



## NKT AGM 2014 - CHAIRMAN'S REPORT

[slide no.]

[1]

Dear shareholders. Welcome to NKT's Annual General Meeting.

2013 was a year of changes. 12 months ago – in this forum - we said farewell to Christian Kjær and at the same time two new members joined the Board, Kristian Siem and Lars Sandahl Sørensen. The Board of Directors subsequently appointed Kristian Siem as Deputy Chairman and myself as Chairman.

[2]

After the AGM, with the new Board of Directors in place, we immediately launched a discussion on the best future structure for NKT. In August this led to the decision that in future our business areas would report directly to the Board of Directors. We believe this structure ensures that optimum focus is given to the goal of increasing NKT's share value through the principle of active ownership which is fundamental to NKT. The new organisational structure will provide greater connectivity between goals, methods and responsibility in our business areas, and strengthen the strategic and operational dialogue with the Board of Directors. This also led to a change of the management structure of NKT Holding.

The year also saw a change of management at Nilfisk-Advance, the introduction of a comprehensive efficiency improvement programme at NKT Cables, and substantial orders for Photonics Group. I will come back to all this in due course.

---- short break ----

[3]

In 2013, NKT realised revenue of 15.8 billion kroner - an increase of 556 millions compared with 2012. Operational EBITDA was 1,085 million kroner – an increase of 46 millions. Financial items decreased by 36 million to a net expense of 160 millions, and as can be seen at the bottom of the display, the profit for the year was 253 million kroner. The graph on the right shows the development in profit for the past three years - a continuous upward trend.

We are pleased to be able to report both top line and bottom line growth. That said, it is also obvious that NKT Cables' contribution to value creation remains inadequate, with earnings which are unacceptably low both in absolute terms and when viewed against the resources we have invested. Therefore, at the end of 2013, we introduced DRIVE, a comprehensive efficiency improvement programme which is aimed at increasing NKT Cables' earnings by 300 million kroner over the next two years. More about this shortly.

[4]

NKT's financial flexibility was further strengthened in 2013. A number of bank facilities were rescheduled and extended, ensuring a high level of cash resources and the availability to operate and develop our business areas. 86% of NKT's cash resources consists of so-called "committed" credit facilities, which means that they cannot be called in prematurely by the lender.

[5]

The results which I have just reviewed were in line with both NKT's initial and latest expectations for



2013. As you can see on the screen, our revenue in standard metal prices was 12.8 billion kroner, organic growth was 4%, and operational EBITDA increased to 1,085 millions. Our expectations with regard to cash flow from investments and net interest bearing debt were also realised.

--- short break ---

[6]

In August, as I mentioned at the start of my address, it was decided that in future NKT's business areas would report directly to the Board of Directors.

Accordingly, NKT Holding's management structure was adjusted, and we said farewell to CEO Thomas Hofman-Bang. On behalf of the Board of Directors I would like to take this opportunity to thank Thomas for his efforts and for his constructive approach to the restructuring. The change also led to the departure from the Executive Management of Group Executive Director Søren Isaksen. Fortunately, we can continue to benefit from Søren's extensive knowledge of innovation and photonics in his role as Chairman of Photonics Group.

[7]

The decision to restructure was prompted by a desire to increase the value creation through active ownership – by increasing the connectivity between goals, methods and results in the business areas and strengthening the strategic and operational dialogue with the Board of Directors. In this context the Board possesses a number of specific competences which will be brought into play more effectively in order to stimulate value creation. These competences are now being exercised directly in, for example, the three working committees set up for the business areas in the autumn. Each working committee consists of two Board members with in-depth experience of the particular type of business - and together with NKT's Group Executive Director they hold monthly meetings with the business areas. At these meetings both strategic and operational issues are discussed and are intended to deliver a more flexible and transparent decision-making process.

[8]

Thus, the Holding company – now headed by Group Executive Director & CFO Michael Hedegaard Lyng – will continue to play an active part in NKT's value creation in close partnership with the Board of Directors and the managements of the individual business areas. Behind me you see the management teams of our business units; NKT Cables headed by Marc, Nilfisk-Advance by Jonas and Photonics Group by Søren. The entire team is here today and ready to answer questions during the informal part of this event.

[9]

The structural reorganisation has not led to changes in NKT's strategy for the period 2011-15; at present we are occupied with a number of operational and tactical initiatives. NKT's strategy builds on a number of megatrends in global social development. These megatrends include urbanisation, i.e. flight from the countryside to towns and cities, sustainable and flexible energy supply, expansion of infrastructure, and deepwater oil and gas production. All these trends represent growth opportunities for NKT both in new and existing markets.

[10]

NKT's primary strategic target is a consolidated return on capital employed of around 15-20%. The figure achieved in 2013 was 6.7%, which included 17.5% for Nilfisk-Advance, which was satisfactory, and 0.8%



for NKT Cables - which was wholly inadequate. As a result of this we have introduced the DRIVE efficiency improvement programme at NKT Cables.

[11]

For those of you who are interested, more information about our general strategy and the specific strategies for each of our business areas can be found in the 2013 Annual Report. With NKT's new structure now in place, the end of the current year would appear to be a natural juncture at which to review our strategic framework so that a revised strategic plan can be published as an integral part of the 2014 Annual Report – i.e. a year from now.

[12]

Turning now to expectations for 2014, NKT expects organic growth for the current year of around 0-3% and an operational EBITDA margin in standard metal prices of 9-9.5%. This must be seen against the 8.4% realised in 2013. These expectations do not include one-off costs relating to the DRIVE project and to the profit from the divestment of Nilfisk-Advance's, non-core, sanding equipment business, which we reported on 28 February this year. The net impact of these one-off costs will be minus 80 million kroner.

Our overall expectations build on a number of underlying parameters: Our planning envisages organic growth of 2-3% for Nilfisk-Advance, split evenly between EMEA and the Americas, while the growth rate in APAC is expected to be higher.

A submarine cable project at NKT Cables consists - in very simplified terms - of two phases: Producing the cable and in certain cases installing it. The latter is a service which NKT Cables purchases from an subcontractor. Civil works thus makes a very significant contribution to revenue, but only a minor contribution to earnings. The submarine cable projects scheduled for 2014 include substantially less civil works than the 2013 projects. We are therefore planning on negative organic growth of 2-3% compared with 2013, but an improved earnings margin.

Where Photonics Group is concerned we are planning on organic growth of 10-20%.

Earnings for all our three business areas are expected to be higher than in 2013 – both in absolute terms and as a percentage of revenue. The beginning of 2014 supports the expectations announced on 28 February.

---- short break ----

[13]

Before further anticipating events in 2014, let's return to how we fared in 2013.

Overall, and despite continuing difficult market conditions, all our business areas delivered growth in 2013. The distribution of revenue can be seen on the screen, and I will briefly review the performance of each business area.

[14]

At Nilfisk-Advance we said farewell in 2013 to CEO Jørgen Jensen who decided to seek challenges outside NKT. While many positive things could be said about Jørgen's contribution, I must be brief: Our thanks go to him for the excellent job he has done over many years to establish Nilfisk-Advance as a market leader.



[15]

Nilfisk-Advance's new CEO is Jonas Persson who joined the company in January this year. More information about Jonas can be seen on the screen behind me. His task will be to continue progressing the company, giving particular focus to customers and to solutions to customers' cleaning requirements. Welcome Jonas.

[16]

Nilfisk-Advance has the cleaning industry's broadest product portfolio which consists of four main categories: Floor care equipment, vacuum cleaners, high pressure washers, and outdoor equipment in the form of sweepers, mowers, snow clearers, etc. In 2013 the company launched 41 new products and product versions – and continued to spend around 3% of revenue on product development.

[17]

Nilfisk-Advance markets and sells its products primarily to commercial and industrial customers. The rest of the product programme, representing around 11% of sales, consists of domestic vacuum cleaners and high pressure cleaners and will be familiar to many of you. Nilfisk-Advance operates globally in three regions - EMEA, the Americas and APAC. Its cleaning equipment is sold by dealers in more than 100 countries.

[18]

Nilfisk-Advance delivered organic growth of 3% in 2013, which was higher than initially expected. This growth was mainly supplied by the mature markets in EMEA and the Americas, while APAC sales were negatively influenced by challenges in China. In the BRIC+MT markets, positive growth was evident particularly in Russia, Mexico and Turkey, the reverse again being the case in China.

Growth in the cleaning equipment market remained at a low level, and this intensified price competition. Combined with change in the product mix towards items with a lower margin, this made it difficult to realise a satisfactory EBITDA margin. I am therefore pleased to report that - despite the challenges - we managed to maintain an operational EBITDA margin of 11.9% for Nilfisk-Advance. This was principally achieved by frequent, tactically astute commercial decisions combined with continuous focus on costs.

However, we continue to invest in future growth, and the ability to respond quickly to market developments is one of the strengths of Nilfisk-Advance: Invest when there is growth and adjust when the opportunities for growth have receded or no longer exist. Furthermore, we are actively pursuing the possibilities for growth by acquisition.

[19]

In 2013 we opened a new sales office in Romania, increasing the total number of Nilfisk-Advance sales offices to 45 worldwide. Several dealerships were acquired and joint ventures established. Nilfisk-Advance's sales and service organisation was expanded in key markets. As stated, we are committed to ongoing adjustment of our business and to maintaining focus on our core activities. The company's sanding equipment business has been divested with effect from 31 March this year.

--- short break ---

[20]

NKT Cables' operations are split into three business units: 1) Projects, which manufactures and supplies on- and offshore high voltage cables, 2) Products, which supplies low and medium voltage cables for utilities and for the European building, automotive and railway industries, and 3) APAC, which supplies



medium and high voltage cables and cables for high speed railways to the markets of the Asia/Pacific region.

[21]

NKT Cables delivered organic growth of 4%, which was higher than expected at the start of the year. This growth was mainly supplied by the projects business, i.e. on- and offshore high voltage cables, and by BU APAC sales principally to the Chinese railway segment. In 2013, sales of cable products for high speed railway projects in China returned to what we consider normal. As you may remember, in 2011 and 2012 all projects of this type were suspended by the Chinese authorities after a serious rail accident. For the BU Products division, sales of low and medium voltage cables to the European market were impacted by reduced investment on the part of utilities, and prices for building wires remained under pressure. Operational EBITDA margin in standard metal prices was 5.6%, an improvement of 0.3% percentage points on 2012.

[22]

I have made several mentions of the DRIVE efficiency improvement programme, the principal objective of which is to reduce annual costs at NKT Cables by 300 million kroner over a two-year period. The introduction of the programme was prompted by the continuing pressure in the European cable market caused by the downturn and overcapacity. With the Cologne factory delivering stable operation and ready to be optimised further, and with a new business structure in place geared to the challenges faced by the company's segments, we have now taken the next step towards increasing the efficiency of NKT Cables. The objective of the DRIVE programme is therefore to increase earnings, strengthen competitiveness and improve value creation by delivering higher return on capital employed. Let us take a more detailed look at the DRIVE programme:

[23]

DRIVE consists of three phases. Phase 1 was launched at the end of 2013 and is aimed at reducing costs and complexity, and at adjustment of the product portfolio. Phases 2 and 3 will target all-round optimisation of functions and delivering increased, profitable growth.

Phase 1 has identified more than 80 savings initiatives. Some 70% of these savings will be implemented by the end of this year, the remainder following in 2015. After excluding one-off costs, earnings for 2014 will be positively influenced by around 100 million kroner. By the end of 2015, 80-90% of the total target saving of 300 million kroner will have been achieved. The 300 millions are also the run rate effect year-end 2015. Phase 1 is expected to be completed at the end of 2015.

[24]

There are a number of one-off costs associated with implementing the programme. Unfortunately we will have to reduce the number of employees by 400-450 persons in Europe over the next two years and this will account for a large portion of the total costs of 240 million kroner. Some 25% of these employees will be white collar workers and some 75% blue collar workers. Regrettably, these redundancies cannot solely be realised through natural retirement and NKT Cables will assist all the individuals affected.

[25]

The Cologne factory is now performing at a satisfactory and stable level, and the order book for 2014 is almost full. As recently as early February this year we announced a potential order for a submarine cable project in the Netherlands. Comprising the supply of more than 200 km of 220 kV high voltage cable, this contract will be the largest in NKT Cables' history. We have not yet received a final and unconditional



order, but have signed a 'Preparatory Works Agreement' with the consortium behind the project. We have therefore commenced cable production. The agreement means that our costs incurred will be met should the order unexpectedly fail to materialise.

[26]

On 1 July 2013, NKT Cables acquired Ericsson Cables' business operations at Falun in Sweden, strengthening our position in the market for low and medium voltage cables in the Nordic countries. Around 300 new employees and a differentiated product portfolio are currently being integrated into NKT Cables. This integration is proceeding to plan and is expected to be completed in 2014.

--- short break ---

[27]

Photonics Group is an active player in three product segments: 1) Imaging, consisting of light sources and optical equipment which enable images to be created of microscopic details. 2) Sensing, consisting of long-range measuring systems based on optical fibers. And 3) Fiber processing, consisting of precision equipment for production of fiber-based assemblies. Customers include the medtech and semiconductor industries, utilities, and oil and gas companies.

[28]

Photonics Group delivered growth of 13% in 2013. This was mainly supplied by the Imaging and Sensing segments, while the Fiber Processing segment experienced a low level of activity. Formerly targeted at research environments, Photonics Group's products have now achieved maturity, and are increasingly finding application in industrial solutions. This is an important step towards making Photonics Group a genuine industrial player and a greater contributor to NKT's value creation.

[29]

An indication that Photonics Group is on the right track and making good progress is that in 2013 the Imaging segment landed its biggest order ever from Leica for the supply of lasers for confocal microscopes. These microscopes are used to observe how living cells react to potential new medications. The platform created in 2013 is expected to result in further growth in 2014.

--- short break ---

[30]

The framework and foundation for NKT's new organisational structure were established in 2013, and the impact should unfold in earnest in the year ahead. The new setup has led to an adjusted management structure for NKT Holding and to a method of working which makes greater use of the competences and resources of the Board of Directors.

Since August, for example, we have held three Board meetings in the business areas and in NKT Holding, 14 meetings in the business area working committees, and four NKT Holding Chairmanship meetings. There have also been Audit Committee and Remuneration Committee meetings, and various ad hoc meetings of an ongoing nature (acquisitions, divestments, the DRIVE project, HR issues, meetings of NKT Cables' tender board, etc.). The meetings have been held in Denmark, Sweden, Germany, US, China and France.

When introducing the restructuring in August we announced our intention to ask the Annual General Meeting to approve a directors' remuneration which reflects the changed structure.



[31]

We therefore propose that the Company in general meeting grant approval whereby the working committees and the Nomination and Remuneration committees will henceforth be remunerated with the amounts you can see on the screen behind me. Likewise – and very exceptionally – the Board of Directors proposes that a remuneration be granted for the work that I, as Chairman, have performed in designing and establishing the new structure. The Board's remuneration for 2014 will therefore total 5 million kroner, against 3.75 million kroner in 2013. This is an increase of 1.3 million kroner which must be seen in context with an annual saving in salary of around 15 million kroner under the new structure.

It is our opinion that this remuneration is commensurate with that in comparable companies and that the new structure will both save on costs and also create value.

[32]

NKT's Board of Directors will today be joined by new employee elected members following elections held in NKT's Danish entities. The members have been elected for a four-year term. I am pleased to welcome Gitte Toft Nielsen from Nilfisk-Advance and René Engel Kristiansen from Photonics Group, while Niels-Henrik Dreesen from NKT Cables has been re-elected. I look forward to working together with you. I would also like to thank the two retiring employee-elected Board members - Arne Dan Kjærulff and Jan Erik Jensen - for their contribution.

--- short break ---

[33]

2013 has thus been an eventful year which ended with a profit of 253 million kroner. We have a long tradition of allocating approximately one third of the company's profit to our shareholders, insofar as this can be borne by our capital structure. This is the case for 2013, and a dividend will therefore be paid again. We therefore propose a dividend of 3.5 kroner per share for 2013, which corresponds to a total of 83.8 million kroner. Last year's dividend was higher, 8 kroner per share, due to the sales of NKT Flexibles.

[34]

NKT's share price increased by 35% in 2013. The share price has continued rising since the start of 2014, and an increase of some 40% since the restructuring of NKT. This suggests that the world at large also believes we are on the right track. I would like to emphasise, however, that we must do even better; earnings must be increased significantly. Together with the employees, the management and the rest of the Board of Directors I look forward to improving our company.

Thank you.