

CHAIRMAN'S REPORT 2019

Dear shareholders,

Welcome to the Annual General Meeting of NKT A/S. I will now review developments in 2018 both in our businesses and in the work of the Board of Directors, and also take a look into the future.

[2018 was a challenging year]

2018 was a challenging year in which the results for our cable business were not satisfactory, and could unfortunately not be offset by satisfactory financial statements and excellent progress in NKT Photonics.

Overall, our cable business was influenced by a number of internal and external factors that have also slowed the speed of transformation for the NKT Group and will impact our financial performance in 2019. In November, we therefore took the managerial consequences of this development and terminated our cooperation with CEO Michael Hedegaard Lyng.

As announced on Tuesday, we have now found our new CEO, and I am pleased to welcome Alexander Kara to the company. Alexander has more than 30 years of senior management experience ABB that gives him the necessary combination of experience and industry insight which is required to drive our continued development. Until Alexander takes up his role on August 1 this year, Roland M. Andersen will continue as interim CEO.

[NKT share development]

I will now turn my attention to our share price, which to some degree reflects the challenges we had in 2018.

In 2017 and early 2018, we were, like the rest of the cable industry, impacted by shortage of orders in the high voltage market. This led to low utilization of capacity at our factory in Karlskrona, and we also experienced unsatisfactory earnings for low and medium voltage cables. In November, this prompted us to revise downwards our financial expectations for 2018, but in particular to announce that 2019 would not be a good year. This impacted our share price negatively.

I can now see that we had not created a sufficiently good understanding of how the shortage of high voltage orders would affect our earnings in the period ahead. Therefore, in future we will focus on communicating, with still greater clarity, how developments in the order backlog for our projects business can impact financial performance for a prolonged period.

As you can see, we have performed less well than the Danish market generally, and also less well than our competitors. Viewed over the past 12 months we, Prysmian and Nexans have fallen by roughly the same amount.

[Financial results for 2018 was not satisfactory]

Looking at the financial performance for NKT A/S, we see that revenue increased to EUR 1.1 billion in 2018, which was EUR 39 million higher than in 2017. Operational EBITDA decreased in 2018 to EUR 79.3 million from EUR 141.8 million in 2017. This was due to the fact that the contribution from the cable business was considerably smaller than in 2017.

Operational cash flow decreased from EUR 87.8 million in 2017 to EUR -42.2 million in 2018. This was primarily due to three factors:

- 1) The decrease in operational EBITDA, which I have already mentioned.
- 2) The development in working capital, which increased from an exceptionally low level at the end of 2017 and which was largely influenced by the timing of the individual projects.
- 3) The inclusion of Nilfisk, and its positive impact on cash flows, in the first nine months of 2017, and the non-inclusion of Nilfisk in 2018 due to the split.

Our return on capital employed fell from 11.8% in 2017 to -0.7% in 2018 due to the reduced earnings in the cable business and the increase in working capital.

[Capital structure]

At the end of 2018, NKT had a net interest-bearing debt of EUR 248.3 million, which was a decrease of EUR 45 million compared to the end of 2017. Our medium-term target is to operate with a net interest-bearing debt of max. 1.5x operational EBITDA. At the end of 2018, our net interest-bearing debt was 3.1x operational EBITDA.

As we are currently above the stated target, and given the unsatisfactory profit for the year, the Board of Directors recommends that no dividend payment be made for the 2018 financial year. However, it remains our dividend policy target to pay out approximately one third of profit for the year provided the capital structure permits.

In September 2018, we refinanced our credit facilities, totaling EUR 450 million, with the issuance of a hybrid security and a credit facility provided by a Nordic banking group. The refinancing replaced all existing bank facilities, and we believe we have the financial headroom we need to counter the consequences of the reduced order backlog and level of activity in 2019.

[2018 development for NKT cable business]

I will now turn my attention to our cable company, NKT, which operates in three lines of business:

- Solutions – provides high voltage cable solutions for both onshore and offshore projects.
- Applications – services the market for low and medium-voltage cables, including installation wires for the building industry
- Service & Accessories – performs service on cable solutions and sells accessories principally for medium and high voltage projects.

[2018 financial performance]

Cable business revenue in standard metal prices increased slightly to EUR 1.08 billion, while operational EBITDA fell to EUR 70 million against EUR 138 million in 2017. This development was primarily driven by Solutions and by unsatisfactory earnings in Applications.

[Solutions business line impacted by lower activity and external factors]

2018 earnings for the Solutions business were influenced by satisfactory project execution, but these projects were fewer in number and average earnings were lower. Furthermore, we were impacted by delays in the final quarter to two ongoing projects due to external factors. The first delay was due to exceptionally low water levels in the Rhine, which for a time prevented the shipment of cables from our Cologne factory. The second delay was due to a subcontractor damaging one of our cables during an installation project.

Our cable-laying vessel, NKT Victoria, reported a satisfactory operating year which included installing cables for the Norwegian oil platform Johan Sverdrup 1. Cable installation was also performed for several offshore wind farms, including Kriegers Flak, which will be Denmark's largest offshore wind farm when fully operational in 2021.

[New orders exceeding EUR 800 million]

That said, we ended 2018 by landing five sizeable orders for the offshore wind and oil & gas industries. One of these orders was for the German Ostwind 2 project in which our cables will connect several offshore wind farms to the shore. With a contract value of approx. EUR 300 million this was the largest order for export cables in NKT's history.

This project is also the first for which production will take place in both Cologne and Karlskrona. It underlines the possibilities we have with two high-voltage factories that are strategically well placed to supply cables to the important North European market. By bringing both factories into play, we can offer our customers greater flexibility, and at the same time we can handle even larger projects than today.

Overall, these five orders added more than EUR 800 million to our order backlog, which at the end of 2018 amounted to EUR 1.1 billion. This positive development reaffirms our confidence in the great potential of the green transition. With our know-how and technologies this is an area where we are well-positioned to win our share of projects in the years ahead.

[High voltage orders key to earnings]

To understand our business, it is important to be aware of how our financial performance is affected when the number of high-voltage orders on the market falls, as was the case in 2017 and the first half of 2018.

All other things being equal, periods of low market activity and fewer orders will be accompanied by increased market competition for the projects which exist. This may mean lower earnings in general due to the smaller number of projects, but also lower earnings per project. Receiving fewer orders will also lead to lower utilization of capacity at our high voltage factories, which will produce lower earnings to cover our fixed costs.

[The effect of low market activity is prolonged by the execution time on large projects]

At the same time, it is important to understand that large cable projects typically extend over several years from when we receive the order until we hand over the finished project to the customer. This is precisely what will affect us in 2019, when our earnings will be affected negatively, despite a satisfactory order intake in the second half of 2018.

There are many phases in the individual projects from initial receipt until final handover. In order to achieve the optimal use of our factories, we would like to have more orders spread over all phases. This means that ideally, we want to have projects that we must start, projects that have been running for some time, and projects that we are completing.

The last time we experienced this was in 2017 when we had projects in several different phases, at the same time as we had high utilization of NKT Victoria for installation of the cables produced.

[Applications - unsatisfactory earnings]

2018 earnings for the Applications business line, which comprises our low and medium voltage operations, were not satisfactory.

One of the primary reasons was that we were probably overly ambitious and launched too many projects with a view to optimizing and streamline this business. This has led to us not executing on the projects as we had expected. Furthermore, we were challenged by the weather in the Swedish market which at times prevented the installation of medium voltage cables entirely.

We are currently executing on a number of prioritized initiatives in Applications that we expect will improve earnings in 2019.

[Service & Accessories – performance as expected]

The Service & Accessories business line, which comprises our service operations and sale of cable accessories, delivered earnings in line with expectations. Among other things it also confirmed the potential which exists, particularly on the service side.

During 2018, we carried out several service assignments both on onshore and offshore cable solutions, and we have also expanded our service model so that we can provide stronger customer support and speedy execution when faults develop in cable connections.

The Accessories business, which embraces our cable accessories operations, generally delivered as expected, and we saw positive development in the Middle East, signing a number of contracts during the year. In Europe, we were impacted by challenges in the German market, while our core markets in the Nordic region performed as expected.

[Continued execution on strategic initiatives]

Despite adversity in 2018 – together with the prospect of a difficult 2019 – our confidence in the strategic direction which we set in 2015 is unchanged. Accordingly, we are continuing to execute on a series of initiatives developed specifically for the individual business lines and their underlying segments, and in the course of the year we have made progress in several of them. Behind me they are grouped in development and growth, profitability and turnaround.

[Divestment of railway and continued focus on innovation and digitization]

In recent years, we have sold off a number of small, non-core operations in order to focus our cable business. The last non-core activity, consisting of our railway operations, was finally divested in February this year.

Innovation and digitization remain strategic focus areas in NKT, and a number of digital initiatives were implemented in 2018. An example was the first product launch by our digital hub and consisted of a digital platform for handling cable drums. Using an app, customers can access a variety of information concerning the drum location and the amount of cable that remains on it. In September, as an important step in strengthening our product development and innovation, we also recruited Anders Jensen as our new Head of Technology,

[2019 will be challenging]

Looking into 2019, our cable business can expect a challenging year which, as previously mentioned, is expected to be particularly impacted by low utilization of capacity at our factory in Karlskrona.

We are therefore fully focused on three main priorities in 2019:

- 1) We must continue to increase our backlog of high voltage projects.

- 2) We must increase our earnings in Applications by focusing on fewer, important initiatives.
- 3) We must cut costs without compromising on the future growth opportunities we see in the market.

In February this year we therefore launched a cost programme principally focused on general expenses and organizational adjustment. In 2019, we expect to reduce the number of salaried positions by 8%, corresponding to around 130 positions across Europe, including some 70 in Sweden. We expect this cost programme to generate savings of approx. EUR 15 million annually and to realize about half this amount in 2019.

[Attractive cable market driven by the green transition]

That said, we saw increased activity in the market in the second half of 2018, which we expect to continue in 2019 and the years ahead.

There is a growing demand for green renewable energy, which is backed by broad political goodwill and increasingly also by broad popular demand. This development is chiefly driven by wind farms both onshore and offshore, paralleled by a continuous phasing out of nuclear and coal-fired power plants. This development makes greater demands and requires more flexibility for the transmission of electricity, as renewable energy sources are dependent, for example, on the wind actually blowing.

We see this transition happening right now. Offshore wind farms are being planned and built in many European countries, and several nations outside Europe, such as the United States and Taiwan, are beginning to follow suit. At the same time, several sizeable international grid connection projects are under way, with contracts expected to be awarded to the cable producers in the years ahead.

In the market for the large cable projects it is crucial to have a broad product portfolio covering both DC and AC technology. With the acquisition of ABB's high-voltage business two years ago, we strengthened our product portfolio precisely for this purpose, as it gave us access to the DC technology that we expect to be central to the cable market in the years ahead. This acquisition was a strategically important step to prepare NKT for future growth, and we are strongly committed to maintaining and expanding our position within the high-voltage market.

[2018 development for NKT Photonics]

I will now turn to 2018 performance for NKT Photonics, which manufactures and markets products for the following segments:

- 1) Imaging & Metrology, comprising lasers that make it possible to create images of very small structures such as skin cells.
- 2) Sensing & Energy, comprising lasers for use in monitoring and measuring equipment.
- 3) Material Processing, comprising lasers for high-precision cutting of hard materials such as glass and metal.

Within these segments, NKT Photonics is a leading manufacturer in the market based on several years of development. We expect these segments to continue developing positively in the years ahead.

NKT Photonics is exceptionally skilled in developing lasers that are both precise and efficient, and with increasing population growth there is a need to ensure efficient and optimal utilization of the resources available. We see this for example in the pharmaceutical industry, where lasers from NKT Photonics are helping to provide effective means to screen and diagnose diseases.

The current trend towards using smaller and smaller technological solutions in a variety of products is also an important growth driver for NKT Photonics. For example, our ultrafast lasers can deliver high-precision cutting even for small structures used in industrial products.

[2018 financial performance – an earnings milestone]

In 2018, NKT Photonics delivered an excellent performance in line with our expectations. Revenue increased by EUR 17 million on 2017 to EUR 67.7 million. This development was driven by stable execution across business segments based on a 38% increase in orders compared to 2017. In addition, NKT Photonics achieved record-high EBITDA of EUR 9 million, which was primarily driven by the higher revenue. Organic growth was 16% in 2018, the company's first year with double-digit organic growth since 2013.

[Growth across all segments]

The excellent result for 2018 was attributable to all three segments. Among other things, good progress was achieved in sales of products for remote monitoring applications, such as fire detection and cable monitoring. At the start of the year we received the prestigious Prism Award for LIOS EN.SURE, our new product that is capable of measuring and monitoring temperatures in cables over distances up to 70 km. Material Processing, still the smallest segment but one in rapid growth, also reported good progress, primarily in the area of ultrafast lasers for hospital equipment.

Integration of One-Five, acquired in 2017, was completed in the second quarter, strengthening our market position and positively impacting revenue. And we continued, throughout the year, to strengthen our organizational structure, making it ready to seize future growth opportunities. As an example, we are currently establishing an office in the US to expand our business there.

[Strategic focus on commercialization]

In 2018, good progress was made on executing our business commercialization strategy. Initiatives pursued consisted of:

- 1) Climbing the value chain and focusing on delivering solutions rather than products principally for industrial customers.
- 2) Focusing on organic growth after two successful acquisitions in 2016 and 2017.
- 3) Ensuring efficient and LEAN production collected within centralized functions.
- 4) Continuing the rapid introduction of new products in step as our technological foundation becomes stronger. In 2018, we launched a number of new products that have been instrumental in expanding our position in the market.

In 2019, the focus in NKT Photonics is on exploiting the current growth momentum and on continuing the commercialization process.

[Board of Directors]

I will now briefly turn my attention to the Board of Directors and provide a short update on our work.

[Board of Directors – summary of meetings]

In 2013, we introduced a new management model and, as shown behind me, we continue to hold many meetings within both the Board and in the companies, where we enjoy close and active collaboration with the management teams. This means we continue to operate our cable and photonics businesses as two separate business entities that report directly to the Board. We believe that this slightly atypical management model has proven to be an advantage in NKT A/S.

It is also our opinion that the Board of Directors has the right composition and the necessary professional qualifications to drive NKT A/S towards further value creation.

In our opinion that the Board of Directors' annual self-assessment shows that the Board constitutes a good team with room for the right discussions. A high degree of trust exists between the Board members. Our governance model continues to work well, and this also applies to the appointed committees. We believe we have the right Board composition in terms of technical competencies, but not in terms of gender, and we wish to raise the target for the under-represented gender from 17% to 37%, so that it roughly matches that in our company. The Board members are well prepared for the meetings and there is good meeting discipline. Where we consider that challenges exist is in respect of the process surrounding the dismissal of our CEO and whether we responded quickly enough to the development in our business. This applies not so much to Solutions, which has been awarded orders roughly equivalent to our market share and which has executed well on the existing orders, but in relation to Applications, where the decline has been partially self-inflicted. Our cable business in Solutions is characterized by having a very long braking distance, and as previously mentioned we also feel that we should take further steps to ensure that communication to investors on our projects business is adequate.

[Re-election of AGM-elected Board members]

I am pleased that all Board members elected by the general meeting have declared that they are up for re-election and wish to continue being part of the company's journey.

I would briefly mention that, having now served on the NKT Board since 2006, I am no longer considered to be independent in accordance with the recommendations for good corporate governance. However, it remains the opinion of the Board that it is in the company's interest for me to continue, and in the event that we are re-elected by the general meeting the Board will unanimously reappoint me as Chairman.

Election of Board members is item 7 on the agenda.

[Remuneration to Board of Directors]

As in recent years, we recommend to the general meeting that remuneration to the Board of Directors be unchanged.

The Board of Directors will continue to receive a basic sum along with supplements on a par with comparable companies for chairmanship and committee posts. In this connection, I would add as a matter of form that any participation by the Chairman in committee work does not trigger a separate fee. The Board of Directors will continue not to participate in incentive programmes.

The remuneration will be dealt with in item 6 on the agenda.

[Thanks to the employees]

I would like to thank all our employees for their efforts 2018 which have helped to ensure that our customers choose us as their partners. It is the responsibility of the Board of Directors and the management teams to set the direction for the company, and we know that even in changing and challenging times our employees take a great responsibility by executing and consistently providing valuable ideas and spotting new business opportunities.

[NKT – 2019 financial expectations]

In keeping with tradition, I would now like to provide an update on our financial expectations for the current year, and as previously I will provide the financial outlook separately for each of the two business units.

In 2019, we expect our cable business to deliver revenue in standard metal prices of EUR 0.9-1.0 billion and operational EBITDA of EUR 10-30 million. These figures are in both cases lower than we reported in 2018. As stated, this is primarily due to expectations of lower capacity utilization at our factory in Karlskrona. Our medium-term targets remain unchanged with operational EBITDA of approx. EUR 200-225 million and a minimum return on capital employed of 13%.

[NKT Photonics – 2019 financial expectations]

For NKT Photonics, we expect growth momentum to continue in 2019, with organic growth of 15-20% and an EBITDA margin of 15-20%. The medium-term outlook is for annual organic growth above 10%, an EBITDA margin of approx. 25% and a return on capital employed of approx. 20%.

[2019 with focus on priorities and execution]

I said by way of introduction that 2018 was a challenging year for NKT and that 2019 would also be difficult. It is therefore imperative to maintain focus on execution in line with the overall priorities and on preparation of the cable business for future growth. In addition, as from 1 August we must welcome aboard our new CEO, Alexander Kara, and help to bring his strengths into play.

In NKT Photonics, the focus will be on continuing the commercialization process and maintaining the current market momentum.

In conclusion, I would like to say thank you - and I now hand back the floor to you, Christian