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Transcript :: NKT Annual Report 2013, Audiocast 28 February 2014 :

Operator

Ladies and gentlemen welcome to the NKT full-year result 2013. Today I am pleased to present Michael Lyng, Group Executive Director and CFO. For the first part of this call participants will be in listen only mode and afterwards there will be a question and answer session. Mr Lyng, please begin.

00.14.9

Michael Lyng

Thank you operator and welcome to our webcast in relation to NKT's annual report for 2013. My name is Michael Lyng, Group Executive Director and CFO of NKT Holding. Today I am assisted by my colleagues with responsibility for running the different companies included under the NKT umbrella so let me give you a quick introduction of the presenters for today. First of all, a very warm welcome to our new CEO of Nilfisk-Advance, Jonas Persson. Jonas joined the group as CEO for Nilfisk-Advance mid-January this year. But also welcome to Marc, CEO of NKT Cables. Marc is not physically present here in Copenhagen but is calling in from abroad so hopefully the technical setup works. And finally, also welcome to Søren Isaksen, chairman of the Photonics Group. We have a lot of slides to present today. We will try to do it relatively fast in order to get to the Q&A session but let us start with looking at the agenda for today. It follows the usual format, but of course with the new setup as we have the management here to present the different businesses. First I will cover some general highlights followed by group financial results and then Jonas will take over and give you an update on Nilfisk-Advance covering the financials as well as key operational highlights. And the same format applies for NKT Cables with Marc and the Photonics Group with Søren. In the end I will then return on expectations for 2014 and then finally we go to the Q&A session, but let us go to page 5 and start up.

Looking at the overall result for Q4 and the full year 2013 we can be very satisfied. We saw from Q4 securing full-year results and exceeding the latest revised expectations. Full-year organic growth of 4% and operational EBITDA of DKK 1,085,000,000 corresponding to a margin of 8.4% measured at standard metal prices. Again this year we saw a strong cash flow from operating activities in Q4 of DKK 720 million resulting in full-year cash flow from this line of DKK 545 million in spite of increase in working capital measured year-over-year. Organic growth across all business areas despite tough market conditions – Nilfisk-Advance delivered satisfactory growth of 3% full year, driven by EMEA and Americas while keeping earnings stable despite gross margin pressure. For NKT Cables, we realised growth in both revenues and earnings, 4% organic growth driven by the projects business and Railway in China while the lower medium voltage segment is still under some pressure. As a result, the operational EBITDA margin increased to 5.6% for 2013. The year as such is satisfactory compared to our own expectations entering the year but of course overall earnings are still far away from a satisfactory level and therefore the DRIVE efficiency programme was initiated in Q4, but more will follow on that during Marc's presentation. Photonics Group up 13% fully in line with expectations in relation to increased market penetration and finally expectations for 2014 we will come back in more detail at the end of the presentation but as illustrated here on the slide we are guiding organic growth of around 0-3% and an operational EBITDA margin of between 9 and 9.5% compared to the 8.4 %level realised in 2013. Having briefly scraped the surface here, let us continue to the next page and go directly into the Group financial overview on page 7.

Q4 realised DKK 2.4 billion revenue at market prices. This corresponds to organic growth of 3 %for Q4 1913 and 5% nominal growth due to the inclusion of the Ericsson Power Cables. Total revenue for 2013 of DKK 15.8 billion against DKK 15.3 billion in 2012 – an increase of DKK 556 million. In Q4 Nilfisk-Advance realised 1% organic growth; NKT Cables 4% and Photonics Group 17%. Full year organic growth was positive across all business areas with 3%, 4% and 13%, respectively. More details will follow later when we go to the business areas. Q4 operational EBITDA of DKK 332 million compared to DKK 320 million in 2012. This is a slight decline on margin level from 9.9 % to 9.7% at standard metal prices and the small decline here is due to the inclusion of the Ericsson acquisition. Full-year 2013 operational EBITDA reached DKK 1,085,000,000 against DKK 1,039,000,000 in 2012. Margin on the full year reached 8.4% which is slightly lower than last year with 8.6% due to the same reason, inclusion of the Ericsson cables business. Working capital has increased by DKK 400 million since the beginning of 2012. This development was fully anticipated but I will dig further into working capital development later on in the presentation. Compared to LTM revenues working capital increased from 19.8% at the end of 2012 to 20.2% at the end of 2013. The net interest-bearing debt ended at DKK 2.1 billion similar to 1.9x operational EBITDA for the year, which is significantly below the threshold of 2.5x operational EBITDA that we have internally.

A cash conversion rate of 50% LTM at the end of the year compared to 77% at the end of Q3. The decline here can be explained by the change in working capital from the very low level at which we entered 2013.

A proposed dividend of DKK 3.5 per share, in total DKK 84 million corresponding to 33% of profit for the year so a proposed dividend fully in line with our dividend policy.

Turning to page 8, and looking at realised versus expectations for 2013. If we compare to our original expectations entering 2013 and our updated expectations for top line in Q3 we realised all of them. Shared organic growth expected at the beginning of the year and we ended realising at 4%. We had originally expectations on operational EBITDA being on par with 2012 but we ended up DKK 46 million higher than last year. This even with some top line and EBITDA anticipated for 2013 being pushed into 2014 in NKT Cables project business. Cash flow from investments ended DKK 32 million lower than expectations of DKK 500 million. And finally, net interest-bearing debt well within the group's own target for capital structure. Overall, we are satisfied with the performance for the year and when we originally set the expectations for 2013 we were looking into a year with a lot of uncertainties and low visibility. During the year, operational progress has been good and we have seen performance improving steadily although with some individual pain points but as said in the beginning the overall performance is still not living up to our ambition but we will come back to that also when we cover expectations for 2014.

Moving to page 9, we see the EBITDA on LTM. In Q4 operational EBITDA ended at DKK 332 million so the totality for 2013 amounts to DKK 1,085,000,000 thereby continuing the positive trend that we have seen throughout 2013. As mentioned earlier, margins are lower as an effect of the Ericsson acquisition and therefore dropped 0.1% from 8.5% at the end of Q3 LTM to 8.4% at the end of the year.

But let us turn to page 10 and look at Q4 numbers. Comparing the P&L in Q4 2013 to last year, three elements are important to note. Revenue continued growing both in terms of market and standard metal prices. DKK 262 million is related to acquisitions but revenue of DKK 88 million comes from organic growth within all three business areas as illustrated up in the blue box. Operational EBITDA – here we can see a total increase of DKK 12 million coming from NKT Cables, an increase of DKK 16 million where we are achieving margins at 6.8% if we compare Q4 with Q4 last year. In Nilfisk-Advance we are down DKK 3 million but still margins are picking up with 0.2% in the quarter compared to last year and as you can see in the box we are realising 13.1% in Q4 2013. And then we have a small wash in Photonics Group and Holding where we are down 1 million compared to Q4 last year, mainly due to additional cost rate to start production in Photonic Group. Then as also illustrated here there is a one-off cost of DKK 34 million which is here an income which primarily relates to a so-called bad will in connection with the acquisition of Ericsson. This was somewhat set off by cost related to NKT Cables closure of production lines in Denmark and Germany and cost related to the DRIVE programme which Marc will elaborate on later. And finally worth noting, depreciation may appear significantly higher than last year but this is due to a write-down of DKK 66 million mainly related to the closure of production lines mentioned above and you can find more about this line in the annual report.

Let us move on to slide 11 to look at the same picture for the full year. Full year 2013 shows some of the same trends as we have seen within the Q4 but a few key remarks here. NKT Cables ended DKK 45 million in operational EBITDA better than last year and thereby increasing margins from 5.3% last year to 5.6%. Nilfisk-Advance ended DKK 3 million above by growing revenue and maintaining the EBITDA margin at 11.9 % which Jonas will go further into. Lower financial costs added DKK 36 million to the bottom line, largely a combination of lower debt and lower interest rates, but somewhat set off by other financial items with DKK 16 million. A final comment that we will also look deeper into later on is a CAPEX level DKK 68 million lower than 2012 due to the trend towards normalised investment levels after a number of years with extensive investment programmes.

Let us go to page 12 and look at our working capital development. Working capital decreased significantly from DKK 3.3 billion in Q3 to DKK 2.8 billion at year end, which was in line with the expectations. Seen in relation to revenue measured at LTM working capital marginally increased from 19.8% in 2012 to 20.2% at the end of 2013. This increase is related to tie-up of funds in projects within NKT Cables. The sizeable part payments that are received in relation to projects impacts working capital levels significantly. As a consequence of the tie-up of funds in the project division, NKT Cables increased working capital as a percentage to revenue from 19.9% to 20.7% since last year. Nilfisk-Advance continued to focus on reducing working capital and we can see a decrease of 0.3% to 19.2% from 19.5% last year.

If we turn to page 13 and analyse the development here in nominal terms the actual increase in working capital since the end of 2012 may seem substantial but as mentioned in reality it has developed in line with expectations. The beginning of the year saw a very low level of working capital, which was not considered at a suitable level due to a number of large up-front payments made in relation to projects in Cables. At the end of 2013, a number of projects are almost finished and awaiting final payment, which results in increasing working capital tie-up and this is very normal business in projects. On top of that comes the acquisition of the Ericsson activities adding another DKK 126 million to working capital. In fact, what remains hidden in this picture is favourable development in trade receivables and inventory management in both NKT Cables and Nilfisk-Advance.

Let us turn to page 14 and look at our Capex level. Many of you are familiar with the Capex picture and the history behind the increase during 2009, 2010 and 2011. After the large-size investment in that period, Capex levels have been on a planned downward trend towards a more normalised level. In terms of intangible assets, we continue to invest, for example, in product development in Nilfisk-Advance to secure future earnings. But in reality there is not much to say here, so if we advance to page 15 to take a look at the effect on cash conversion.

The cash conversion rate LTM went down from 77% in the third quarter 2013 to 50% realised at the end of 2013. With the relatively stable EBITDA level, cash conversion will to a large extent be a function of change in working capital. Combined with the nature of the project business in NKT Cables where working capital will fluctuate during the life cycle of a project, the cash conversion rate will follow these fluctuations. Therefore, we do not attach a lot of value to the interpretation of the exact cash conversion development between each of the quarters. Instead our focus is kept on maintaining a trend towards an underlying sustainable rate of above 60% but at the end of the day this will go up and down with the projects also going forward.

If we turn to page 16, we can look at the cash flow and as illustrated here on the slide, we see a strong, free cash flow from Q4 where we realised DKK 577 million in free cash flow. The free cash flow derives from higher earnings and the working capital release of DKK 468 million in Q4. Looking at Q4 2012 cash flow from working capital release was extremely high at DKK 722 million which underpins the previous statement of a very low level of working capital at year-end 2012. On a full-year 2013 level free cash flow realised a negative DKK 149 million despite entering the year at an extremely low working capital level and also the cash flow effect on the acquisitions of the Ericsson business. Against that background we are satisfied with the cash flow in totality for 2013 and what is also illustrated here is that we are impacted negatively in cash flow from financing activities where we have paid out dividend as illustrated here at DKK 191 million mid-2013. If we look at the leverage, the net interest-bearing debt amounted to DKK 0.1 billion at the end of the year dropping from 2.6 x operational EBITDA at the end of Q3 to 1.9 x operational EBITDA by the end of 2013. The reduction in net debt, of course, related to the significant free cash flow of DKK 577 million mentioned before in Q4. We are satisfied with the fact that net debt is continuing well below the leverage target of a maximum 2.5x operational EBITDA that we internally had set as the maximum financial gearing. This level, more so considering that in 2013 we acquired an acquisition, the Ericsson activities, paid out dividend and further returned to a more normalised level of working capital.

Let us jump to the cash resources here on page 18, looking into the NKT credit facilities a number of bank facilities have been refinanced in Q4 2013. This ensures our full financial flexibility to operate and drive the strategic agenda of our businesses. By year-end cash resources available were DKK 4.7 billion. DKK 4.3 billion is undrawn facilities in addition to a cash position of DKK 400 million. It is our policy to maintain committed facilities equalling the gross debt plus DKK 1 billion in research and all committed facilities are still without any financial covenants. With that said I have completed the first part of the presentation and therefore we return to Nilfisk-Advance and I would therefore like to welcome Jonas Persson, our new CEO of Nilfisk-Advance. Please, Jonas

20.00

Jonas Persson

Thank you very much, Michael. My name is Jonas Persson, as Michael said, and I joined as a CEO for Nilfisk-Advance on 20 January this year. My previous position was an executive member of the Assa Abloy Group and I previously had a position with Alfa Laval as well as Nolato. From here I have brought wide knowledge of the market as well as managing the full value chain within a larger corporation and I have more or less spent my first month here travelling around the world to visit Nilfisk-Advance global footprint and customers.

Based on what I have seen and have gathered my first impression I would like to share some of my initial impressions and thoughts with you.

First of all, I can truly say that I have taken over a well-run company with many skilled, competent people who deliver strongly in executing internal processes. In addition, Nilfisk-Advance has a great range of products. This, of course, we need to sustain and develop further to consolidate our leading position and drive growth. One of our key elements relates to quality. It has surely improved during the last year but we still have room for improvement. Finally, the organisation is ready, as I see it, ready to increase focus on the front end, to grow especially in emerging markets where I see a lot of big opportunities. I am really happy to be on board Nilfisk-Advance and be part of the NKT and I look forward to an exciting challenge lying ahead of us.

So let us move to page 22, some very quick highlights on the Nilfisk-Advance business. I don't want to spend too much time on this slide since most of you, I think, are very familiar with the specifics. One comment to fill in though we have added Rumania to the list and now we have 45 sales entities within the group.

Let's move to page 23. Nilfisk-Advance issued organic growth of 3% for the full year and 1% in Q4. We continued to gain market share in EMEA we had some 5% growth in the quarter which as a total brings us to full year of 5% growth. Americas showed a -2% contraction in the quarter in contrast to the 4% overall growth in the full year. APAC showed some signs of recovery in Q3 with 4% growth but Q4 yielded -9% versus the same quarter last year. This is mainly caused by market conditions in China and in Australia and in APAC we definitely need to turn around the picture. I will come back with more quality comments later on this. Operational EBITDA was DKK 2,010 million in the quarter compared with DKK 2,013 for the same period last year. This corresponds to an increase in margins from 12.9% to 13.1%.

Through the year 2013 we reached an operational EBITDA of DKK 778 million against DKK 775 million for 2012. Margin kept at 11.9% on the full year. So overall we are very satisfied with the development. Especially we continue to consolidate our position within the core European markets although market conditions were still very tough. Americas full-year performance we were satisfied with while APAC's development needs to be turned around.

We have been able to maintain the earnings, although the gross margins have been slightly down but due to the constant focus on containing costs and optimising lower overhead costs we have mitigated the gross profit pressure. This I will touch upon later on in the presentation.

Let us go to page 24. I have covered most of the financials so let me instead focus on some strategic highlights. As I said, growth was strong in EMEA where Turkey and Russia delivered double-digit growth. Very much, Russia was impacted by the Winter Olympics as well. Americas although slightly down in Q4 due to public sector spending being postponed. Growth for the year was good driven by new customers in health care and the hospitality sector. APAC was a challenge throughout the whole year, especially China and Australia, performing below expectations. After showing some signs of recovery in Q3, Q4 growth yielded -9% versus the same quarter last year. Gross margin and fixed cost I will come back to on the next page. On the product launches we introduced ten new products in Q4. Among those the high end consumer vac "Elite" was launched. Update on the M&A, several small M&As were added, a Scottish dealer we have acquired as well as remaining share of our South African JV partner, IndustroClean. Finally, as we announced today we have signed a conditional agreement to divest non-core assets within Sanders. When it is completed we will expect it will result in a DKK 100 million impact on the profit.

25.33.3

Then we move over to page 25. As mentioned earlier, Nilfisk-Advance is seeing some downward pressure on the gross margin, partly natural consequences of a change of product niche towards a large share of DIY products, it sort of pushed into the markets, and increased price focus because of that. To reduce overhead costs we will fully be able to compensate for all of this cost pressure decline, price pressure, decline of gross margins. This is achieved from a cost service sales in exchange, projects focused on increasing efficiency and strong focus on costs containment. By that I would like to hand over to Marc for NKT Cables.

26.23.2

Marc van't Noordende

Thank you, Jonas. As Michael has said I am calling on my telephone so I hope the reception is okay. Let me take you immediately to page 27. Page 27 you have seen before, you see on the left-hand side the sales mix by business units, in the middle by geography and on the right-hand side by customer mix. We have added, of course, six months' sales of the former Ericsson Power Cable business to these numbers and they have had an impact. Particularly in the middle you can see the light blue section where most of the Ericsson business is in.

Let me take you then to page 28. Overall, NKT Cables saw some 4% organic growth in the fourth quarter and the same number was realised for the entire year. We are now starting to report in line with our organisational setup in the business units. Going forward you will therefore find BU Projects, onshore and offshore high voltage business, mainly comprised

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by the new factory in Cologne, by the transhipment and logistics centre in Rotterdam as well as some smaller installation operations in Denmark and in Germany. The project business realised 2% growth in the fourth quarter and 13% growth for the full year 2013. Secondly, BU Products covers our European businesses in the lower medium voltage area including accessories but it also covers building wires, railway products and automotives.

BU Products had a strong fourth quarter with 8% growth but this should be seen in light of significant drops during the last year and also in view of a relatively mild winter. The full-year figure came out at negative growth of 10%, mainly due to a very tough market situation with a lot of overcapacity in low and medium voltage where European utility customers mainly are holding back on their investments. The construction markets were down in 2013 but in the fourth quarter we saw some early signs of improvement but it is, I think, too early to draw any firm conclusions from this, and finally our third business unit, the business unit Asia Pacific, which covers all of our operations in Asia Pacific, particularly in China, Australia and Vietnam, particularly also the railway business and the activities related to medium and high voltage in China. BU Asia Pacific saw negative growth of 2% in the fourth quarter but the full year is up with 49%. This is clearly a catch-up in fact from the moratorium in the Chinese railway construction that was imposed by the Chinese government in the second half of 2011 and lasted throughout most of 2012. Q4 operational EBITDA yielded DKK 119 million versus around DKK 100 million in the fourth quarter of 2012. This brought a 5.6% margin up with 0.3% from the fourth quarter in 2012. The full-year 2013 operational EBITDA of 335 million compares to 290 million in 2012. The full-year EBITDA margin was 5.6% compared to 5.3% in 2012. Even though with all that we have realised decent growth in our business it is still true that the growth is concentrated in BU Projects and in Asia Pacific. We are still experiencing very hesitant customers in BU Products and very tough market situations for those products in particular in Europe although in the last quarter some early signs of recovery were visible, particularly in the construction market as Michael already said and we do not expect for the utility sector any major recovery in 2014.

Let's go into some more details on the next page, page 29. Whilst you are reading the financial figures, I will jump into the highlights. The number one highlight was clearly our project DRIVE that we initiated in the fourth quarter of last year. At the end of the day, we were not happy with the development of our above results and the return to our shareholders and we have decided to design a major project, Project DRIVE, to deal with that and to bring our results back to a sustainable, competitive level. In the following pages, I will give you some more details on that.

Turning to the business units, there are many positive things also happening in parallel to Project DRIVE. We are pretty happy with the performance of BU Projects in 2013. They made a real step in the right direction. We had high utilisation rates in the Cologne plant that showed stabilised production and we had a number of projects very close to completion although some of those projects were pushed into 2014 either by the request of the customer or by bad weather conditions.

As disclosed we are looking into 2014 with a good prospect for the final approval of a large project, Project Gemini, in the Netherlands. This is potentially the largest project of order to NKT Cables to date. As the developer has published, the financing for the project is committed with the financial closure of all the financial contracts is expected in the coming months. Of course, this financial close is necessary to make the order unconditional to NKT Cables. We see Project Gemini as recognition of the experience and the know-how that we have built up over the last couple of years in the offshore cable production field and installation field. We have started already the production of the Project Gemini in accordance with a preparatory works agreement that was concluded with the product developer and we see this as a first step towards the final order.

The situation in BU Products which has been under severe pressure for a longer period which can be seen by the full year contraction of 10% following previous years of significant drops is severe. Some early signs of recovery are seen as mentioned by Michael, particularly in the construction sector and some also in the automotive sector. With the economy in Europe looking slightly better, we can hope for improved market conditions. However, we also know we cannot rely on a market recovery and we need to act in order to do what is needed to ensure long-term sustainability of our business. Part of the consequences has been the closure of the railway signalling cable production at the site Asnæs in Denmark and the mothballing of our medium-voltage production at the site in Cologne. This closing down and this mothballing of operations are clear indications that for us there are no sacred cows and that we will do what is necessary to restore profitability to which I will come back in a minute.

Another process message is related to the Ericsson acquisition where the integration is going according to plan and all the benefits and synergies that we expect are already materialising. We are extremely happy with the move that we made to strengthen our Nordic market position.

In terms of Asia Pacific, high growth rates are returning as a catch-up effect following the government-induced moratorium in the railway construction business as I already mentioned in the second half of 2011 and the greater part of 2012. And finally, before I turn to Project DRIVE, a brief note on the statement of objectives where we have updated the expectations of the timing of a decision to be within 2014. We have not changed any other views on the matter.

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Let's then move to page 30 and I will go into the issue of Project DRIVE. Why has DRIVE been initiated in the second half of last year? As such, it is not a completely new intent to us as we have been working on Operational Excellence and reducing our cost during the last couple of years as the markets deteriorated. But the downturn has been longer and more severe than we anticipated. Therefore, the adjustments made so far have not been enough to compensate for the impact of the downturn. In Europe, we have two business units, Projects and Products that from a strategy point of view are fundamentally different. In Projects we see strong mega trends that can fuel our future growth and many opportunities lie ahead of us but we have made significant investments in the past in becoming one of the leading offshore cable providers and I think we can be proud of that. We have built a new factory from scratch and we have succeeded in stabilising the production out of that factory and we also have succeeded in developing a project execution level that is very satisfactory. In order, however, to secure a proper return on these investments and also in order to keep up with the future wealth prospects for this business unit we need to further improve profitability, very significantly so. On the other hand, with BU Products we have seen significant drops in volumes in utility companies squeezing their investment budgets, which all resulted in a significant overcapacity present in the market and hence in a lot of price pressure. All of these are classic elements of a high fixed-cost business that is dealing with the downtrend. We have some good market positions in selected markets. We have some unique product offerings and we have very good customer relationships. This is a great position to build from and to ensure our long-term competitiveness of this business unit. Finally, we have reorganised to face fundamental different challenges and the new management team with Peter Becker as business unit manager for the business unit Products joining us in the beginning of 2013, this new management team is very ready to act. Therefore the DRIVE Programme has been developed and it will lead us on the right path to adjust to the new market reality, to secure competitiveness and a sustainable profitability for NKT Cables and to thus ensure also a return on the investment and a value creation to our shareholders.

Let's turn to page 31 to look further into the scope of our DRIVE Programme. The full scope for Project DRIVE consists of three phases that will help us to transform NKT Cables into increased performance and value creation. The first phase that we are currently working extremely hard on since the last quarter of 2013 is focused on a significant improvement of our cost position by some DKK 300 million with full effect in 2016. This is achieved by reducing complexity, by investing in operational excellence. As you can see part of the time will be to invest some DKK 50 million in various parts of our process to reduce our costs and to improve our efficiency. All this project and initiatives will facilitate a long-term sustainable cost improvement. Similarly, we are organising and investing in people to drive excellence in execution, for instance we are rolling out some LEAN efforts that are already being implemented at some of our sites throughout our manufacturing footprint, but also in project execution and in support functions. Finally, as mentioned earlier, we had to conclude that certain market segments, for instance the railway signalling cables and also in medium voltage, were unprofitable and we had to adjust our offerings in that way so hence we closed our railway signalling cables production in Denmark and we mothballed our medium-voltage production unit in Cologne. We are not looking to cut cost at expense of attractive market opportunities that we still see also in this market in Europe and therefore we will continue to invest in certain parts of our markets with a very cautious mindset and with a constant focus on ensuring ourselves a good return on these investments. In order to give you some more details of the first phase of Project DRIVE let's turn to page 32.

As can be seen, significant work has been performed in turning every stone of the Group to secure an intelligent and thorough cost improvement exercise. Over 80 initiatives have been refined the key selection of which can be seen on this slide groups into five focus areas. To highlight a few: Within manufacturing, as I already mentioned, we started working with the LEAN philosophy at some of our sites and decided to roll it out throughout the manufacturing footprint in Europe. LEAN will bring us enhanced availability for the units, enhanced efficiency. We will reduce scrap and we will reduce inventories. The second category on External Spend, some of our product designs can be optimised and with that the bill of materials will show reduced cost, but we also work on reduced travelling expenses and consulting expenses and particularly by benefitting from what the NKT Group in other parts has already available that we can use. The third group on organisation, we will work on increased organisational effectiveness by reducing the number of management layers but also by exploring synergies between different product lines and particularly also by going towards a support function organisation that is across country borders. The fourth one on portfolio – I already mentioned the two examples that you can find there on railway signalling cables and medium voltage out of Cologne and therefore on the fifth group, Working Capital, a number of initiatives have been started to reduce inventories but also to work on further reductions on trade receivables particularly. Execution of all of these initiatives has started and a sort of impact, a financial impact is already expected for 2014 as you will see on the next slide. At the end of 2014 we expect that around 70% of the initiatives are planned to be implemented. The impact will therefore be very significantly higher still in 2015 and in 2016 when all the full effects of all of these measures and initiatives will come to fruition.

Let's go from the expected financial impact to page 33. As mentioned the overall ambition of the DRIVE Project is to improve costs with DKK 300 million, equivalent to EBITDA improvements. In 2014 earnings are expected to be impacted by DKK 100 million. We will aim for an extremely high run rate at the end of 2014 close to DKK 200 million so that we can indeed make a significant step up in 2015. All of this for 2014 will reduce the headcount with 200 FTEs and will lead to one-off costs of around DKK 180 million of which, of course, the majority is for severance cost and the Capex I already mentioned. When fully implemented into 2016 the total impact of the programme will be a total cost improvement of around DKK 300 million and a reduction of the headcount with 400-450 FTEs, all of this against one-off costs of around DKK 240 million. The new management team as I mentioned is fully committed to deliver on these targets. We will continue to report and update you on the execution of the programme in many quarters to come and I am really looking forward to that. With all of that I would like now to hand it over to Søren for the Photonics Group.

43.25.2

Søren Isaksen

Thank you, Marc. Page 35 provides an overview of our third business unit, Photonics Group that covers the three specific segments: Imaging, Sensing and Fiber Processing. No changes here so we move on to page 36. Photonics experienced yet another strong quarter with 17% growth, primarily driven by the Imaging segment. The Imaging segment achieved organic growth of 36% in Q4 and impressive 41% growth in the full year 2013. On top of that, order intake continues to be high providing a good basis for future growth. Sensing experienced a more moderate growth rate in Q4 of 2%. However, on a full-year basis 10% growth was achieved which we believe is satisfactory for the segment. The numbers here hide the fact that distributed temperature sensing had a great year with 40% growth. This was partly offset by lack of projects in seismic sensing in 2013. We feel that there is a massive potential in a wide range of industries for our offerings also as adoption of such new technology starts to take off. This is a significant driver for further growth. The Fiber Processing segment grew by a mere 1% in Q4 while this is certainly not satisfactory it is still an improvement considering the 2013 full-year contraction of 18%. The fact that revenue has been stabilised confirms us in believing that we have taken the right measures to get Fiber Processing back on track. Overall we achieved organic of 13% in 2013. And it is worth noting that in the past three quarters we have had growth rates not lower than 16% and up to 25% so all in all we are quite satisfied with the growth in 2013 but not least the prospects we are going into 2014 with.

Now turning to page 37 and taking a deeper look into the highlights. Order intake continues to be strong in Imaging and with the signing of the largest contract to date revenues went to a new level in 2013. The scientific application of the SuperK™ fiber lasers has developed further within OCT, which is optical coherence tomography, and also in other scientific areas. This is in fact very promising since it is a clear indication that new industrial growth vehicles will develop in the future. Within sensing I would like to highlight two points. Firstly, distributed temperature sensing had an impressive year with 40% growth. This was driven by high demand for power cable monitoring in fire detection systems and the current order book gives good reasons to believe that the positive trend will continue in 2014. Secondly we delivered a large project in the US related to monitoring within energy production. This is a new promising opportunity for us. In Fiber Processing performance was unsatisfactory. As a consequence we undertook a range of initiatives focusing on reducing costs and a change in management that also includes a leaner management team. This will hopefully also lead to improved efficiency in execution in coming times. By that I have covered the Photonics Group. I will now hand over to Michael to update us on expectations for 2014.

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Michael Lyng

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Thank you, Søren, and let's go directly to page 39 here where you can see one slide covering our expectations for 2014 and the precise expectations are illustrated and mentioned here in the blue box so we expect consolidated organic growth for the totality of the group of around 0-3 % as also mentioned on one of my first slides. And then looking at operational EBITDA thereby meaning excluding one-off costs we are looking at EBITDA margins of between 9 and 9.5% compared to the 8.4% that we realised in 2013. And then also as mentioned before we do have, of course, some one-off costs related to DRIVE where we are having one-costs of DKK 180 million impacting 2013 negatively but on the other hand we also have some positive elements here as mentioned before and also announced today we divested a non-core business activity within Sanders in Nilfisk-Advance and from that divestment there will come a positive contribution of about DKK 100 million. So net of these two elements there are one-off costs of DKK 80 million. On the right-hand side of the slide here you can see our planning assumptions so what has been planned for in the individual businesses and if we take them more or less line by line then Nilfisk-Advance is more or less business as usual. Here we, of course as you know, do not have a lot of visibility. We are planning for organic growth of between 2 and 3% and that will be coming from all the regions, both EMEA, Americas and APAC, and then we expect to see an increase of operational EBITDA margin of up towards half a percentage point. We ended at 11.9% and therefore we are here illustrating a range between 12 and 12.5% but of course, you know, if you look at the numbers here behind we are talking about relatively small numbers so it is difficult to be more precise. In the cable business we are planning for negative organic growth of between 2 to 3% which may be a kind of a surprise, but it should be taken into consideration that the revenue in NKT Cables is negatively impacted by around DKK 300 million in 2014 related to a reduced level of installation activity in 2014 compared to 2013. As you know, we had a lot of installation work in 2013 and that will not be repeated in 2014. Normally, installation work is not where we have the high margins. It is basically a wash-through and thereby normally it is impacting our margin levels negatively. Then it should also be illustrated here that the expectations for raising EBITDA margins in Cables where we here are guiding a range of up towards 7.1% and thereby an improvement of 1.5% does assume that we will realise the Gemini project that we have communicated about latest in a company announcement at the beginning of February. And looking at the operational EBITDA it should also be mentioned that if we had not executed or implemented the drive project we would have seen a higher result, of course, from the project business but it would be offset by the product business. For Photonics Group we are expecting solid growth in the range between 10 to 20% and we should also start to see some more operational EBITDA coming in and we are here planning for an operational EBITDA margin of between 5 to 10%. And then as mentioned before it is excluding the cost to Gemini as Marc explained and that is of course important to remember.

And with that I have covered the expectations and we are ready for the Q&A session so operator: Who has the first question, please?

52.26.0

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Operator

I remind you that if you like to ask a question please press 01 on your telephone key pad. Our first question comes from Mr Claus Almer from Carnegie, please go ahead.

52.34.6

Claus Almer, Carnegie

Now good morning, congratulations with the report. I have three questions. The first one is about 2014 guidance. How much of risk reservation for the projects that you are delivering in the first half of this year do you expect to be unlocked or is guidance based on no risk reservation to be unlocked? That will be my first question.

53.01.1

Michael Lyng

And perhaps I should answer that, Claus. As you know our planning assumption is that we normally use our risk provisions and that is why we have them so to speak so we do not include that we have the possibility of reversing risk provisions later on in a project and that would also be very dangerous to assume. So we do not include anything.

53.28.7

Claus Almer

Sure. Can you then give an update on how well these projects are progressing?

53.37.0

Michael Lyng

We can do that. Marc, perhaps you should take that.

53.39.6

Marc van't Noordende

Yeah, so as I mentioned we have started the production of project Gemini on the basis of preparatory works agreement with the project developer and that production started in February and then the number of projects are very close to finalisation. One project actually we hoped to conclude in December last year but due to bad weather it was moved into the first quarter and in the meantime we have finalised the installation of that offshore project and there are two other offshore projects still being worked on for finalisation during the year 2014.

54.17.9

Claus Almer

And do you see any, you know, issues in these projects. I am not talking about the Gemini but the other ones?

54.24.6

Marc van't Noordende

In what sense?

54.25.6

Claus Almer

In, you know, customer runs issues in production, the cost associated with delays, etc. etc.

54.34.4

Marc van't Noordende

No, for the time being we believe that everything is under control.

54.38.6

Claus Almer

Okay, then my next question goes to the cost saving programme, quite amazing that you are announcing these DKK 300 million in cost savings. Could you try to put some more flavour – is that the maximum potential you see? Is there a potential of more? And what do you see beyond 2015-2016?

55.01.8

Marc van't Noordende

Well, of course, when we designed the programme we aimed for a higher mark and we maintained some security margin just to make sure that we deliver on our promises. There is always, you know, if you have more than 80 different initiatives they give very estimated in a very short period of time there is always the chance that you are too optimistic on some but there is also the opportunity that you develop new initiatives so by and large I think we communicated the numbers that we have communicated because we feel committed to them.

55.34.9

Claus Almer

Okay, thanks so much. Thanks.

55.37.9

Michael Lyng

You are welcome, Claus.

55.40.5

Operator

Our next question comes from Mr Fasial Ahmad from Handelsbanken, please go ahead

55.46.5

Fasial Ahmad

Yes, Fasial Ahmad from Handelsbanken. Can I get a couple of questions primarily on the DRIVE programme, I mean the DKK 300 million in cost savings you are talking is that only related to phase 1 and what about phase 2 and phase 3? How should we be thinking about them? That is the first question.

56.08.7

Michael Lyng

Marc will you answer that, please?

56.11.3

Marc van't Noordende

Yes the DKK 300 million that we mentioned is completely related to phase 1 and that is the phase that we have completely planned now and of which the implementation has started. The other two phases we will do the planning later on and we don't have any quantified numbers for that yet.

56.30.3

Fasial Ahmad

But will there also be cost savings in that part of the programme? Or will that be more focused on driving the revenue line and are there initiatives?

56.38.5

Marc van't Noordende

Yes, cost saving is of course part – will be part of our full array going forward but I think the other two phases are more around revenue generation than about cost reduction.

56.52.6

Fasial Ahmad

Okay, and just another question related to the DRIVE programme here so the DKK 300 million that is cost savings as far as I understand. How should we be thinking about part 2 to the EBITDA line? How much do you expect to hit the EBITDA line?

57.14.0

Marc van't Noordende

The DKK 300 million is entirely made up of EBITDA in fact.

57.16.7

Fasial Ahmad

Okay, so you expect you should basically add DKK 300 million to the EBITDA level in 2013, is that how you want us to think about that?

57.31.5

Marc van't Noordende

Sir, could you repeat the question?

57.30.9

Fasial Ahmad

So should we take the EBITDA level in Cables for 2013 and should we add DKK 300 million to that level for 2016? Is that how you want us to think about this level?

57.46.1

Marc van't Noordende

Correct, the EBITDA effects of the DRIVE Project will be DKK 300 million hitting full-year effect in 2016.

57.54.1

Fasil Ahmad

Okay, thanks, and

57.57.4

Michael Lyng

You know, you should of course do your own numbers from 2016 and onwards and here we are assuming that nothing else will impact the business and of course we don't have that visibility yet.

58.11.5

Fasil Ahmad

So all else equal, you expect an EBITDA level of DKK 600 million in 2016? Is that what you are saying here?

58.21.8

Michael Lyng

That's correct.

58.23.2

Fasil Ahmad

Okay, thank you, I think that was all from my side at this point in time, thank you.

58.32.2

Operator

I remind you that if you would like to ask a question please press 01 on your telephone key pad. Our next question comes from Mr Jesper Christensen from Alm. Brand Markets, please go ahead.

58.43.0

Jesper Christensen

Yes, hello gentlemen, just a few questions from my side all related to Cables – the first one: Is it possible to get the organic growth rate for the old divisions in Cables?

58.58.5

Michael Lyng

Yes, that is possible but I don't have them in front of me so let's take it on the side, but you should get used to this new reporting structure and use that going forward but for this time I can give it to you for 2013 but that will be out of the call here.

59.18.4

Jesper Christensen

Yeah, thanks so much and then my next questions are related to the EBITDA margin in Cables and how to bridge that – if we look at your margin in the first quarter and the fourth quarter you managed to increase that margin. If we go back to Cables history there is more often than not a lower margin in the fourth quarter than in the first quarter. Could you perhaps tell us your flavour to what increased margins – how you manage to increase margins in the fourth quarter?

59.53.7

Michael Lyng

Perhaps I should answer that, you know, you are totally right that in the old days, in the good old days back in 2007 and 2008 where we did not have a lot of high voltage and a lot of project business we normally saw a big second and third quarter as compared to a low fourth quarter and first quarter and that was of course due to construction and the winter season in Europe. But that was in the old days. Going forward we do not have that trend because we are much more impacted by what is going on in the project business and if you look at the fourth quarter this year, you know, it is up against an also strong fourth quarter end of 2012 because it is related to the project business.

1.00.42.0

Jesper Christensen

So it is basically better to choose in the product division compared to same quarter last year

1.00.47.4

Michael Lyng

That's correct

1.00.48.7

Jesper Christensen

Okay, thanks. And if you then look at the bridge from 2013 to 2014 you are now at 5.6 and you want to go at 7.1 – could you give us some more flavour to how you bridge that because you have also had a busy 2013 on the projects funds. So it is...

1.01.09.3

Michael Lyng

Yes, but of course you know, a big impact is coming from the DRIVE project where we are including a level of around DKK 100 million in that line so that is the biggest contribution to the margin increase.

1.01.25.7

Jesper Christensen

Okay, thank you. That's all from me.

1.01.28.7

Operator

Our next question comes from Mr Patrik Setterberg from Nordea, please go ahead.

1.01.31.3

Patrik Setterberg

Yes, hello gentlemen, congratulations with the results. I have also a couple of questions. My first question is related to your overall guidance for the organic growth for the group which is 0-3 percentage points. If I look at the various division guidance on the organic growth I can't see how you should reach the 3% organic growth for the group. Could you please elaborate what are the assumptions for reaching the 3 % organic growth for the Group in total?

1.02.05.5

Michael Lyng

Well, I cannot explain to you why you cannot see it, because I can. It adds up to 0-3%. Maybe you are not adjusting correctly for the Ericsson acquisition. I don't know. But it should add up doing it with these numbers.

1.02.24.1

Patrik Setterberg

Okay, I will do an extra calculation, then. And then my next question is perhaps for Jonas: 2-3% organic growth for Nilfisk-Advance and you expected to see growth in all the three major regions in 2014. We had a peer result from one of your competitors indicating significantly higher organic growth for 2014 so in my view the 2-3% seems a little bit shy. Could you please elaborate on that?

1.02.55.0

Michael Lyng

I think it is fair that I take it since Jonas is still relatively new but, you know, the peers that you are referring to normally come out with relatively high targets on organic growth. As you know, Patrik, we do not have any visibility in this business so we are basically basing our guidance on how we are reading the EDB trends in the different markets and then of course also basing the guidance on where we are coming from in 2013 and what we are seeing right now in the different markets and that adds up to this range of 2-3%. Can it be better? Perhaps, you know. We don't know yet. It is too early to say. Can it be worse? You know that is also a possibility. So this is the level that we and the management team of Nilfisk-Advance feel confident with.

1.03.45.5

Patrik Setterberg

Okay, thank you. And my last question is regarding the Capex level totally for the group in 2014. I can see the DRIVE programme is impacting by 50 million but what do you believe the overall Capex level will be for the group in 2014?

1.04.02.7

Michael Lyng

If you include the intangible Capex level in the definition, you know, we should be able still to be on the low side of 500 where we ended this year – sorry in 2013 and thereby meaning that we are still reducing Capex in all other parts of the business, in particular in Cables, but then part of that reduction will of course be offset by the increase here due to the DRIVE project but, you know, around 500.

1.04.32.3

Patrik Setterberg

Okay thank you. That was all from me.

1.04.35.6

Michael Lyng

You are welcome.

1.04.39

Operator

Our next question comes from Mr Jacob Pedersen from Sydbank. Please go ahead

1.04.43.2

Jacob Pedersen

Hi gentlemen, I have a couple of questions. First of all, related to the DRIVE programme, is there anything in this programme that will limit your ability to grow with the market in the coming years? That is my first question.

1.05.00.4

Michael Lyng

Marc, do you want to take that?

1.05.02.0

Marc van't Noordende

Yes that is fine. I don't think so. In railway signalling cables the plant that we shut down was a new market to us and with hindsight everything is easy but we believe that it would take too long for it to become a profitable operation. Now, the medium voltage line that we mothballed in Cologne, as I mentioned, we mothballed it because we have more than adequate capacity for this product range coming out of our plant in Denmark, Sweden and the Czech Republic but since we are mothballing this plant we can reactivate it in the future so I think the answer to your question is: No we don't limit ourselves in our future growth opportunities.

1.05.39.9

Jacob Pedersen

Okay, then a question also on DRIVE, I know we have been through this. The DKK 300 million improvement in EBITDA does that also include the normal inflationary increases in your cost over the next two years?

1.05.58.9

Marc van't Noordende

No the DKK 300 million are purely DRIVE-related cost improvements. Of course, every year we will have wage increases and other autonomous increases of our cost base so the DKK 300 million is strictly related to our efforts in DRIVE.

1.06.15.4

Jacob Pedersen

Okay, okay. And then a question on Nilfisk-Advance. The drop in organic growth in the fourth quarter – any comments on that? And do you see any structural changes, competition or the like that will limit your growth abilities in 2014?

1.06.35.6

Jonas Persson

No I think it is very much due to that they are pushed a little bit when I come to the public sector in the US but we still have, I cannot see that we have a trend going into 2014, no.

1.06.48.8

Jacob Pedersen

Okay, thanks a lot.

1.06.52.2

Operator

Our next question comes from Mr Kenneth Leiling from Nordea. Please go ahead

Kenneth, your line is open, please go ahead.

1.06.58.6

Kenneth Leiling

Yes, sorry, Kenneth Leiling. When it comes to return capital employed you set a target of – or you have a target of 15-20 %. What does that imply for the Cables Group in order for you to be able to reach that level? Thanks.

1.07.15.0

Michael Lyng

That is a good question and you are right we have the target at Group level of being between 15 and 20% and knowing that Nilfisk-Advance is almost at 18 % today and Cables are close to 0% the main change will of course come from Cables business but it would mean that the cable business would need to increase the return capital employed up in the direction of between 10 and 12%.

1.07.53.4

Kenneth Leiling

Okay, so it is fair to say that the ambition level for the Cables division is well below – so the ambition level for the Cables division is that 10-12% or is that a minimum level you have to go? How should I look at that?

1.08.08.3

Michael Lyng

At the short run you know, it is an ambition. Of course, longer term we are not satisfied with a return capital employed between 10 to 12%. There we are aiming for at least having it in the range 15-20% for all of our businesses.

1.08.26.9

Kenneth Leiling

For all businesses, okay. And when you have this strategic target what does your planning horizon look like? Is that a 3-year or 5-year thinking in order to be able to reach that?

1.08.39.8

Michael Lyng

Well, I think when we changed this range in connection with the annual report for 2012 approximately a year ago we did not dare to put any timing on this target of between 15 to 20% because of course it is depending on what is going on in the world around us so today we don't want to put a year target on it but as also illustrated and mentioned in our annual report we will make a deep dive in our different strategies in the Group, both in Nilfisk-Advance, Cables and Photonics during this year so without giving you a promise, we can hopefully be a little bit more firm on this in connection with the annual report next year.

1.09.32.7

Kenneth Leiling

I see, I see. And in terms of invested capital what is the thinking there in the Cables division, I mean, will that number go down materially, you haven't got many write-downs in connection with this sort of review but is your thinking about the invested capital level over the next couple of years in the division?

1.09.55.5

Michael Lyng

Our thinking is that one of the key focus areas we have here as part of the DRIVE programme is to focus on working capital. You know, working capital is simply too high, you know, as it is today so that will of course impact the invested capital and then of course having invested a lot of money in Cologne the last couple of years we are also focusing and having relatively high depreciation and we are depreciating much faster than we are investing in the Cables business and that will continue for a couple of years assuming that we do not make any BU big investments, for example in new capacity so the nature of the business and the nature of the development of this picture will mean that we will reduce invested capital in the Cables business with relatively high numbers.

1.10.53.9

Kenneth Leiling

Okay, thanks a lot.

1.10.00

Operator

Our next question comes from Mr Fasial Ahmad from Handelsbanken. Please go ahead

1.11.01.8

Fasial Ahmad

Yes, that is Fasial Ahmad from Handelsbanken – A couple of housekeeping questions here. Firstly, the small divestment which you are making in Nilfisk-Advance, what will the negative impact be from that on the revenue side?

1.11.19.2

Michael Lyng

We have decided together or agreed with the buyer that we do not mention the top line or the turnover but you know it is a rather small number so it will not impact your model a lot.

1.11.32.2

Fasial Ahmad

Okay, perfect. And the second question relates to FX, I mean there is a lot volatility out in the market at the moment, could you just give us some ballpark headwinds for your revenue line and on the EBIT line for 2014 and what have you included in your guidance?

1.11.58.6

Michael Lyng

Well, of course, when we guide organically we exclude FX so that is not included in our definition of organic growth. Time will show what the FX impact will be but as also illustrated on one of my slides we had a deduction of DKK 218 million top line from FX but the organic definition is without FX. I will not go in detail into our FX exposure but as you probably remember and know we are not that exposed to FX changes because if you look at the Cables business, sorry the Nilfisk-Advance where we have a lot of turnover in the US that turnover is normally also produced in the US so we do not have a lot of exposure there and then , of course, we are exposed here and there in the other parts of the businesses but it is relatively small numbers, also on the EBIT line.

1.12.52.9

Fasial Ahmad

Okay then just one final question on Nilfisk-Advance here, I mean the 2-3% organic growth which you are targeting, can you try and decompose that on the regions? What regions are you more positive on, which regions are you more negative on?

1.13.14.8

Jonas Persson

I think we will have very similar growth in EMEA, maybe slightly lower this year. When it comes to the US, we hope also more or less the same, slightly lower but APAC hopefully a little bit better because APAC was quite a tough year for us in 2013.

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1.13.36.6

Fasial Ahmad

Okay so that is slightly lower and slightly higher compared to what you achieved in 2013 or is that the relative composition you are talking about?

1.13.47.3

Jonas Persson

Compared with what we achieved in 2013.

1.13.49.5

Fasial Ahmad

Okay, thank you. That's all.

1.13.53.3

Operator

There are no further questions on the telephone.

1.13.58.2

Michael Lyng

Okay so thank you very much for attending our presentation of the annual report and prior to signing off I would like to refer to our financial calendar here on page 41 where you can also conclude that we will be back on 14 May reporting on the first quarter. So thank you all.