. Performance in the Nordic countries has been satisfactory.

NKT is continuously targeting new opportunities to grow its accessories business further, including possible entry into new markets. The broad product portfolio within high- and medium-voltage accessories acts as a key prerequisite in this regard.

### Railway business to be divested

In September 2018, NKT announced that it has entered into an agreement to divest its railway cable activities to the Swedish company Elcowire Group AB. With this decision, the divestments of non-core activities are now complete. The transaction closure is subject to regulatory approval and is expected to be completed no later than Q1 2019.



# NKT Photonics – Financial & Business review

**NKT Photonics maintained growth momentum in Q3 2018, delivering 21% organic growth. Order intake improved by 22% compared to Q3 2017, with a broad-based positive development. Driven by the higher revenue, the EBITDA also increased in Q3 2018.**

### Broad-based revenue growth

The revenue for NKT Photonics amounted to EUR 15.2m in Q3 2018, up from EUR 11.2m in Q3 2017, corresponding to organic growth of 21%. The robust growth trend from 1st half 2018 was thus maintained. The positive development reflected solid performance across product categories and business segments.

The revenue in the first nine months of 2018 was EUR 45.2m, compared to EUR 29.9m for the same period of 2017. The organic growth was 22% in the first nine months of 2018.

### EBITDA increased by EUR 2.3m

The growth in revenue also positively impacted profitability. The EBITDA in Q3 2018 amounted to EUR 1.5m, against EUR -0.8m in the same period of 2017. NKT Photonics continues to invest in creating a stronger organizational platform capable of capturing future opportunities and this is reflected in new staff recruitment.

Geographically, NKT Photonics is strengthening its presence in the US by adding more people to serve this market. The largest markets for the company are in Europe, but other regions also offer growth opportunities.

The EBITDA development was in line with expectations in the first nine months of 2018, amounting to EUR 1.0m. This compares with EUR -2.2m for the same period in 2017. The EBITDA margin, LTM, at end-Q3 2018 was 10.1%.

### Working capital down on Q2 2018

The working capital level for NKT Photonics at end-Q3 2018 amounted to EUR 20.9m, which was EUR 1.6m down on the previous quarter. The working capital was up by EUR 3.9m against end-Q3 2017, reflecting the growth in revenue.

### Order intake up by 22%

NKT Photonics continued to deliver solid progress in order intake, which was up by 22% in Q3 2018. As with

### NKT Photonics EBITDA



revenue, the order intake was broad-based across business segments, reflecting gradually increasing market penetration for the company's technologies. The total order intake for the first nine months of 2018 increased by 37% on the same period of 2017.

### Appointment of CFO

NKT Photonics has strengthened its management team with the appointment of Mads Bodenhoff as CFO. Mads has more than 20 years of finance experience from companies such as Novozymes and Novo Nordisk, and has previously worked in China and the USA as well as in Denmark.

### Key financials

Amounts in EURm	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	FY 2017
<b>Income statement</b>					
Revenue	15.2	11.2	45.2	29.9	50.9
Operational EBITDA	1.5	-0.8	1.0	-2.2	3.5
EBITDA	1.5	-0.8	1.0	-2.2	3.5
Depreciations and amortisations	-1.5	-1.0	-5.1	-3.2	-5.2
Operational EBIT	0.0	-1.8	-4.1	-5.4	-1.7
EBIT	0.0	-1.8	-4.1	-5.4	-1.7
Financial items, net	-0.4	-0.1	-0.3	-0.7	-0.9
EBT	-0.4	-1.9	-4.4	-6.1	-2.6
Tax	0.2	0.3	0.9	1.2	0.4
Profit for the year	-0.2	-1.6	-3.5	-4.9	-2.2
<b>Cash flow</b>					
Cash flow from operating activities	0.7	0.9	-2.7	-0.1	-0.4
Cash flow from investing activities excl. acq. & div.	-2.3	-1.4	-5.7	-4.7	-7.5
Free cash flow	-1.6	-0.5	-8.4	-4.8	-7.9
<b>Balance sheet</b>					
Capital employed	73.7	62.6	73.7	62.6	69.0
Working capital	20.9	17.0	20.9	17.0	23.1
<b>Financial ratios and employees</b>					
Organic growth	21%	0%	22%	2%	7%
Gross margin	76.4%	71.4%	75.0%	70.9%	70.9%
Operational EBITDA margin	9.9%	neg.	2.2%	neg.	6.9%
RoCE	neg.	neg.	neg.	neg.	neg.
Full-time employees, end of period	348	310	348	310	302

### Imaging & Metrology

As the largest market segment for NKT Photonics, Imaging & Metrology is an important driver for company growth. Both revenue and order intake grew solidly in the segment during Q3 2018. The growth within Imaging & Metrology was broadly founded across markets, including semiconductors and life sciences.

### Sensing & Energy

In Q3 2018, revenue growth in the Sensing & Energy segment was primarily driven by the Koheras single-frequency fiber laser product line. Main markets growing were remote sensing and various scientific segments.

### Material Processing

Material processing and ultrafast lasers continue to be a focus area for NKT Photonics. In Q3 2018, the company launched a new industrial-grade femtosecond laser with higher power in the ORIGAMI line. The performance improvements in the new laser provide enhanced flexibility in precision materials processing; especially for cutting thicker substrates and drilling deep holes in glass, ceramics, and thin/thick metals used in medical devices. The ultrashort pulse width guarantees surface and edge quality without the need for post-processing steps in various applications.

# Group financials

## Operational EBITDA

The operational EBITDA for NKT A/S was EUR 27.6m in Q3 2018, which compares to EUR 43.0m in Q3 2017. The change was due to the lower contribution from NKT. The operational EBITDA margin\* in Q3 2018 was 9.2%, against 13.7% for the same period in 2017.

For the first nine months of 2018, the operational EBITDA amounted to 79.6m, compared to EUR 102.3m in the corresponding period in 2017. The operational EBITDA, LTM, at end-Q3 2018 amounted to EUR 119.1m.

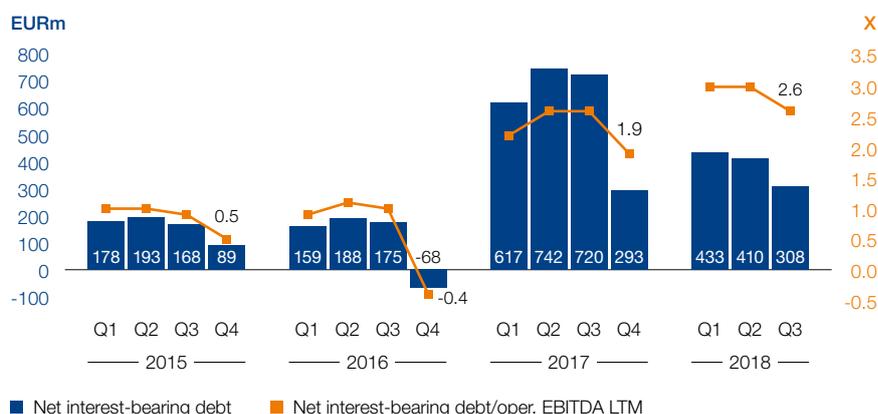
## Financial items and earnings before tax

In Q3 2018, the net financial items amounted to EUR -2.6m compared to EUR -3.5m in Q3 2017. The financial items primarily consisted of interest costs on debt. The earnings before tax (EBT) totalled EUR -5.6m in Q3 2018, against EUR 8.0m in Q3 2017. This development reflects the decrease in operational EBITDA.

## Cash flow

Mainly due to the increase in working capital, the cash flow from operating activities amounted to EUR -34.8m for Q3 2018, as compared to EUR 46.7m for Q3 2017. The cash flow from investing activities was EUR -11.0m in Q3 2018. Excluding acquisition and divestment of businesses the corresponding figure in Q3 2017 was EUR -21.0m. Investments in Q3 2018 were relatively few, reflecting a current lower investment need. The cash flow figures for the comparison period in 2017 include the discontinued Nilfisk operations.

## Net interest-bearing debt



\* For the 2017 leverage ratios, pro forma EBITDA for the acquired ABB HV Cables activities has been added to LTM EBITDA in the period when NKT was not the owner of ABB HV Cables. The pro forma EBITDA was based on ABB HV Cables' estimated average annual pro forma EBITDA of EUR 79m for 2014–2016.

## Liquidity, debt leverage and equity

At end-Q3 2018, the net interest-bearing debt for NKT A/S amounted to EUR 308m, against EUR 410m at the close of the previous quarter. In September 2018, NKT A/S issued an EUR 150m hybrid security, which is accounted for as equity in accordance with IFRS. Following this issuance, a new committed revolving credit facility (RCF) of EUR 300m with a 4-year maturity came into force. The new financing structure has replaced all existing committed bank facilities.

The RCF agreement is subject to financial covenants with agreed remedies in the form of security over NKT Photonics and the vessel NKT Victoria. Key covenants will not apply when the ratio of loan to value of collateralized assets meet agreed thresholds.

With the refinancing process completed, NKT A/S expects to have sufficient financial headroom to manage the lower activity level expected in 2019 and the subsequent expected pick-up in 2020 based on the current business outlook.

Due to the hybrid security issuance, the net interest-bearing debt relative to operational EBITDA amounted to 2.6x at end-Q3 2018, against 3.0x at end-Q2 2018.

At end-Q3 2018, NKT A/S had total available liquidity reserves of EUR 187.3m, comprising cash of EUR 9.2m and undrawn credit facilities of EUR 178.1m. The equity amounted to EUR 924.5m. The solvency ratio was 48%.

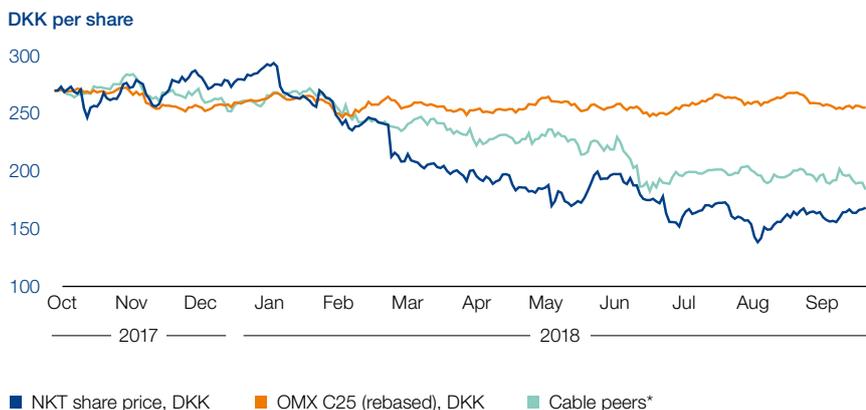
## Q3 2018 financial development for NKT A/S

Amounts in EURm	Revenue*			Oper. EBITDA			Oper. EBITDA margin*	
	Q3 2018	Q3 2017	Change	Q3 2018	Q3 2017	Change	Q3 2018	Q3 2017
NKT	286.9	303.2	-16.3	26.1	43.8	-17.7	9.1%	14.4%
NKT Photonics	15.2	11.2	4.0	1.5	-0.8	2.3	9.9%	neg.
<b>NKT A/S, incl. continuing oper.</b>	<b>301.6</b>	<b>314.4</b>	<b>-12.8</b>	<b>27.6</b>	<b>43.0</b>	<b>-15.4</b>	<b>9.1%</b>	<b>13.7%</b>

\* Std. metal prices

# Shareholder information

## NKT Share price



\* NKT peers are: Nexans S.A. and Prysmian S.p.A.

## NKT A/S shares basic data

**ID code:** DK0010287663

**Listing:** Nasdaq Copenhagen

**Share capital:** EUR 73m  
(DKK 543m)

**Number of shares:** 27.1 million

**Nominal value:** DKK 20

**Share classes:** 1

## NKT A/S shares

The average daily turnover in NKT shares on all trading markets was EUR 6m in Q3 2018, as compared to EUR 14m in Q3 2017. In the comparison period Nilfisk was still part of the stock-listed entity. Average daily trading volume was 283,000 shares in Q3 2018, compared to 201,000 in Q3 2017. Nasdaq Copenhagen was the main trading market for the company's shares with 58% of the total traded volume in Q3 2018.

At end-Q3 2018, the NKT share price was DKK 166.80, compared to DKK 283.30 at end-2017. This equals a return of -41%. In the same period, the dividend-adjusted share price returns for the company's largest European competitors, Prysmian and Nexans, were -22% and -47%, respectively. The Danish OMX C25 index decreased by 2% in the first nine months of 2018.

Four NKT A/S investors have reported shareholdings of more than 5%: ATP (Denmark), Ferd AS (Norway), Kirkbi INVEST A/S (Denmark), and Nordea Funds Ltd, Danish Branch (Finland).

The total share capital consists of 27,126,369 shares, each with a nominal value of DKK 20, corresponding to a total nominal share capital of EUR 72,822,500 (DKK 542,527,380).



More shareholder information is available at [investors.nkt.com](http://investors.nkt.com)

## Financial calendar 2019

**28 Feb:** Annual Report 2018

**21 Mar:** Annual General Meeting

**16 May:** Interim Report, Q1 2019

**15 Aug:** Interim Report, Q2 2019

**21 Nov:** Interim Report, Q3 2019

# Group Management's statement

The Board of Directors and the Executive Management Board have today considered and adopted the Interim Report of NKT A/S for the period 1 January – 30 September 2018.

The Interim Report, which has not been audited or reviewed by the company auditor, has been prepared in accordance with IAS 34 'Interim Financial Reporting', as approved by the EU, and Danish disclosure requirements for interim reporting by listed companies.

In our opinion the Interim Report gives a true and fair view of the Group's assets, liabilities and financial position at 30 September 2018 and the results of the Group's activities and cash flow for the period 1 January – 30 September 2018.

We also find that the Management's review provides a fair statement of developments in the activities and financial situation of the Group, financial results for the period, the general financial position of the Group, and a description of major risks and elements of uncertainty faced by the Group.

*Brøndby, 16 November 2018*

## Executive Management

Roland M. Andersen  
*Interim CEO and CFO*

## Board of Directors

Jens Due Olsen  
*Chairman*

René Svendsen-Tune  
*Deputy Chairman*

Jack Ejlersen\*

Stig Nissen Knudsen\*

Jens Maaløe

Andreas Nauen

Jutta af Rosenberg

Lars Sandahl Sørensen

Peter Wennevold\*

\* *Employee-elected member*

# Financial Statements

# Income statement

Amounts in EURm	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	Year 2017
Revenue	381.8	407.8	1,170.0	1,090.6	1,479.3
<b>Earnings before interest, tax, depreciation and amortisation (EBITDA)</b>	<b>17.8</b>	<b>35.5</b>	<b>59.2</b>	<b>75.1</b>	<b>96.9</b>
Depreciation and impairment of property, plant and equipment	-16.0	-17.7	-48.4	-43.1	-61.3
Amortisation and impairment of intangible assets	-4.8	-6.3	-15.1	-12.1	-18.3
<b>Earnings before interest and tax (EBIT)</b>	<b>-3.0</b>	<b>11.5</b>	<b>-4.3</b>	<b>19.9</b>	<b>17.3</b>
Financial items, net	-2.6	-3.5	-6.2	-11.4	-14.7
<b>Earnings before tax (EBT)</b>	<b>-5.6</b>	<b>8.0</b>	<b>-10.5</b>	<b>8.5</b>	<b>2.6</b>
Tax	2.8	-2.8	4.4	-1.2	-6.0
<b>Profit from continuing operations</b>	<b>-2.8</b>	<b>5.2</b>	<b>-6.1</b>	<b>7.3</b>	<b>-3.4</b>
Profit from discontinued operations	0.0	12.4	0.0	55.4	932.2
<b>Net profit</b>	<b>-2.8</b>	<b>17.6</b>	<b>-6.1</b>	<b>62.7</b>	<b>928.8</b>
To be distributed as follows:					
Profit attributable to equity holders of NKT A/S	<b>-2.8</b>	<b>17.6</b>	<b>-6.1</b>	<b>62.7</b>	<b>928.8</b>
Basic earnings, EUR per outstanding share (EPS)	-0.1	0.6	-0.2	2.3	34.3
Diluted earnings, EUR per share (EPS-D)	-0.1	0.6	-0.2	2.3	34.3
Earnings from continuing operations, EUR per outstanding share (EPS)	-0.1	0.2	-0.2	0.3	-0.1
Diluted earnings from continuing operations, EUR per share (EPS-D)	-0.1	0.2	-0.2	0.3	-0.1

# Cash flow

Amounts in EURm	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	Year 2017
Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations	17.8	35.5	59.2	75.1	96.9
Earnings before interest, tax, depreciation and amortisation (EBITDA) from discontinued operations	0.0	19.1	0.0	83.2	83.2
	17.8	54.6	59.2	158.3	180.1
Financial items, net from continuing and discontinued operations	-2.8	-5.3	-6.4	-17.6	-20.9
Changes in provisions, tax and non-cash operating items, profit on sales of non-current assets, etc.	-0.8	-13.1	-18.6	-35.7	-47.7
Changes in working capital	-49.0	10.5	-164.4	-79.9	-23.7
<b>Cash flow from operating activities</b>	<b>-34.8</b>	<b>46.7</b>	<b>-130.2</b>	<b>25.1</b>	<b>87.8</b>
Acquisition of business	0.0	-12.4	0.0	-797.5	-800.8
Divestment of business	0.0	2.6	0.0	26.4	33.0
Nilfisk demerger	0.0	0.0	0.0	0.0	368.7
Investments in property, plant and equipment	-6.1	-8.9	-15.8	-37.5	-50.6
Disposal of property, plant and equipment	-0.2	0.0	-0.3	1.1	0.2
Intangible assets and other investments, net	-4.7	-12.1	-17.9	-34.0	-43.8
<b>Cash flow from investing activities</b>	<b>-11.0</b>	<b>-30.8</b>	<b>-34.0</b>	<b>-841.5</b>	<b>-493.3</b>
<b>Free cash flow</b>	<b>-45.8</b>	<b>15.9</b>	<b>-164.2</b>	<b>-816.4</b>	<b>-405.5</b>
Changes in non-current loans from credit institutions	-104.9	-29.2	-19.6	661.8	250.0
Changes in current loans from credit institutions	-0.3	21.5	0.0	46.5	33.5
Non-controlling interest, dividend, etc.	0.0	0.0	0.0	0.0	0.0
Cash from disposal of treasury shares / share buyback programme	0.0	0.0	0.0	0.0	0.0
Dividends paid	0.0	0.0	0.0	0.0	0.0
Cash from issue of hybrid capital	148.3	0.0	148.3	0.0	0.0
Cash from issue of new shares / exercise of warrants	0.0	0.6	0.0	10.1	10.1
<b>Cash flow from financing activities</b>	<b>43.1</b>	<b>-7.1</b>	<b>128.7</b>	<b>718.4</b>	<b>293.6</b>
<b>Net cash flow</b>	<b>-2.7</b>	<b>8.8</b>	<b>-35.5</b>	<b>-98.0</b>	<b>-111.9</b>
Cash at bank and in hand at the beginning of the period	11.7	50.3	44.7	158.1	158.1
Currency adjustments	0.2	-1.3	0.0	-2.3	-1.5
Net cash flow	-2.7	8.8	-35.5	-98.0	-111.9
<b>Cash at bank and in hand at the end of the period*</b>	<b>9.2</b>	<b>57.8</b>	<b>9.2</b>	<b>57.8</b>	<b>44.7</b>
*Including cash classified as held for sale/distribution to owners of:	0.0	20.5	0.0	20.5	0.0

# Balance sheet

Amounts in EURm	30 September 2018	30 September 2017	31 December 2017
<b>Assets</b>			
Intangible assets	578.2	594.6	597.4
Property, plant and equipment	651.2	709.1	698.9
Other non-current assets	64.8	52.1	51.9
<b>Total non-current assets</b>	<b>1,294.2</b>	<b>1,355.8</b>	<b>1,348.2</b>
Inventories	237.2	219.6	226.1
Receivables and income tax	396.6	332.1	283.5
Interest-bearing receivables	0.8	0.1	2.1
Cash at bank and in hand	9.2	37.3	44.7
Assets classified as held for distribution to owners	0.0	840.6	0.0
<b>Total current assets</b>	<b>643.8</b>	<b>1,429.7</b>	<b>556.4</b>
<b>Total assets</b>	<b>1,938.0</b>	<b>2,785.5</b>	<b>1,904.6</b>
<b>Equity and liabilities</b>			
Equity attributable to equity holders of NKT A/S	774.5	993.3	816.3
Hybrid capital	150.0	0.0	0.0
<b>Total equity</b>	<b>924.5</b>	<b>993.3</b>	<b>816.3</b>
Deferred tax	57.3	54.5	59.9
Pension liabilities	52.8	53.3	52.5
Provisions	20.1	30.4	28.5
Interest-bearing loans and borrowings	312.6	744.6	332.8
<b>Total non-current liabilities</b>	<b>442.8</b>	<b>882.8</b>	<b>473.7</b>
Interest-bearing loans and borrowings	4.9	22.3	7.2
Trade payables, tax and other liabilities	551.7	561.1	593.1
Provisions and other liabilities	14.1	28.0	14.3
Liabilities associated with assets classified as held for distribution to owners	0.0	298.0	0.0
<b>Total current liabilities</b>	<b>570.7</b>	<b>909.4</b>	<b>614.6</b>
<b>Total liabilities</b>	<b>1,013.5</b>	<b>1,792.2</b>	<b>1,088.3</b>
<b>Total equity and liabilities</b>	<b>1,938.0</b>	<b>2,785.5</b>	<b>1,904.6</b>

# Comprehensive income and Equity

Amounts in EURm	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	Year 2017
<b>Comprehensive income</b>					
Net profit	-2.8	17.6	-6.1	62.7	928.8
Other comprehensive income:					
<i>Items that may not be reclassified to income statement:</i>					
Actuarial gains/(losses) on defined benefit pension plans	0.0	0.0	0.0	0.0	0.2
<i>Items that may be reclassified to income statement:</i>					
Currency adjustment of foreign subsidiaries and value adjustment of hedging instruments, etc.	11.8	-7.2	-34.0	-30.8	-35.0
<b>Total comprehensive income for the period</b>	<b>9.0</b>	<b>10.4</b>	<b>-40.1</b>	<b>31.9</b>	<b>894.0</b>
<b>Statement of changes in equity</b>					
Group equity, 1 January			816.3	951.4	951.4
Total comprehensive income for the period			-40.1	31.9	894.0
Distribution of shares in Nilfisk Holding A/S to shareholders in NKT A/S			0.0	0.0	-1,039.3
Issue of hybrid capital			150.0	0.0	0.0
Costs from issue of hybrid capital			-1.7	0.0	0.0
Share-based payment			0.0	-0.1	0.1
Exercise of warrants			0.0	10.1	10.1
<b>Group equity at the end of the period</b>			<b>924.5</b>	<b>993.3</b>	<b>816.3</b>

# Notes

## Note 1 Accounting policies, accounting estimates, and risks, etc.

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The Interim Report is presented in accordance with IAS 34 'Interim Financial Reporting', which has been approved by the EU, and Danish disclosure requirements for interim reports for listed companies.

NKT has implemented the standards and interpretations that become effective for 2018. The implementation of standards and interpretations has only had insignificant effect on recognition and measurement in 2018. Please refer to Note 8.3 on page 115 of the 2017 Annual Report with further details.

Regarding **accounting estimates**, please refer to Note 1.1 on page 73 of the 2017 Annual Report. Regarding **risks**, please refer to Note 6.6 on page 105 of the 2017 Annual Report and the information contained in the sections on risk management on page 30 and on page 42 of the 2017 Annual Report.

The issued EUR 150m callable subordinated capital securities due 3018 are accounted for as a hybrid capital where the notional amount constitutes a liability initially recognized at present value and the difference between the net proceeds received and the present value of the discounted liability is recorded in equity, as coupon payments are discretionary and ultimately lapse upon maturity of the hybrid capital. However, the carrying amount of the liability component is measured at nil on initial recognition because of the 1,000-year term of the hybrid capital. Subsequently, the liability part is measured at amortized costs and will only impact profit (loss) for the year towards the end of the 1,000-year term of the hybrid capital. Coupon payments are accounted for as dividends, which are recognised directly in equity at the time the payment obligation arises.

On 2 April 2014 NKT received a fine of EUR 4m following the investigation conducted by the European Commission into alleged price-fixing activities with regard to high-voltage power cable projects, cf. Company Announcement No. 8 2014. While the European Commission assessed that NKT's role had been substantially limited and the fine was considerably smaller than those imposed on other cable manufacturers, NKT disagrees with the Commission's decision and therefore filed an appeal. The European General Court has rejected all appeals against the decision including NKT's appeal. NKT has initiated a further appeal before the European Court of Justice. As a consequence of the Commission's decision, NKT and other power cable producers face exposure to claims for damages in proceedings brought by customers or other third parties, including claims that have been filed by National Grid and Vattenfall in the UK. In line with its appeal against the Commission's decision, NKT contests any civil damages claim that is based on this decision.

According to the regulation for financial statements preparation, the Group Management is required to determine whether the interim statement can be presented on a 'going concern' basis. Based on outlook estimates, including examination of the latest 'forecast 2018', and future cash flow expectations, existence of credit facilities, etc., it is the opinion of the Group Management that there are no factors giving rise to doubt as to whether NKT can continue operating for at least 12 months from the balance sheet date. Information concerning Group cash resources and expectations for 2018 are included in the Management's review.

## Note 2 Segment reporting

Amounts in EURm	Q3 2018	Q3 2017*	Q1-Q3 2018	Q1-Q3 2017*	Year 2017*
<b>Revenue (market prices)</b>					
NKT – Solutions	176.8	214.0	515.3	476.2	680.2
NKT – Applications	162.1	165.3	517.8	524.2	668.3
NKT – Service & Accessories	36.9	30.3	117.4	77.9	106.9
Elimination of transactions between segments	-8.8	-13.0	-25.2	-17.6	-26.5
<b>NKT</b>	<b>367.0</b>	<b>396.6</b>	<b>1,125.3</b>	<b>1,060.7</b>	<b>1,428.9</b>
NKT Photonics	15.2	11.2	45.2	29.9	50.9
Elimination of transactions between segments	-0.4	0.0	-0.5	0.0	-0.5
<b>NKT A/S</b>	<b>381.8</b>	<b>407.8</b>	<b>1,170.0</b>	<b>1,090.6</b>	<b>1,479.3</b>
<b>Revenue (std. metal prices)</b>					
NKT – Solutions	166.4	182.9	466.8	411.2	589.0
NKT – Applications	97.2	103.2	304.0	313.1	399.9
NKT – Service & Accessories	30.6	24.2	97.9	64.1	88.7
Elimination of transactions between segments	-7.3	-7.1	-20.9	-11.9	-19.6
<b>NKT</b>	<b>286.9</b>	<b>303.2</b>	<b>847.8</b>	<b>776.5</b>	<b>1,058.0</b>
NKT Photonics	15.2	11.2	45.2	29.9	50.9
Elimination of transactions between segments	-0.5	0.0	-0.5	0.0	-0.5
<b>NKT A/S</b>	<b>301.6</b>	<b>314.4</b>	<b>892.5</b>	<b>806.4</b>	<b>1,108.4</b>
<b>Operational EBITDA</b>					
NKT – Solutions	27.5	38.1	72.3	78.7	110.6
NKT – Applications	0.2	3.3	4.2	20.1	23.2
NKT – Service & Accessories	2.1	2.8	11.7	9.1	11.4
Non-allocated costs	-3.7	-0.4	-9.6	-3.4	-6.9
<b>NKT</b>	<b>26.1</b>	<b>43.8</b>	<b>78.6</b>	<b>104.5</b>	<b>138.3</b>
NKT Photonics	1.5	-0.8	1.0	-2.2	3.5
<b>NKT A/S</b>	<b>27.6</b>	<b>43.0</b>	<b>79.6</b>	<b>102.3</b>	<b>141.8</b>
One-off costs	-9.8	-7.5	-20.4	-27.2	-44.9
<b>EBITDA</b>					
NKT	16.3	36.3	58.2	77.3	93.4
NKT Photonics	1.5	-0.8	1.0	-2.2	3.5
<b>NKT A/S</b>	<b>17.8</b>	<b>35.5</b>	<b>59.2</b>	<b>75.1</b>	<b>96.9</b>

\* Allocation between segments is based on management's estimate.

## Note 2 Segment reporting – continued

Amounts in EURm	Q3 2018	Q3 2017*	Q1-Q3 2018	Q1-Q3 2017*	Year 2017*
<b>Operational EBIT</b>					
NKT – Solutions	12.1	18.3	25.2	36.6	51.4
NKT – Applications	-2.2	0.8	-3.1	12.2	11.7
NKT – Service & Accessories	1.2	2.3	9.1	7.7	9.4
Non-allocated costs	-4.3	-0.6	-11.0	-4.0	-8.6
<b>NKT</b>	<b>6.8</b>	<b>20.8</b>	<b>20.2</b>	<b>52.5</b>	<b>63.9</b>
NKT Photonics	0.0	-1.8	-4.1	-5.4	-1.7
<b>NKT A/S</b>	<b>6.8</b>	<b>19.0</b>	<b>16.1</b>	<b>47.1</b>	<b>62.2</b>
One-off costs	-9.8	-7.5	-20.4	-27.2	-44.9
<b>EBIT</b>					
NKT	-3.0	13.3	-0.2	25.3	19.0
NKT Photonics	0.0	-1.8	-4.1	-5.4	-1.7
<b>NKT A/S</b>	<b>-3.0</b>	<b>11.5</b>	<b>-4.3</b>	<b>19.9</b>	<b>17.3</b>
<b>Working capital</b>					
NKT – Solutions	-24.5	-84.3	-24.5	-84.3	-134.6
NKT – Applications	62.7	31.2	62.7	31.2	22.1
NKT – Service & Accessories	7.9	8.6	7.9	8.6	7.9
Non-allocated items	15.1	6.9	15.1	6.9	-1.9
<b>NKT</b>	<b>61.2</b>	<b>-37.6</b>	<b>61.2</b>	<b>-37.6</b>	<b>-106.5</b>
NKT Photonics	20.9	17.0	20.9	17.0	23.1
Non-allocated items	0.0	0.0	0.0	0.0	-0.1
<b>NKT A/S (continuing operations)</b>	<b>82.1</b>	<b>-20.6</b>	<b>82.1</b>	<b>-20.6</b>	<b>-83.5</b>

\* Allocation between segments is based on management's estimate.

### Note 3 Other notes

Amounts in EURm	30 September 2018	30 September 2017	31 December 2017
<b>Net interest-bearing debt</b>			
Interest-bearing loans and borrowings, non-current	312.6	744.6	332.8
Interest-bearing loans and borrowings, current	4.9	22.3	7.2
Interest-bearing receivables	-0.8	-0.1	-2.1
Cash at bank and in hand	-9.2	-37.3	-44.7
Net interest-bearing debt classified as held for distribution to owners	0.0	-9.4	0.0
<b>Net interest-bearing debt</b>	<b>307.5</b>	<b>720.1</b>	<b>293.2</b>
<b>Working capital</b>			
Inventories	237.2	219.6	226.1
Receivables and income tax	396.6	332.1	283.5
Trade payables, tax and other liabilities	-551.7	-561.1	-593.1
Working capital classified as held for distribution to owners	0.0	169.8	0.0
<b>Working capital</b>	<b>82.1</b>	<b>160.4</b>	<b>-83.5</b>

## Note 4 Definitions

Items below refer to the Financial Highlights contained on page 29.

1. **Revenue in std. metal prices** – Revenue in std. metal prices for copper and aluminium fixed at EUR/tonne 1,550 and EUR/tonne 1,350 respectively.
2. **Organic growth** – Absolute organic sales growth (standard price) as a percentage of prior-year adjusted revenue (standard price). Organic growth is a measure of growth, excluding the impact of exchange adjustments from year-on-year comparisons, and including acquisitions and divestments. For acquisitions a pro forma revenue for the prior year is included in the calculation, and for divestments revenue for the prior year is removed from the calculation.
3. **Operational earnings before interest, tax, depreciation and amortisation (Oper. EBITDA)** – Earnings before interest, tax, depreciation and amortisation (EBITDA) adjusted for one-off items.
4. **Operational earnings before interest and tax (Oper. EBIT)** – Earnings before interest and tax (EBIT) adjusted for one-off items.
5. **Net interest-bearing debt** – Cash, investments and interest-bearing receivables less interest-bearing debt.
6. **Capital employed** – Group equity plus net interest-bearing debt.
7. **Working capital** – Current assets minus current liabilities (excluding interest-bearing items and provisions).
8. **Net interest-bearing debt relative to operational EBITDA** – Operational EBITDA is calculated including discontinued operations on a rolling 12-months basis (LTM).
9. **Solvency ratio (equity as a percentage of total assets)** – Equity excl. non-controlling interest as a percentage of total assets.
10. **Return on capital employed (RoCE)** – Operational EBIT as a percentage of average capital employed. Calculated including discontinued operations on a rolling 12-months basis (LTM).
11. **Earnings, EUR per outstanding share (EPS)** – Earnings attributable to equity holders of NKT A/S relative to average number of outstanding shares (EPS).
12. **Equity value, EUR per outstanding share** – Equity attributable to equity holders of NKT A/S at period end per outstanding share at period end. Dilutive effect from warrants plan for Group Management and employees is not included in this ratio.

Statements made about the future in this report reflect the Group Management's current expectations with regard to future events and financial results. Statements about the future are by their nature subject to uncertainty, and the results achieved may therefore differ from the expectations, among other things due to economic and financial market developments, legislative and regulatory changes in NKT A/S markets, development in product demand, competitive conditions, and energy and raw material prices. See also latest Annual Report for a more detailed description of risk factors.

NKT A/S disclaims any liability to update or adjust statements about the future or the possible reasons for differences between actual and anticipated results except where required by legislation or other regulations.

The NKT A/S Interim Report Q3 2018 was published on 16 November 2018 and released through Nasdaq Copenhagen. The report is also available at [investors.nkt.com](http://investors.nkt.com).

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# Financial highlights and ratios

Amounts in EURm	Q3 2018	Q3 2017	Q1-Q3 2018	Q1-Q3 2017	Year 2017
<b>Income statement</b>					
Revenue	381.8	407.8	1,170.0	1,090.6	1,479.3
Revenue in std. metal prices <sup>1)</sup>	301.6	314.4	892.5	806.4	1,108.4
Operational earnings before interest, tax, depreciation and amortisation (Oper. EBITDA) <sup>3)</sup>	27.6	43.0	79.6	102.3	141.8
Earnings before interest, tax, depreciation and amortisation (EBITDA)	17.8	35.5	59.2	75.1	96.9
Depreciation and impairment of property, plant and equipment	-16.0	-17.7	-48.4	-43.1	-61.3
Amortisation and impairment of intangible assets	-4.8	-6.3	-15.1	-12.1	-18.3
Operational earnings before interest and tax (Oper. EBIT) <sup>4)</sup>	6.8	19.0	16.1	47.1	62.2
Earnings before interest and tax (EBIT)	-3.0	11.5	-4.3	19.9	17.3
Financial items, net	-2.6	-3.5	-6.2	-11.4	-14.7
Earnings before tax (EBT)	-5.6	8.0	-10.5	8.5	2.6
Profit from continuing operations	-2.8	5.2	-6.1	7.3	-3.4
Profit from discontinued operations	0.0	12.4	0.0	55.4	932.2
Net profit	-2.8	17.6	-6.1	62.7	928.8
Profit attributable to equity holders of NKT A/S	-2.8	17.6	-6.1	62.7	928.8
<b>Cash flow</b>					
*Cash flow from operating activities	-34.8	46.7	-130.2	25.1	87.8
*Cash flow from investing activities	-11.0	-30.8	-34.0	-841.5	-493.3
*hereof investments in property, plant and equipment	-6.1	-8.9	-15.8	-37.5	-50.6
*Free cash flow	-45.8	15.9	-164.2	-816.4	-405.5
<b>Balance sheet</b>					
Share capital	72.8	72.8	72.8	72.8	72.8
*Equity attributable to equity holders of NKT A/S	774.5	993.3	774.5	993.3	816.3
Hybrid capital	150.0	0.0	150.0	0.0	0.0
*Group equity	924.5	993.3	924.5	993.3	816.3
*Total assets	1,938.0	2,785.5	1,938.0	2,785.5	1,904.6
*Net interest-bearing debt <sup>5)</sup>	307.5	720.1	307.5	720.1	293.2
*Capital employed <sup>6)</sup>	1,232.0	1,713.4	1,232.0	1,713.4	1,109.5
*Working capital <sup>7)</sup>	82.1	160.4	82.1	160.4	-83.5
<b>Financial ratios and employees</b>					
Operational EBITDA margin, continuing operations (std. metal prices)	9.2%	13.7%	8.9%	12.7%	12.8%
*Gearing (net interest-bearing debt as % of Group equity)	33%	72%	33%	72%	36%
*Net interest-bearing debt relative to operational EBITDA <sup>8)</sup>	2.6	2.6	2.6	2.6	1.9
*Solvency ratio (equity as % of total assets) <sup>9)</sup>	48%	36%	48%	36%	43%
*Return on capital employed (RoCE) (LTM) <sup>10)</sup>	2.5%	14.0%	2.5%	14.0%	11.8%
Number of DKK 20 shares ('000)	27,126	27,112	27,126	27,112	27,126
*Earnings, EUR per outstanding share (EPS) <sup>11)</sup>	-0.1	0.6	-0.2	2.3	34.3
Distribution of shares in Nilfisk Holding A/S, value DKK per share	0.0	0.0	0.0	0.0	285.2
*Equity value, EUR per outstanding share <sup>12)</sup>	29	37	29	37	30
*Market price, DKK per share	167	522	167	522	283
*Average number of employees	3,736	9,235	3,736	9,235	3,600

<sup>1) - 12)</sup> Definitions appear in Note 4. \*) Including discontinued operations in 2017

Financial highlights and ratios are calculated as defined in the 2017 Annual Report.

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