NKT Holding A/S
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Good morning and welcome to NKT webcast covering the 2015 results that were released this morning. My name is Michael Lyng, CEO in NKT Cables and Group Executive Director in NKT Holding. Today's presenters are unchanged compared to last time so with me today I have Jonas Persson, CEO of Nilfisk, and Basil Garabet, CEO of NKT Photonics. Together the three of us will cover the development of the Group during Q4 2015 and the full-year 2015 as well including giving some guidance for 2016.

But let us look at the agenda on slide 4. First I will cover some highlights for 2015 including the financial development and outlook for 2016. Then Jonas will take over covering the development in Nilfisk during 2015. I will then do the same for NKT Cables and Basil for NKT Photonics before we jointly end with the Q&A session.

Please also be aware that the Annual Report for 2015 has now been prepared for the first time in Euro as earlier informed to the markets and this will in the future be the reporting currency. This also means that all numbers in this presentation will be in Euro and not in Danish kroner that used to be the old reporting currency.

On slide 5 is the highlights for 2015 for NKT Holding but also the three business segments and overall we can report a performance in line with expectations, in line with what we communicated to the market back in November, both on top line where we realised 3% organic growth but also on operational EBITDA where we came in as expected. And that means in the end that the return on capital employed for the full year is slightly up with 0.7% and ending at 10.1% for the full year. We also again in the fourth quarter this year saw a strong cash flow and that is why we propose a dividend per share of DKK 4 to be finally agreed at the upcoming AGM and more importantly also is that we have also this morning announced that we will start up a share buyback programme with a value of EUR 74 million or DKK 550 million.

If you look into the different business lines starting with Nilfisk, it is fair to say as also illustrated here that the financial results are below expectations and that is probably not a surprise because it has been also visible during the year. We have struggled with growing the top line in 2015 and as a consequence of that we also saw a declining EBITDA due to the investments in sales and service that we have been doing during the year and also we have been negatively impacted by some higher distribution costs, in particular in the first half of year. On the positive side, we continued to execute on the Accelerate strategy that we launched in the beginning of the years and it still has our full commitment and we also finalised five acquisitions during the year. If we turn our eyes to NKT Cables we continued to transform the business and I think we can conclude that we are satisfied with the development on the operational EBITDA where we have managed to increase it with 1 %-point up from 8% to 9%, partly also as a result of a very successful execution of the DRIVE programme but also supported by some nice growth in the business and we ended with organic growth in that segment of 4%. Also here, we launched a new strategy EXCELLENCE 2020 back in the fall of 2015 and we now start fully focusing on executing on the different must-win battles that I have earlier described and I will also come back to that later on in the presentation. Looking into 2016 in this segment we are happy to conclude that we have a good visibility in the business where that is important, in particular in the high-voltage onshore and offshore business. In NKT Photonics, we also have seen a very good performance in an all-time high fourth quarter with solid growth and also very solid EBITDA margins that are just demonstrating the potential that we see in this business and Basil will cover that later on in his presentation.

Another way of looking at the financial performance of 2015 is here as illustrated on slide 6 where with full transparency we are linking back the numbers realised to what we initially stated in March last year or February last year and if we look at the top line we are in line with expectations. We started reporting or indicating organic growth of up to 3% and we realised 3%. If you then look into the different planning assumptions it is also fair to say that it has a different composition than what we saw at the beginning of the year because there we did not plan with a lot of organic growth in NKT Cables but we ended with 4% and that is offsetting the disappointment on the growth side that we have seen in Nilfisk where we thought we would grow the business around 5% and in the end we ended being flat.

If you look at the operational EBITDA, we are down compared to where we guided at the beginning of the year but in line with what we said at the end of November in connection with the third quarter announcement and we are realising a margin of 9.4%, nominally 175.2 which is slightly up compared to where we ended 2014. This is of course a consequence of not being able to grow the Nilfisk top line and that is also where we have seen a drop in margin from the indicated 11.7% to realised 10.1% and we have not been able to offset that with better performance in NKT Cables but also NKT Photonics. NKT Cables realised 9% which is in the upper end of the range indicated in the beginning of the year.

If we turn to the next page, looking at some other highlights for the year but also for the fourth quarter, we ended with 1% growth in the fourth quarter and that means that we have 3% for the full year 2015 and you can here see the split of the -2%, 2% and 22% for the three business segments and you can also see the consolidated numbers where we ended being flat in Nilfisk, 4% in NKT Cables and 9% in NKT Photonics. And if we look at the operational EBITDA, we ended the fourth quarter with EUR 41.2 million and that is 8.8% measured at standard metal prices. That is down compared to the fourth quarter 2014, which should not be a surprise. The negative underlying development here is fully related to the fact that we had a completely different composition of backlog in NKT Cables where we have backed in the fourth quarter as expected and of course also here impacted by the lower profitability level in Nilfisk. Full-year operational EBITDA up from EUR 170 to 175 million and what is also important here is to look of course at the one-off costs that we have expensed during 2015 but also 2014 fully related to the DRIVE programme. I will come back to DRIVE a little bit later in the presentation but as you can see here we start to trade down with one-off costs, down from EUR 27 million to 23 million in 2015. We continued to see strong cash flow and the fourth quarter is always a quarter where we reduce working capital a lot and as a consequence of that we normally see a strong cash flow and I will also come back to that later in the presentation but as a result of reduced working capital and that strong cash flow we have of course also been able to reduce the net interest-bearing debt coming down from EUR 152 million at the end of 2014 to EUR 89 million at the end of 2015.

Let us talk about the next slide and talk about outlook for 2016. As a starting remark, I would like to say that we have this year decided to work with slightly broader ranges when we look at guidance and that is not reflecting at all less appetite in growing the business, neither in Nilfisk, NKT Cables nor NKT Photonics but it more reflects the fact that we do see a lot of uncertainty in the markets that we serve and we want to make sure that we are partly taking that into account so that is of course particularly the development that we currently see in Europe but also partly Asia.

Overall for the Group, we are reporting flat organic growth and the composition of that is growth of between flat to positive 5% in Nilfisk. It is approximately negative 5% growth in NKT Cables and it is positive growth in NKT Photonics with around 10%.

Looking at the overall operational EBITDA margin we are also here guiding a number being on par with 2015 where we realised a 9.4% operational EBITDA margin and if we digest that into the different business segments we are indicating a range of between 10-11% in Nilfisk and a range of between 8-9% in NKT Cables and 12-14% in NKT Photonics. And of course where we then precisely will end, time will tell but it is of course directly linked to the ranges indicated in Nilfisk under the top line – the 0-5% growth – is of course impacting where we finally will be able to end in the range indicated for Nilfisk between 10-11%. Then on the side, I would also like to mention that at the end of 2015 we saw some quality issues related to a raw material supplier in NKT Cables and that has partly impacted our top line and also our profit level in NKT Cables in the fourth quarter negatively. We are spending a lot of resources getting our arms fully around that topic in close cooperation with that material supplier but we already know now that we will be forced to reproduce some cables in 2016 and that means that we will also have a slightly negative impact from that in the top line every time we need to reproduce something that we already have produced either in the beginning of 2016 or at the end of 2015. The profits impact out of that is not expected to be significant because we do expect to be fully covered by potential losses or any losses coming from this area from the sub-supplier.

Also, it is worth mentioning that we will continue to restructure the NKT Cables business and transform the business. We will now finally close down DRIVE but we do foresee other very attractive initiatives that we will start to execute on as part of the EXCELLENCE 2020 Plan and we will have cases where there will be one-off costs related to such initiatives but as I said before they will have a very attractive payback and neither the payback nor the cost related to such initiatives are included in the range of 8-9%.

Let us continue with some other numbers at Group level but before that let us just move into the helicopter perspective looking at what is on the agendas in the different businesses. 2015 was a strategy year for NKT where new strategies were launched in all the business segments, both Nilfisk, NKT Cables and NKT Photonics. In Nilfisk, it is very much about accelerating the growth and grow 2-3% above the market supported by the investments that we have already been making and will continue to make in the front-end of the business and it is also important here to stress that that ambition to grow 2-3% above market is also underlying in our assumptions or our targets for 2016. For NKT Cables, it is about executing on EXCELLENCE 2020, the strategy plan that I announced back in September last year so it is focus on profitability increases by focusing on profitable markets and customers and drive functional excellence across the business with the target of achieving a return on capital employed of above 15%. In NKT Photonics, it is about growing the very promising products that we have into the different segments that we are targeting looking at different kinds of system offerings and that will be a key focus area for Basil going into the coming years and he will also explain more about that a little bit later in the presentation but all in all we have here in that segment a long-term growth target of around 20%. Looking at the last 12 months operational EBITDA, the EUR 175 million here as illustrated, we could not avoid this drop that we see here in the fourth quarter that was also embedded in our guidance back in November and it relates to the fact that I already covered, the fact that in NKT Cables we start to produce on a very large offshore project with a significantly lower profitability level and that is of course impacting the numbers here. And then of course also impacted by the fact that we are at a lower earnings level in Nilfisk.

If we look into the structural P&L here with a lot of numbers the composition of the revenue increase is illustrated in box number 1 here in the upper right corner and I will not mention all the numbers here but of course there is a clear impact from FX changes – EUR 54.3 million before we then come down to the real organic growth. Operational EBITDA as illustrated in box number 2, we saw the drop of the margins in Nilfisk down from 11.7% to 10.1% and that is diluting the nominal earning with EUR 9.5 million, but that is offset by a better performance in NKT Cables where we took up margins from 8% in 2014 to 9% in 2015. Also good to see here is that we have a positive contribution from NKT Photonics with EUR 2.2 million.

And then I think another thing I would like to highlight here is of course the impairment issue, the impairment hit we took back in August last year where we took an impairment on the assets that we have in NKT Cables in China and that is the EUR 14.9 million and that is of course diluting the profits – bottom end profits a lot. Another thing that I would like to highlight is that we see significantly lower financial items down from EUR 13.1 million in 2014 to EUR 6.1 million in 2015 as a result of significantly lower interest-bearing debt but also better negotiation power towards the banks.

If we look at the working capital reduction we have reduced from EUR 300 million at the end of 2014 to EUR 270 million at the end of 2015 and the composition of that is clearly illustrated in the blue box and also by looking at the trend curves where Nilfisk is slightly up from 19.5% to 20.5% as a result of higher inventories but that is more than offset by a very strong performance here in NKT Cables where we have reduced the working capital from just below 17% to 12% all-time low and that journey has positively impacted the reduction with EUR 42.5 million.

Then just a side remark here that we should be aware that we are seeing, of course, all-time low metal prices. Maybe not all the time but the last 5-10 years low metal prices and that of course is positively impacting these numbers and we should just have in mind that there will be a potential swing back effect if we suddenly start seeing increases in the raw material prices.

On cash flow, looking at slide no. 14, as illustrated already in the beginning we saw a strong cash flow in the fourth quarter if we look at the free cash flow line – EUR 84.2 million in the fourth quarter – and then if we look at the full year for 2015, we are more or less realising all the free cash flow in the fourth quarter – EUR 85.3 million. But still good performance. We are realising lower free cash flow in 2015 than in 2014 and there are mainly two reasons for that. One reason is that we see a less positive impact in the change in working capital down from EUR 77 to 31 million so that is EUR 46 million out of the reduction of EUR 78 million if you look at the free cash flow line and then the remaining part of the impact relates to the fact that we have been executing the five acquisitions, as mentioned before, in Nilfisk so we do see acquisition of business activities picking up from EUR 6 million in 2014 to EUR 29 million and then also on the side in

2014 we divested a business with a positive contribution of EUR 17 million and we have lesser debt in 2015 where we only have a positive impact of EUR 6 million.

Looking at the financial strength to support the strategic agenda it is of course fully there. What is not mentioned on this slide – or it is mentioned actually – is that we have financial resources of more than EUR 600 million to support the strategic agenda in the different businesses. In particular looking into acquisitions in Nilfisk, but also NKT Photonics and it is also worth mentioning here that all EUR 600 million is a committed facility of a duration of above three years. The capital structure is mentioned here. We are now down to 0.5x operational EBITDA after the reduction of net interest-bearing debt from EUR 152 to 89 million and that also means that we have a lot of fire power both to support the strategic agenda but also to pay back dividend to shareholders and start to adjust our capital structure so it is coming closer to the target mentioned here in the blue box where of course the debt ratio of 2.5x operational EBITDA is one of the more important ones to look at.

On slide 16, you can see the suggested dividend of DKK 4 per share and that is summing up to a payout of EUR 13 million, which is fully in line with our dividend policy of paying out one third and in calculating this number we actually adjusted for the impairment issue that we had in China. If we did not do that we would not have paid out any dividend. On top of the dividend we have also this morning announced that we will start up a share buyback programme with a value of EUR 74 million. It will take some time to buy back that amount of shares so the share programme is running until the end of January next year, but of course potentially before if we are able to buy sufficient shares in the market. And with that I would like to hand over to Jonas to make a deep dive into the development of Nilfisk.

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Jonas Persson

Thank you very much, Michael, so first of all I would like to say today we have the anniversary of Nilfisk – 110 years – it is actually today the birthday so that is a nice thing to start with. If we then go into the different figures here. We ended up in quarter four with minus 2% - that gives us a full year of 0% and of course quarter four was very much impacted by that very strong quarter in 2014 when we had some very strong orders. If we then move into the different regions, Americas – of course it is a disappointment minus 2% for the fourth quarter and flat for the full year. We are still struggling in the US. Saying something positive then is that we have had some nice growth in Latin America and South America especially in the mid-market where we are growing. We also grow in industrial vacs in Americas and also in the US but we do struggle in the national accounts and we do struggle when it comes to the industrial market in Americas so we still have a lot of activities to try to improve that. So Americas maintain a challenge for us. EMEA, on the other hand, minus 2% in the fourth quarter and the full year plus 1%. We ended up with a very strong fourth quarter. Remember then, the very strong quarter we had in EMEA in 2014 so we are happy with the quarter here in EMEA, with the growth or at least growth compared with what we expected and this is very much driven by high-end and professional and service – we had 7% growth in the quarter when it comes to service and also in the Middle East we also had some positive signs of positive growth. When it comes to the mid-market which is our new initiative in our Accelerate strategy we grow with 40% and an increase in number of dealers of course coming from a low base but very positive this signals here as well. APAC, on the other hand, minus 1% in the quarter and minus 3% in the full year. We are struggling with many management changes in Asia during 2015 which are now in place and we are also struggling in China, of course, with a very uncertain economy. Pacific on the other hand we see some positive signs here in the fourth quarter and it is very nice also to see that we start to grow here when it comes to consumers again in the fourth quarter in Pacific. That is of course also impacting the results so let us move to the next page.

There are mainly three things that impact the result, of course, the absolute growth or lack of growth I should say. With all the investments we make in the front end that is also impacting the result in the end and then we have the high distribution cost through the whole of 2015 but let us go a little deeper – we move into the next page where we look at the gross margin.

We have been able to push some price increases into the market of course and we have also had some nice savings in the backend when it comes to procurement but it is very much offset by a very unfavourable RMB from China – a lot of things are sourced from China and we have very much suffered from that and we have not been able to push through and pass on all these costs into the market and we have also been suffering a little bit from a negative product mix in the year both when it comes to product mix but also when it comes to country mix. On the overheads side, next page, as I said and as we have already mentioned we continued to invest in the front-end during 2015 and when we lack sales of course this is impacting our result heavily, which you can also see. Distribution cost is up and this is a curve of 12 months rolling and of course we have direct effects of that. We will see an improvement here in 2016 but we still also have to say that we will not reach the level we had in 2014 due to the fact that we have a different setup today in order to serve our customers.

When it comes to the administration costs, we have been able to push out costs here and be more efficient but also bring out complexity and therefore we still see a positive trend when it comes to administration costs.

2015, as Michael also mentioned before, was very much a strategy roll-out and a lot of activities. We added five acquisitions, which was very much in line with what we wanted to do and added around EUR 70 million roughly in the top line. We pushed very much the mid-market and added 200 dealers in the mid-market and we have also seen positive effects in many places of that as well. Front-end investments continued with the Commercial Excellence rollout and this continues also into 2016. We have invested 140 FTEs in the direct sales and service.

When it comes to the offering, we continue to drive offering and we have also pushed in a lot of new products in the mid-market so it is 35 new products into the market but we also worked very much with reduction of... reduced time to market when we do developments we have decreased time to market with 20-25% and talking of that we have also decreased the number of platforms by 15%.

Consolidation of branding was also a big part of our initiatives in 2015 and then the power of the supply chain and we have seen significant improvements in quality over the year and also the second half we ended up with a very high delivery performance, which was also very nice to see.

Then going into the agenda for 2016 that strategy very much remains – we push to grow market share and strength in the high-end position but also continue to grow the mid-market segment. Front-end investments of course we need to leverage very much on what investments we have done. There will be spots where we continue to make investments where we have seen already good impacts here in 2015 but it is very much about the leverage what investments we have made and also both when it comes organisation, but also when it comes to system very much supports what we would like to do in the front-end.

When it comes to innovative offerings we would like to improve the time to market so that initiative continues but also work on reducing complexity and we have actually a very strong pipeline of products coming in here to 2016 so that is also very interesting to see how that develops into the market.

Supply chain and efficiencies – we would like to maintain both the quality and the delivery performance we have seen here in quarter four but also continue to drive out cost and drive efficiency. So that is – then we come to the end to sum up.

Accelerate – we very much believe in this strategy – we will continue to push this into 2016 and this is of course – 2015 was very much a strategy year and we now need to leverage on the initiatives we have dibe. We also changed the Nilfisk-Advance companies to Nilfisk during 2015. Commercial Excellence was a big push during 2015 and we will continue to roll out that into 2016. We made five acquisitions at EUR 70 million into the sales in 2015 continued to drive the acquisition and then, of course, when it comes to products we also – as I said – have a very strong product pipeline into 2016 so when it comes to the outlook 0-5% as Michael already mentioned. We very much believe in the strategy we have rolled out and in the strategy we said that we should grow 2-3% above GDP but of course with all the uncertainties globally we would still like to guide this 0-5%. With that I would like to hand over to Michael.

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Michael Lyng

Thank you, Jonas. So let's take a look at the development in 2015 in NKT Cables starting here on slide 27 with looking at the growth numbers that we have been able to achieve. We did -1% growth in Projects in Q4 and that is not a surprise, it is fully in line with the expectations, slightly negatively impacted by this quality issue that I mentioned before but in the end we were able to grow that business with solid 15% and we are very satisfied with that. On the Products side we saw a very, very strong Q4 in 2015 with growth of 11% organically very much coming from a strong development in Central Europe but growth in all segments but strongest in Central Europe. Also Specialities nicely up and then it was more lower growth but also positive that we saw in the Nordic region. And that leaves us with 5% growth for the consolidated year 2015 and it is probably on this line here where we are mostly surprised if we look at the development during the year and this is also here we find the reason for being able to take up growth targets during the year 2015 because we did not plan for a lot of growth in that segment. APAC continues to be tough and I, as I already have mentioned a couple of times before, the -37% is not reflecting the market development but more reflecting less willingness to take orders in the market because we don't want to lose money there, we want to have positive profitability levels whenever we take orders and we also want to make sure that within a reasonable time we also can foresee that the customers are actually paying us.

If we look at the next slide I would like to give a little bit more comments on the markets and the trends that we see in the different segments. We were able to close two major offshore orders in 2015, giving good visibility into 2016 and we are executing on one of the two orders very soon and in general we do see a stable onshore market and a very positive offshore market where we see a lot of traction in the market and also hopefully are able to close orders during 2016 that should give visibility into 2017 and 2018. We also continue to be very optimistic on high-voltage DC technology, the potential in that business, in particular looking into all the discussions about the SuedLink investments in Germany that will require a lot of DC Cables from customers, in particular in the years 2018, 2019, 2020. We have decided to make sure that we will play an active role in the DC market years ahead of us and as part of the strategy plan also decided to invest EUR 10 million into this segments in the years ahead of us to make sure that we have the right product offering when customers start to ask for it. And it is not really an issue looking at the cable and how to produce a DC cable we are fully able to do that today, it is more having a complete offering to customers including the different kinds of accessories needed.

If we look at the Products segment, as already said, we saw strong growth in 2015, in particular in the medium-voltage segment in Germany but also into the other markets in Eastern Europe, Poland, Czech, Hungary, etc., and we actually expect that trend to continue into 2016. Looking at the profitability level in this business we are satisfied with the development, not least positively impacted by all the different initiatives coming from the DRIVE programme.

We don’t talk a lot about the railway business but actually in this segment we see a lot of opportunities, not only within railway but also within the accessories and also for that segment we are positive. And then APAC continue to decrease. As said before, it is not so much the market, I think actually we have reached a bottom now so we should not continue to see double digit negative growth numbers in APAC going into 2016. We employed a new general manager at the beginning of this year and I strongly believe that with him and also some other key new members of the management team in China we can start to focus on turning around that business. We do see a potential and then of course in the end we will also be depending on a better market development in the years to come in China.

If we look at operational EBITDA it has been a nice journey in 2015 and it would also have been nice to avoid the decline in the fourth quarter but I already indicated at the beginning of 2015 that this was the trend that you should expect. In the end, we realised an increase from 8% to 9% and the decline that we start to see in the second half and in particular visible in Q4 is only reflecting the fact that we have a different composition of backlog. A very large order that we now execute on, an order that we secured some years back where we did not see a lot of traction in the market and thereby it reflects a significantly lower profit level compared to the projects that we executed in 2015.

And that is also what we are trying to illustrate in more detail on the next slide, on slide 30, where we somehow are looking at here indexed profitability level in the different segments that we serve here project business illustrated by the orange bar and products illustrated by the blue bar where you can see that we actually have seen a very nice development in the product business, very much supported by DRIVE increased the profit level significantly and that is also an underlying assumption that we will continue to do that as we move into 2016 and start to execute or continue to execute and continue to see the full-year impact of DRIVE but it is not sufficiently covering the negative trend that we see in the Project business where we somehow need to watch through this project that I mentioned before, we started doing that in the fall of 2015 and it will impact profitability levels negatively in the first half before we then start to see a recovery as illustrated here by the orange dotted line.

So in the end we are looking at a project business in 2016 compared to 2015 that is delivering a significantly lower profit level. A big part of that is offset by better profit level in Products. In the end, the year will tell how much we are able to offset. If we are in the upper end of the range, the 8-9% guided target that I mentioned before, it is because we will be able more or less fully to cover it but if we are slightly lower than that it is because we will not be. And of course in the end it also has something to do with the growth that we will be able to realise.

Looking at slide 31, DRIVE, this is the last time we will look at this picture, we continue to see a very strong traction and strong execution. We actually have more or less executed this a year before planned, we are project-to-date at a run rate of more than EUR 60 million, we have reduced 381 FTEs as part of this programme since we started it up so we are all very pleased with this. The reason why we are not in the range of 400-450 FTEs is actually that we saw significantly higher volumes in the Products business in 2015. So if you somehow adjust for that positive volume impact we would be in the range of 400-450 FTEs reduction already at the end of 2015. So a nice programme that the entire organisation in NKT Cables can be very proud of.

Looking into 2016 and looking into the management agenda, what it is that is on the list of focus for me and my colleagues in the management team? If we look at the segment initiatives that was well-described and explained as part of the strategy, it is about focusing on develop & grow in the areas where we have strong traction. I already mentioned that we need new offshore projects, we also strongly believe we can get them. We will accelerate the in-house development of DC technology even further and we will also execute on some newly gained railway orders, for example here in Denmark, we will make sure that we execute well on them because they also reflect nice profit levels. Then we have the area where we focus on profitability that is very much Central Europe and Nordic where we are working on some product development initiatives where we will introduce some new halogen-free flame retardant cables to the market, required actually in Sweden as a result of new regulations from the EU and we also start to develop or start to produce in-house compounding in order to bring down costs. We also have turnaround business areas where we need to turn around, it is in particular APAC, we already touched upon that but it is also the traditional onshore business that requires a lot of focus. On the must-win battles that are the battles that we need to win across the different segments we are in, they are also mentioned here, it is of course to continue to drive excellence in whatever we do, whether it is in the front-end of the business or the back-end of the business or all the supporting elements, here also illustrated by the initiatives that we have within investing in an integrated IT platform so a lot of work needs to be executed here. And then last but not least we are also looking into how to adjust our operating model to make sure that the organisational design we have meets the requirements coming out of this strategy plan so we are also looking into how to adjust that and I think I also mentioned that in the past.

So to sum up, a transforming year in 2015 that will continue in 2016. We saw good traction, good profitability improvements as a part of a strong focus and also executing well on DRIVE, we already touched upon this outlook for 2016 with the negative growth of around 5% as a result of backlog in the Project business and then the range of 8-9% we are fully committed to end as close as possible to the 9 so the range is more illustrating the fact that, as normally, we are exposed to how well we execute on projects, so that is one thing, another thing is also as I mentioned before, it is with a little bit uncertainty to what extent the Product business will be able to fully compensate for the reduced profitability level in the Project business. Time will tell. So with that I would like to hand over to Basil to do a deep-dive into the NKT Photonics business and also to you I would like to say congratulations because it is also your birthday today so it must be nice to be able to present such a strong development in the Photonics business.

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Basil

Thank you, Michael. Okay. So I am going to go through a very fast presentation on NKT Photonics. We are now on page 35. One thing, as you can see from the page, that we have done and we started that in Q4 is a programme of integration of the two divisions that we had in Photonics and as of 1 January it is now one entity. We did that basically to capitalise on all the synergies that we have in the two optics divisions and at the moment I am glad to report that the integration has gone very well. We started with marketing and sales and engineering and the groups in both locations in Germany and Denmark are working very closely and we are already seeing results, especially from the German side where our sales have been improving remarkably. The synergies that we have already realised will give us an annual savings of about EUR 400,000 and will be in excess of that as we go forward.

We go to the next page, page 36, showing again the three areas that NKT Photonics is working in. This is part of the strategy that we launched back in the Capital Markets Day in September and the areas are in Imaging & Metrology where the final results of 2015 we have 45% of our revenue, in Sensing & Energy we have 42% of our revenue and then in the vastly growing Material Processing side we now have about 13% of our revenue and that actually has more or less doubled year on year. In Imaging & Metrology we had a very good 2015, a little bit of a flat 2014 but that was really on the back of the very strong Q4 of last year and we see improvements, we had very good order intake for the quarter, especially we signed a continuing OEM agreement with Leica Microsystems being a customer of ours for a number of years, they contract for 14-month supply of a significant number of supercontinuum lasers starting in Q4 and going onto the end of 2016 and beginning of 2017. In Sensing & Energy we had a very good quarter, very robust pipeline security market has helped our sales increase and we had also indications of a good movement into Q1 of this year. And obviously, as I mentioned earlier, the new growth area of Material Processing is something that we are concentrating on as we see some significant promise in that area.

We go to the next page on page 37. You see the improvement of the last couple of quarters has pushed our EBITDA up to 9.6% and if you look at the graphs it is a remarkable achievement considering where we have been in the last few years. The EBITDA of 3.7 million is an increase of 0.8 million.

If we move then to the next page, this is basically illustrating our management agenda for the year, for 2016, and the main driver is to gain commercial scale. And again going into the three segments that we are going to achieve we are looking at a focus on core business, we are looking to secure profitable growth and we are looking at improving our production. On the core business improvement we have already started the programme of integrating Lios into NKT Photonics and we have started to realise the sales and R&D synergies that have come out of that. On the profitable growth we have increased a number of our long-term customer contracts, we are working more in partnerships with a number of companies, we are also actively pursuing M&A opportunities. On the production side our Lean manufacturing programme is improving quarter on quarter and it also is helping to improve our time-to-market on our new product and new product introductions.

Finally in the last slide, we had a great quarter, it is a record quarter of EUR 12.7 million. That is actually on a continuing business a 22% improvement year on year and if you look at the table below the majority of that came from our Sensing & Energy segment but for the year you see the improvements have been right across the three segments, especially on Material Processing. And for continuing business in 2015 the organic growth has been 11%. Finally the highlights we have shown, as mentioned, growth in all segments we had 22% growth in Q4. I started in July, we have had some significant OEM customer contracts, we have redefined the business strategy to concentrate on growth and we divested the Fiber Processing operations to concentrate on our core business. And finally for an outlook for 2016 we expect organic growth at 10% or better and an operational EBITDA margin of 12-14%. At that that's the end of my segment and I will move over to Michael.

0.51.08

Michael Lyng

Thank you, Basil. And please stay with me here because we will move to the joint Q&A session. So operator, anybody with a question?

0.51.22

Operator

Yes. Our first question comes from the line of Casper Blom of ABG. Please go ahead, your line is now open.

0.51.30

Casper Blom, ABG

Thanks a lot. A couple of questions from my side, please. If we start off in Nilfisk, maybe if you could just give a little bit of update on your sales force there? You had quite a churn, especially in Germany here. How is that developing now and what have you seen in other places of the world where you have been rolling out your strategy? Another question on Nilfisk and the guidance of 0-5% organic growth. The 0% organic growth guidance, the low end of the range, how does that compare to your medium-term target of growing 2-3%- points above GDP? It looks quite pessimistic, to be honest. And then finally on Nilfisk also, the higher distribution costs seen in 2015 could you put maybe a little bit of a number on that and maybe also talk about will that be totally gone in 2016 or will we see a bit in the beginning of the year also? Thank you.

0.52.44

Jonas Persson

Okay. The results with Germany when it comes to commercial excellence we have absolutely seen some very positive impact when it comes to commercial excellence in Germany. But as we also have mentioned previously what we also have been offset by that because there are different elements in the commercial excellence. We have seen growth in prioritised customers but we have also seen decline when it comes to customers that we have so-called de-prioritised. And that is why we have not seen overall growth or slight overall growth in Germany. So that is very much and then we see, of course, a positive development still in Germany. I also have to say that when we do this implementation in Germany we have also lost a lot of sales people in Germany and we have now stabilised that and start also to see performance back on that, so that is also improving. When it comes to forecasting, of course this is beginning of the year, 0-5% we also need to read the 5% of course, it is of course a wide range. We still very much believe in our strategy and the strategy says 2-3% above GDP, of course with the very unstable situation in the world we would still like to have that guidance. When it comes to distribution costs, as I also mentioned in the presentation, it is very high during 2015, very much due to the fact that we have had to set up a different set-up and with the new system in the distribution in order to serve our customers in a better way. We are improving and have already seen improvements so the distribution costs will significantly go down here in 2016 but we will not reach the levels we had in 2014 due to the different set-up we have today and we need to run with.

0.54.32

Casper Blom, ABG

OK. But can you materialise how much of your distribution costs in 2015 was sort of a one-off or a non-recurring, i.e. how much tail wind you will be seeing in 2016?

0.54.47

Jonas Persson

I would say that roughly we will lose, if we compare the distribution costs between 2015 and 2014, we will come down to more or less half of what we saw in 2014.

0.55.00

Casper Blom, ABG

OK. Thank you very much.

0.55.02

Operator

Thank you. Our next question comes from the line of Claus Almer of Carnegie. Please go ahead, your line is now open.

0.55.09

Claus Almer, Carnegie

Thank you. I have a couple of questions. The first one is for Jonas in Nilfisk. In the Q4 growth or the Q4 performance have you seen any segments or markets where the performance is significantly different from what you had expected when you entered the quarter? That will be the first question.

0.55.36

Jonas Persson

I have to say when we entered the quarter I expected a little bit better in China, I have to say, the China development is one market where we see a weakening, absolutely. Another is the industrial segment when it comes to US, that was the sort of two main things where we see a weaker mark than we expected. But having said that, Europe is still performing very strongly in Q4.

0.56.04

Claus Almer, Carnegie

And will you be going to break up on segments, did you say during your presentation that the national accounts or larger accounts in the Americas were also unchanged a challenge for you?

0.56.17

Jonas Persson

It is unchanged. It has been a challenge for the whole year, we have seen some smaller accounts winning when it comes to national accounts but not significant improvements either in Q4, no.

0.56.30

Claus Almer, Carnegie

OK. Then my second question which goes to the Cables business is actually two questions. The first is when did you discover these quality issues?

0.56.45

Michael Lyng

We discovered them, you know, it was not that it was a Christmas gift because we didn't like the gift but it was very close to.

0.56.53

Claus Almer, Carnegie

OK. And then my second question. As you have not included any extra costs in the outlook for 2016 is it fair to assume, you know of course being early days, that this sub supplier has a size and probably also some insurance policies that will cover any extra costs even if we should include a very negative scenario for the impact of this quality issue?

0.58.25

Michael Lyng

First of all I would like to say that this quality issue is, of course we would like to have avoided it, it is a quality issue that is 100% out of our control and we cannot really do a lot about it but what we can do is that we can make sure that we will be fully compensated for any potential loss from that potential supplier and you are right that it is not the one around the corner and that is one thing. Another thing is also that it is, we did actually take, indirectly at least, some costs in 2015 because we had produced something that we decided in the end not to book on our on-going projects as produced cables and thereby there is actually a negative impact in 2015.

0.58.23

Claus Almer, Carnegie

OK. Can you quantify the amount of that?

0.58.25

Michael Lyng

No

0.58.29

Claus Almer, Carnegie

It is less than 10 million on profit level, right?

0.58.31

Michael Lyng

I think I said no.

0.58.34

Claus Almer, Carnegie

Haha OK. Then in that case I have no further questions.

0.58.38

Operator

Thank you. Before we go to our next question, may I remind participants that you can ask a question by pressing 01 on your telephone keypad. And our next questions comes from the line of Kristian Johansen of Danske Bank. Please go ahead, your line is now open.

0.58.56

Kristian Johansen, Danske Bank

Yes, thank you. I just have one question regarding the Gemini project. Has the final test been completed by the customer meaning that any provisions will have been reversed in Q4?

0.59.13

Michael Lyng

We have not assumed 100% completion of Gemini in Q4, no. And that is because we still have some smaller outstanding tests and as you know we normally are pretty cautious with the way we release risk provisions and that is also the case here.

0.59.38

Kristian Johansen, Danske Bank

I assume that no such releases are included in your guidance, is that correct?

0.59.46

Michael Lyng

It is always difficult to include releases in guidance because they represent a risk, that is why you have booked for them. But of course in the end you look at this in the total picture but I don't want to specifically comment on one particular risk.

1.00.06

Kristian Johansen, Danske Bank

Fair enough. That was all from me. Thank you.

1.00.11

Operator

Thank you. Our next question comes from the line of Patrik Setterberg of Nordea. Please go ahead, your line is now open

1.00.20

Patrik Setterberg, Nordea

Yes, hello, a couple of questions from my side, starting out in the Nilfisk business. I just wanted to know in terms of the 2016 guidance what is your planning assumptions in terms of the gross margin performance and what is your planning assumptions in terms of the fixed cost performance?

1.00.41

Jonas Persson

When it comes to gross margins it is very hard to predict because of the product mix, that is the main thing that is changing this and the other thing is the currency so it is very hard to predict that so much. When it comes to the overhead costs we very much believe that the overhead costs will go down when it comes to the distribution costs, as I already mentioned, and of course very much based on the investments we have done we need to leverage on that and that is of course we also try to manage the cost based on what kind of growth we would get.

1.01.14

Patrik Setterberg, Nordea

OK. Just a follow-up on the gross margin. You have a peer in the industry which you expected to make a gross margin around 43% in 2016. Is it fair that the difference between Nilfisk and this peer on your gross margin side should be as big as we see it now?

1.01.35

Jonas Persson

I think it is, I mean I don't want to speculate around our peers how they are doing, they are also doing business differently and they also have a different way of serving the customers so that is very hard to compare with these so small differences.

1.01.55

Patrik Setterberg, Nordea

OK. Then it is in terms of the organic growth. You have been heavily investing in the Nilfisk business over the last 18 months. When will it be fair for us to assume that you will do above market growth figures?

1.02.13

Jonas Persson

Yeah, I have to say we already do that in some markets and as we will continue to roll out so and then of course we also have a deep – as we also discussed – losing sales people and losing some customers when we de-prioritise some but what we have in the end... we see already in some markets that we already are performing above market so it is not happening at one time we are operating then in more than 100 countries.

1.02.45.4

Michael Lyng

I think it is also included in the guidance, Patrik, that if we execute well in Nilfisk because we have a range of 0-5% then we would probably also show that we are growing faster in the market, but time will show.

1.03.01.5

Patrik Setterberg, Nordea

Then two questions for the NKT Cables business. This raw material issue is that a company specific issue for NKT Cables or is it something that you are sharing with other cable producers?

1.03.15.6

Michael Lyng

I cannot tell because I don't know how that particular sub-supplier is doing business so I don't know.

1.03.23.8

Patrik Setterberg, Nordea

Okay, and then my last questions regarding the Cables business. The tendering activity for new submarine cables contracts – how is that looking?

1.03.35.3

Michael Lyng

I think it is looking as also illustrated in my presentation. I think it is looking positive. We do see a pretty good momentum in various numbers of tenders and I also think that we as a company are positioned well, so positive.

1.04.00.1

Patrik Setterberg, Nordea

Have you seen that pipeline been growing over the last 12 months or is it a rather stable pipeline of projects you are negotiating about?

1.04.09.0

Michael Lyng

No, we have definitely seen the pipeline of tenders of potential orders growing during the last 12 month.

1.04.23.6

Patrik Setterberg, Nordea

Okay, thank you for the clear answers. Yes, that was all from my side.

1.04.28.3

Operator

Thank you. Just to remind the participants if you would like to ask a question please press 01 on your telephone keypad. And there are no further questions at this time. Please go ahead speakers.

1.04.47.5

Michael Lyng

Thank you, operator but with that we can then end our call for today and just an ending slide here the financial calendar for the coming year 2016 going into 2017 where you can see when we have the AGM deadline for receipt of resolutions for the AGM but most importantly for this session here that we will be back 12 May reporting on the first quarter numbers so thank you all for listening in.