



NKT ANNUAL GENERAL MEETING 2016 – CHAIRMAN'S REPORT

[1- Front page]

A warm welcome to you once more.

[2 - Long-term transformation towards increased value creation]

2015 was a busy and challenging year for NKT in which we worked diligently on a continued, long-term transformation of our businesses in order to increase value creation for our shareholders. Specifically, we have launched new strategies in both Nilfisk and NKT Cables: in Nilfisk the Accelerate strategy is focused on growth and consolidation of the company's market leadership; in NKT Cables the EXCELLENCE 2020 strategy is focused on earnings improvement. In addition, we have redefined NKT Photonics' core business in order to commercialise our products more quickly.

In Nilfisk especially, the new strategy has required a number of investments in improved sales processes and additional sales and service staff. These changes, combined with a global economy which is still unstable, has impacted on our financial results for the short term. Our exercise of active ownership always has a long-term perspective, and the Board is convinced that with the strategies we now have in place there is a basis for maintaining our long-term goal of a return on capital employed of more than 15%.

[3 - NKT's core competence]

We still believe that the potential for value creation which we can see in our businesses can best be achieved under NKT's ownership – despite frequent speculation in the press and elsewhere about divestments. The transformation of our companies is in progress and the new strategies are to be implemented – so we consider talk of divestment to be beneficial neither to our shareholders nor to our companies.

Keeping hold of our companies is obviously not something we do at any price. NKT has a long tradition of divesting businesses whose potential can best be developed under other ownership. The most recent example was NKT Flexibles in 2012. However, we continue to regard ourselves as the best owners of all our business units, and it is also my impression that many of our shareholders support this view.

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[4 - 2015 financial development]

When we look at the financial results for 2015, I will present all the figures in Euro. Our operations are managed and measured in Euro, and we have therefore chosen to do the same in the external financial reports.

NKT realised a revenue of EUR 2,224m in 2015, an improvement of EUR 94m compared with 2014. Organic growth was 3%, operational EBITDA increased similarly by 3% to EUR 175m, and the corresponding margin in standard metal prices was 9.4%. The organic growth was as expected, while earnings were lower than initially guided some 12 months ago. This was primarily because earnings for Nilfisk were below expectations.

[5 - Profit for the year]

One-off costs amounted to EUR 23.2m, all related to the DRIVE efficiency improvement programme in NKT Cables. In addition, we made a write-down of EUR 37.8m on NKT Cables' operations in China in Q2 after a review of future structure and potential. During the same quarter we also made a write-down of EUR 2.6m in conjunction with the sale of NKT Photonics' Fiber Processing operations. Against this background profit for the year was EUR 1.2m, against EUR 37.9m in 2014. Adjusted for one-off items, profit for the year was EUR 74.4m, an increase of EUR 36.5m from 2014.

[6 - Return on capital employed]

Working capital amounted to EUR 269.2m, a reduction of 10% compared with 2014, driven by a number of improvements in NKT Cables. This reduction was the primary reason why cash flow from operations was EUR 173.2m and net interest-bearing debt decreased to EUR 88.9m, equivalent to 0.5x operational EBITDA. The improved earnings and the lower invested capital meant that the return increased by 0.7% points to 10.1%.

[7- Strong financial headroom]

Therefore, NKT has a strong financial position. We have a financial headroom of EUR 604m to further develop our business units both organically and through investments and acquisitions with a long-term perspective. Moreover, it is the Board's opinion that we have the financial leeway, despite the profit for the year, to recommend a dividend of DKK 4 per share, and we have launched a share buyback programme for up to DKK 550m. These proposals are subject to approval and authorisation by the General Meeting later today and equate to a combined distribution of DKK 647m or EUR 87m.

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[8 - Nilfisk]

In 2015, Nilfisk delivered financial results lower than expected. Revenue did increase to EUR 972m, partly driven by the year's five acquisitions, but organic growth was flat, against 5% initially expected. EBITDA margin was 10.1%, negatively impacted by lack of growth from the strategically important investments in sales and service, including 140 new people. Furthermore, revenue was negatively impacted by delivery issues in the first half of the year caused by replacement of IT systems and port strikes in the United States. However, these issues were resolved, and Nilfisk's deliveries in the second half of the year were again on time.

[9 - Accelerate – new growth strategy]

As mentioned, Nilfisk has launched a new business strategy, entitled Accelerate, focused on expanding the company's position as the world's leading supplier of cleaning equipment by increasing growth and therefore market share. Before describing Accelerate further I would like to show you the film which was produced by Nilfisk in conjunction with the launch. Here it comes ...

[Video = 1:30 min.]

[10 - The levers of Accelerate]

Accelerate is aimed at increasing market share and builds on four main levers:

1. Strengthening front-end
2. Drive competitive offerings
3. Build strong brands
4. Power supply chain performance

[11 - Commercial Excellence programme]

In Nilfisk's industry, proximity to the customer is an important competitive parameter. As mentioned, we have therefore invested strongly in expanding the sales and service organisation, including recruiting some 140 new personnel, primarily in Europe. Parallel with this, a Commercial Excellence programme is being rolled out in the company's largest markets. The purpose includes improving sales and service efficiency, improving the customer experience, strengthening product cross-sales and increasing service sales. The full effect of these activities was not realised in 2015, partly because it is taking longer than expected to integrate new sales routines. And partly because we have replaced a number of sales personnel, particularly in Germany. We are seeing several positive effects, and in the year ahead we expect these to favourably impact growth and earnings. Roll-out has been completed in 10 countries representing approximately 60% of total revenue.



[12 – Launch of 35 new products and product versions in 2015]

Another crucial parameter is maintaining a continuous supply of competitive, new products. Nilfisk has the market's broadest product portfolio, and the continued product development is based on good quality, easy and intuitive use, reducing the overall costs of ownership, and getting the product to market quickly. In 2015, Nilfisk launched 35 new products and product versions, and as in previous years approximately 3% of the company's revenue was spent on product development.

[13 – Two global brands]

Everyone in Denmark knows Nilfisk, but elsewhere in the world Nilfisk's products are marketed under a wide variety of brands. With view to ensuring greater customer recognition and improving product visibility, Nilfisk will in future employ only two global brands: Nilfisk and Viper. Nilfisk addresses what can be termed the high-end market, which is characterised by high quality of products and service. Viper targets the mid-market, which consists of basic products with high reliability and lower price. The mid-market particularly is expected to offer substantial growth potential as Nilfisk does not yet have a high market share. The product range and not least the number of dealers were therefore expanded during 2015.

[14 – Active participation in industry consolidation]

In 2015, in addition to the investments in future organic growth, we made five acquisitions related to the manufacture of high-pressure washers and supply of services. Going forward, acquisitions will continue to be high up on Nilfisk's agenda as our ambition is to play an active part in the industry's consolidation in order to ensure our global market leadership and drive the goal of a return on capital employed of 18-19%.

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[15 – NKT Cables]

NKT Cables delivered satisfactory financial results in 2015. Revenue increased to EUR 1,212m and organic growth was 4%, which was higher than initially expected. Operational EBITDA margin improved to 9.0% driven by the Products business and the impact of the DRIVE programme. The Projects business, which includes our high-voltage submarine cables, delivered earnings on par with last year, while it declined in APAC.

[16 - Offshore cable projects]



Submarine cable projects account for a large part of the capacity of our Cologne factory. In 2015 we received two major new orders to supply cables to offshore wind farms, and production is therefore assured well into 2017.

[17 – Target for DRIVE programme achieved]

For the past two years we have talked about the DRIVE efficiency improvement programme, which was launched end-2013 aimed at improving operations and thereby reducing costs. Our original goal was to achieve an annual saving of EUR 40m going into 2017. The implementation of more than 100 initiatives has gone quicker than planned, and we have raised the savings target several times, most recently to EUR 60m annually. This target was achieved end-2015 – one year ahead of schedule – so this will be the last time I provide an update on DRIVE, which has been a success. The initiatives which are still in progress will be integrated into the new EXCELLENCE 2020 strategy.

[18 – Strategy]

The aim of EXCELLENCE 2020 is to make NKT Cables the best supplier of power cables by end-2020 in the eyes of both customers and employees. The strategic goals are: 1) To realise a return on capital employed of more than 15%, which we estimate to be above the industry average; 2) To be customers' preferred choice, and finally 3) To achieve an employee satisfaction index of more than 80, which we also consider high for the industry.

[19 – Cross organisational must-win-battles]

The strategy consists of four must-win battles covering the whole of NKT Cables:

- Safety, personnel and organisation – incl. improving the work environment, creating an agile and committed organisation, and ensuring excellent management
- Operational and commercial excellence – through optimised production and improved sales processes and product mix
- Material and product development – incl. investing in development of DC high-voltage cables, which is a growing market for both onshore and offshore cables
- Digitisation of e.g. internal processes and customer involvement

[20 – Segment initiatives]

The strategy further consists of a series of specific initiatives adapted to the seven different segments with which NKT Cables operates. These initiatives consist of:

- Develop and growth – covering the high-voltage offshore cables and railway segments
- Focus on profitability – covering the low and medium-voltage cable segments and building and automotive cables



- Turnaround – covering segments requiring turnaround because they still contain a number of opportunities for growth. This applies to onshore high-voltage cables, accessories and the entire APAC business

I would like to conclude my review of 2015 for NKT Cables by presenting a film about EXCELLENCE 2020. It is primarily aimed at the company's employees but gives a good insight into the internal implementation of the strategic initiatives.

[video = 4:50 min.]

[21 – NKT Photonics]

NKT Photonics too delivered satisfactory financial results in 2015. organic growth of 9% was driven by a number of substantial contracts with large industrial customers in the Imaging segment. EBITDA margin increased to 9.6%, and for the first time a positive return on capital employed - 0.4% - was reported.

[22 – New CEO of NKT Photonics]

In July 2015 we welcomed Basil Garabet as the new CEO of NKT Photonics. Under his leadership we have further accelerated the commercialisation of products which is vital to the company's continued growth. By commercialisation I mean two things: the increasing integration of NKT Photonics' components into industrial customers' end-products, and the ability for NKT Photonics itself to offer complete solutions to end-customers combined with the sale of components, i.e. what we also call moving a step up the value chain.

[23 – Primary strategic initiatives towards commercial scale]

The strategy supporting this transformation consists of five main elements:

- Offering complete solutions to end-customers – as already mentioned
- Active pursuit of partnerships and joint ventures – chiefly with customers already higher up the value chain
- Growth: Both organic and through acquisitions
- Lean production
- Faster launch of new products to improve competitiveness

[24 – Scale as primary driver of value creation]

With these initiatives we expect the long-term strategic goals of annual organic growth of more than 10% and return on capital employed of more than 20% to be achievable.



[25 – Redefined core business and one management entity]

To achieve the goals we have also redefined the company's core business. This has meant divesting the Fiber Processing segment, which we believe can best realise its potential under other ownership. In future we will focus on the significant growth opportunities existing within the following: Imaging & Metrology - principally lasers that enable the imaging of microstructures, e.g. cancer. Growth opportunities are also present within Sensing & Energy - lasers for monitoring applications and use in measuring equipment, and Material Processing - lasers for cutting, e.g. in very hard materials such as glass, metal and plastics. We have also integrated the companies behind the three segments into a single management entity named NKT Photonics – the underlying companies were previously operated under the Photonics Group umbrella.

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[26 – NKT's governance model]

As I have mentioned in previous years, NKT's governance model is relatively unique. The Board of Directors is well satisfied with our method of working, whereby the Board's industry-relevant competences are exercised in close and active partnership with the managements of our businesses and NKT Holding's Group Functions. When we changed our governance model in 2013 it was with the aim of ensuring an efficient, flexible and transparent decision-making process for both strategic and operational matters. We believe that this objective has been achieved. Furthermore, we have restructured the Group Functions within NKT Holding so they are cost-efficient to run and support our active ownership of our businesses. We believe we have a good and well-constituted Board of Directors with room for discussion and dissent and with focus on the issues relevant for NKT.

[27 – Farewell to two Board members]

This notwithstanding, today's agenda also calls for the election of two Board members as Deputy Chairman Kristian Siem and Kurt Bligaard Pedersen have opted not to stand for re-election. To you, Christian, please accept my appreciation of your positive contribution over the past three years. Your international and operational insight, your unwavering commitment to value creation, and your non-bureaucratic approach have made you an admirable sparring partner. NKT today is in significantly better shape than when you joined us three years ago.

Kurt, you have been a member of our Board since 2011, and I would like to thank you for your great contribution, based not least on your profound knowledge of the energy industry, and more recently your role in connection with the changes to our governance model and your Chairmanship of the Nomination Committee. My thanks go to both of you for your sterling efforts.



[28 – Election of new Board members]

After a detailed review process we have managed to attract two new strong candidates for membership of the Board. We propose René Svendsen-Tune, who has wide experience in global sales and investment in the technology industry, including from his present position as CEO of GN Netcom, a part of GN Store Nord. We also propose Anders Runevad, who has extensive knowledge of the energy sector and transformation of companies by virtue of his position as CEO of Vestas. Election of Board members is Item 7 on the agenda.

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[29 – Thank you to employees]

NKT has approximately 8,950 employees across more than 100 countries. Every day they work with diligence and dedication to develop, produce and sell our products and solutions. It is also largely down to them that we can look back on a year which, though busy and challenging, also numbered positives and encouraging results. On behalf of all members of the Board of Directors I wish to thank our employees for their great efforts.

[30 – Development in NKT share price]

In 2015, NKT's share price increased by 8% which was somewhat lower than the leading C20 CAP index which increased by 22%. After payment of dividend of DKK 4 per share, the yield to shareholders was 9%.

[31 –2016 Outlook]

NKT's companies are undergoing transformation, and this is also reflected in our 2016 expectations, of flat organic growth and operational EBITDA margin on par with the 9.4% achieved in 2015. These expectations are based on continuing instability in the global economy, which chiefly has significance for Nilfisk's revenue, and on a lower profitability for NKT Cables' current offshore cable orders than for the projects which were delivered in 2015.

[32 – Long-term active ownership as basis for increased value creation]

NKT's journey towards further value creation for our shareholders is well under way. This is where our long-term perspective historically shows its worth. We have significant improvement initiatives in progress in all companies which will transform their strategic position, increase earnings and open new business opportunities.

Thank you.