Final Transcript

InterCall

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Corporate Participants

Thomas Hofman-Bang
NKT Holding A/S – President & CEO

Michael Hedegaard Lyng
NKT Holding A/S – CFO

Conference Call Participants

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Presentation

Thomas Hofman-Bang – *NKT Holding A/S*
Welcome to the audio-cast in relation to our publication of the Annual Report 2012 for NKT. My name is Thomas Hofman-Bang. I am President and CEO and I am together with Michael Lyng, our Group CFO, as usual. We will take you through the presentation that we released two hours ago together with the Annual Report so that you have had the necessary time to prepare. In the end we will have a Q&A session where you will be able to dial in and ask questions and we can have a dialogue about that but we will get back to that part.

Before that, let's dive into the presentation. It is in the usual format, meaning that I will cover the highlights and expectations and then Michael will cover the financial results, I will be back adding more flavour to our three business lines and then we will have Q&A in the end.

If we turn to page 3, you will see the structure of the conglomerate unchanged compared to how it has been since mid last year after the divestment of NKT Flexibles. If we flip one more page to page 4, highlights for 2012, we recognise that it's quite an achievement to read 107 pages in an hour's time so we will try and guide you through what are the key messages in today's report.

If we focus on Q4, which is the new element in the report, we are satisfied with the development in the quarter. It has improved earnings pattern we see in the quarter and we are actually up 1%

also with organic growth and that delivers a revenue of 4 billion DKK and on that we have an EBITDA of 320 million DKK. Michael will be back with more details about the composition of that.

If we look at full year, we turned in 15.3 billion DKK in sales, which is organically down 2% on 2011 and we deliver an EBITDA of 1.039 billion DKK, which is up 18% despite the lack of operational gearing from top-line. It is in line with the most recent expectations that we had published. What is not highlighted here is also the fact that we at the very bottom-line deliver a net result after tax of 1.6 billion DKK, which is in line with the guidance we have given all the way back to when we divested NKT Flexibles, which was published in April as far as I remember.

If we look at how has the business developed, then it’s fair to say that we are operating in tough markets across the board, with the exception of emerging markets, but all mature markets are difficult and tough, which is always why we have not seen on a Group level any growth in 2012. NKT Cables has showed an improving performance throughout the year and when we get to the graphs where you can see the EBITDA development on a quarterly basis, it is clear to see a pattern that has been a step change in H2 compared to H1, reflecting that we see increased stability in the cable business. We are far from where you could label it satisfactory. There is more to do but we are satisfied that we have now achieved stability in the Cable business, meaning that we now have a fundament to stand on while we move forward and we strive to do it better and improve earnings further.

If we turn to Nilfisk-Advance, they had a stellar year. Nilfisk-Advance has never delivered as high a result as they do in 2012 and also benchmarking to peers gives a good feeling about the momentum in Nilfisk and we will also be back to more details on that.

NKT Photonics, they are getting closer to what we could call the industrialisation phase of their development. They achieved another step change in earnings performance in 2012 and delivered the predicted result. They turned in an EBITDA of 9 million DKK, meaning that we now can start to talk about EBIDA margins in NKT Photonics for the first time. Then, of course, we had the successful divestment of NKT Flexibles, which we had covered at the previous quarters.

Looking at our strategic direction, it is unchanged. We continue to have focus on creating value, linking to the opportunities within a number of distinct mega trends, so there is nothing new in that. We will be able to add some more flavour on the strategic direction when we get to the individual business lines later on in the presentation but, overall, the strategy remains unchanged.

In terms of target-setting, we have modified them slightly, now focusing entirely on return on invested capital, which is what everybody should focus on. That is what drives value creation for shareholders and we have previously had a target up to 20% return on invested capital. That has now been modified to a range of 15-20%, reflecting the fact that when we published the 20% we had a portfolio of four business lines, including NKT Flexibles, with a very high return on invested capital and some interesting prospects in terms of increasing that further with the entry into Brazil. That is now out and so that is one of the reasons for having now a range starting at 15-20. The other argument is simply that the world is difficult. There is probably a new norm in terms of competitive pressure in the industries we are operating compared to the environment we saw back in 2010 but we will also be back on that in more detail later in the presentation.

Turning to page 5, here we see the 12 months development on EBITDA. You see the 1.039 billion DKK turned in after Q4 2012, which is yet another improvement compared to previous quarters. So we continue the journey we have been on now for several quarters to continuously see an uptake in earnings capacity quarter after quarter and we are satisfied with that development.

We are also satisfied with the cash conversion we have seen in 2012 which you see reflected on page number 6 where, as we have communicated earlier on, we expected to see an uptake in our cash conversion and cash flow from running the business and we, indeed, saw that. So we turned in a cash conversion of 108%. It's fair to say it is also higher than we expected and it's a result of a very strong focus on working capital and, of course, a level above 100 is not sustainable long term but we are very satisfied that we achieved that in 2012 and we will longer term strive to see a cash conversion from EBITDA to cash flow from operations in the range above – not in the range but above 70% is what we are striving for in the future.

So in total we delivered a free cash flow of 590 million DKK. We will also expand on that in further detail later in the presentation but the result of that, combined with the proceeds from the Flex transaction, is that we have a very healthy balance sheet now and we have the lowest gearing that we have had for years, which is 1.8 times EBITDA and therefore we now have the muscles to continue to develop the Group and do what is necessary to do in terms of product development, technology development, organic development and acquisitions, if relevant, in all three business lines in the coming years.

Then we turn to page 7, just a reflection of the environment we operate in, here in terms of manufacturing PMI and it is fair to say that, in particular, Europe is difficult and it is reflecting what you have also seen from IMF and all sources that they just recently took growth expectations down for 2013 for Europe broadly. That is also what you see here and that is also what we reflect in our guidance for 2013, which we will come to in a minute, where we do not expect any growth and therefore we are guiding a flattish development in 2013 compared to 2012 in light of this.

Update on strategy on page 8, I have already covered that in my introduction and we have a clear strategy where we want to go with the Group. There are a lot of opportunities still within the three business lines and we will continue to execute hard on achieving those opportunities.

Then we can turn to expectations for 2013, which is on page 10. The structure of the guidance is different compared to how we have done it in previous periods. We used to be more detailed in how we guided the market. We used to have guidance on a divisional level and we have chosen to change that. So going forward, we will be guiding on a Group level as you see here and the overall guidance for next year or for 2013 is that Q2, the lag of growth in the markets we operate in, at least the mature markets, we see it overall flattish top-line development in 2013 and on the back of that and thereby the back of operational gearing, we expect to see also a flattish development on earnings compared to 2012.

Cash flow from our investments is expected also to be in line with 2012, around 500 million DKK, which still includes the gross investments, which we will also be back to later in the presentation. We still have some capex running in Cables in terms of turntable investments that is part of this number, so this number is not the long term level for our investments. As a result of this guidance, we also at the end of 2013 expect to be within our target for our capital structure.

With that, I will turn to Michael for a more detailed review of the financial results for 2012 and Q4.

Michael Lyng – *NKT Holding A/S*
Thank you, Thomas. We will start on page 12 looking at the financial highlights for Q4 and also for 2012.

We ended up with a positive growth, as already mentioned, of 1% in Q4 and with a solid EBITDA margin of 9.9%. Full year revenue ended up at 15.3 billion DKK, organically down 2% but, despite that, we managed to increase EBITDA with 18%. EBITDA full year ended at 1.039 billion DKK compared to our latest updated guidance of around 1 billion DKK.

Looking at the financial items, we start to see a decline there. We ended at 196 million DKK, down from 280 DKK million in 2011. Earnings before tax came in at 277 million DKK, up from only

6 million in 2011 DKK. Then, of course, we have the impact from discontinued operations of 1.4 billion DKK, which is unchanged compared to what we guided earlier on in the year.

As Thomas already mentioned, we had a very strong development on working capital in Q4 compared to Q3 with a declining working capital of more than 800 million DKK, so we are very satisfied with that. In totality for the year, we end up at 2.4 billion DKK, which is down from last year's level of 2.7 billion DKK. That means that we now tie up slightly below 20% in working capital, 20% of sales.

We also saw a significant decrease in the interest-bearing debt. We ended up at a level of 1.9 billion DKK, similar to 1.8 times operational EBITDA and that is, of course, a nice improvement compared to the end of last year where we ended up with 4.4 billion DKK, similar to 4.3 times operational EBITDA. Then, as mentioned, on the last bullet point here on the slide, we proposed a dividend of 8 DKK per share, suggested at the Annual General Meeting which is held on March 21st.

On page 13 we look at the development in Q4 line by line and in the right side of the slide you can see the consensus in the markets: revenue of 4.4 billion DKK, which is in line with consensus, 100 million DKK up nominal compared to last year, and then a very strong EBITDA performance in the quarter where we ended at 320 million DKK, up from 274 million DKK last year and also up compared to consensus in the market being at 277 million DKK. If you look at the bottom of the slide, you will see the operational EBITDA margin in the quarter ended at 9.9%, up from 8.9% Q4 last year.

Turning to page 14, more or less the same slide but now Q4 replaced with full year numbers: so revenue of 15.3 billion DKK, down almost 400 million DKK compared to last year, and we will come back to that; negative organic growth of 2% with NKT Cables being down 4%, a flat development Nilfisk-Advance and 10% up for the Photonics Group; EBITDA (already mentioned) 1.039 billion DKK, up from the level of 878 million DKK in 2011, so a positive change of 161 million DKK, also beating consensus in the market being slightly below a billion.

Then we had one-offs in Nilfisk-Advance of 30 million DKK, in line with what we communicated earlier on in the year, so EBITDA after that is 1.009 billion DKK. Depreciation and amortisations ended up at 536, which is more or less in line with last year but also in line with the consensus. Then that leaves an EBIT of 473 million DKK compared to 286 million DKK last year.

Financial items I already mentioned before, so bottom-line we have the profit of 1.6 billion DKK, as mentioned before by Thomas, meaning that we ended up having an operational EBITDA margin of 8.6%, which is up from the level of 7.2% last year.

On page 15, if we look at the composition of the revenue decrease, the decrease of 351, looking at the list on the slide here, you will notice that metal price has actually diluted our revenue with 348 as a result of lower metal prices this year compared to last year. Then on the other side we had the positive impact from FX changes, in particular from the US dollar against the Euro and Danish kroner that positively impacted revenue with 244 million DKK and then we are down to the -2% organic growth, a decline of 247 million DKK on revenue.

Looking at operational EBITDA, the increase of 161 million DKK YoY, we clearly start to see better margins. In the Cable business we ended at 5.4% compared to 3.2% in 2011 and that had a positive impact of DKK 108 million out of the increase of 161 million DKK. Nilfisk-Advance had margins of 11.9% compared to 11.6%, so an increase of 0.3%, meaning a positive impact of 43 million DKK for the year. Also as mentioned by Thomas in the beginning, we saw a very nice improvement in the performance of Photonics Group. Even though it is relatively small numbers, it's nice to see that we now have positive numbers and there is improvement YoY of 10 million DKK.

If we turn to page 16, this slide gives you an overview of our realised performance for 2012 compared to what we had guided to the market during the year. First it is worth to conclude that we met our latest guidance that came out after Q3. Actually, we were able to beat our operational EBITDA where we guided around 1 billion DKK. We ended up at 1.039 billion DKK. On the top-line we were more or less in line with what we guided end of Q3.

If we then look to the realised numbers and compare them with our guidance in the beginning of the year, it is clear to see that we are missing growth. We came into the year with a guidance of a range between 5-10% growth. If we start with the Cable business, we did manage to achieve the 5-10% range. We ended up with -4%. Behind the 5% range guided in the beginning of 2012, we had assumptions of being flattish in the products area, meaning low voltage, automotive and railway but, as you will see on the next slide, we had relatively high negative numbers in those areas. Other assumptions behind the 5-10% range were that we would grow 15-20% in the electricity infrastructure area and there we only managed to have the 2% growth.

The same is the illustration for Nilfisk-Advance, where we came in with a guidance of 5% growth. We ended up with flat growth for the year despite the fact we actually managed to maintain more or less the same operational EBITDA margin. Where we originally guided around 12%, we are now at 11.9%. Also for the Photonics Group we had slightly lower growth than expected but, despite that, we maintained the EBITDA guidance from the beginning of the year.

Turning to page 17 where we look at the trend curves that you are already familiar with, if we start by looking at the growth, the -4% for the full year, meaning flat development in Q4, Electricity Infrastructure ended up being 2% up whereas we had positive growth of 4% in Q4. So nice to see positive growth but significantly below our expectations in the beginning of the year.

Construction had another tough quarter, being down 13% in Q4 but you should remember back in H1, in particular, we were flattish in construction. So YoY we are down 2%. Then looking at Railway, for the full year we are down 33%. A big part of that relates to H1 when we down around 50-60%. During H2 we have seen an improvement in that segment and, as illustrated here, we were up 15% YoY for Q4. Automotive relatively small numbers but also a tough market with negative organic growth of 21%.

Looking at the nominal EBITDA, we realised 103 million DKK in Q4, more or less in line with the 102 million DKK we realised in Q4. So we clearly see a much stronger H2 compared to H1 and, as a result of that, we also have been able to increase margins from 4.8% trading 12 months end of Q3 to now at 5.3%, still below our long term targets but Thomas will be back on that.

Turning to page 18, looking at the same slide more or less but now reflecting performance for Nilfisk-Advance, as stated in the top of the slide, the best year ever with a stellar performance. If we start by looking at the growth, we realised a flat development, which is overall a satisfactory level at the markets, and out of that we had positive growth in Q4 of 1%. EMEA we were down with 1% organically and had a relatively tough Q4 where we were down 4%. On the other hand, we had a solid and good performance in the Americas in Q4, being up 9%. So overall YoY for that segment we are up 1%. Then Rest of the World or Asia Pacific being 8% up in Q4, meaning that we are YoY 3% up in that segment. If you compare these numbers with the peer numbers reflected also here on the slide, we can conclude that YoY we more or less had the same flat development but, in particular, in Q4 we are very satisfied with our performance overall in Europe but, in particular, also in US.

Looking at the operational EBITDA, we turned in 213 million DKK for Q4 and, as a result of that, we saw an increase of the operational EBITDA margin that climbed up from 11.7% that was the sustainable level for the first three quarters, up to 11.9% end of 2012.

Just one slide on gross profit margin development in Nilfisk-Advance, we ended up at 42%, reflecting a relatively good price discipline in the markets and price increases have fully compensated for higher raw material prices and also higher freight costs, so relatively flat and stable developments that we expect to continue in 2013.

Turning to page 20, now a slide reflecting performance in the Photonics Group. Unfortunately, it is not EBITDA in the bars. It's the turnover still but it is worth to conclude or remember that we have seen a nice improvement in EBITDA, that EBITDA goes up from 1 million DKK realised 2011 to 9 million DKK realised in 2012. As you can also see, the organic growth, we had a relatively good Q4 with growth of 20% after also a very strong Q1 but flattish development during the mid-quarters.

Turning to page 21, we continue to have strong focus on working capital and, as a result of that, we also have seen a decline of around 800 million DKK if we compare nominal value end of Q4 to end of Q3 2012. Looking at the percentages, we are down at 19.8% compared to the 21.8% we were at end of 2011. If we compare the numbers YoY, we now tie up DKK 2.4 billion in working capital compared to 2.7 billion DKK end of 2011.

The performance is supported by nice development in both Cables and Nilfisk-Advance. In the Cables business we see a decrease from 20.4% end of Q3 to now 19.7% and more or less similar developments in Nilfisk-Advance where we have seen an improvement from 20.1% end of Q3 to 19.5% end of Q4. As mentioned here, the strategic targets of being at 18% in Nilfisk-Advance and below 17% in NKT Cables remain unchanged.

Slide 22 illustrating investments – it is clear to see that the peak we saw back in 2009 and 2010 is behind us now. We are back to a more normalised level. We still expect to be lower than this level going forward. We invested DKK 367 million in property, plant and equipment and 203 million DKK in intangibles. This is looking at the balance sheet. If we look at this from a cash flow perspective, we have all-in-all invested 523 million DKK compared with the expected level at the beginning of the year of around 500 million DKK. The 523 million DKK investments can somehow be compared with the depreciation level of 536 realised in 2012.

Turning to page 23, we ended up at a debt position of 1.9 billion DKK, so a reduction isolated in Q4 of 842 million DKK. It is clear to see if we look at the trend curves, that first we saw a reduction from Q1 going into Q2 as a result of the divestment of NKT Flexibles, then we were unchanged from Q2 to Q3 and now we have seen a new step change down at the 1.9 billion DKK level as a result of a very strong cash flow, in particular, coming from tight control on working capital. So all in all, we have reduced our debt position with more than 2.5 billion DKK YoY and, as a result of that, we are now fully in line with our internal targets for various ratios, whether we look at gearing solvency ratio or debt to EBITDA.

If we turn to page 24, we still have a high focus of securing high cash resources. We have cash resources end of 2012 of 4.6 billion DKK, up from 2.5 billion DKK end of 2011. The maturity profile of the 5.1 billion DKK committed lines are very much unchanged compared to last year. We still have 3.7 billion DKK with a maturity level above three years, which is unchanged compared to last year, so still a very strong position here.

Page 25, looking at the development on the equity, we came into 2012 with a solvency ratio of 30%, meaning equity of 4 billion DKK. We have had small FX adjustments and also paid out a dividend of 48 million DKK during the year and then we have the 1.6 billion DKK profit for the year, ending up with equity for the year of 5.7 billion DKK and, as a result of that, a solvency ratio of 44%.

The last slide from my side is looking at the cash flow. Here we have four columns, two reflecting development in Q4 and then the YoY at the right side. Cash flow from operating activities were around 1 billion DKK in Q4 compared to 540 million DKK Q4 2011. We have cash flow from investment activities in Q4 of a negative 516 million DKK, meaning that we all-in-all had a free cash flow in Q4 of 838 million DKK compared to 350 million DKK Q4 2011. As a result of that, we all-in-all for 2012 had a free cash flow of 590 million DKK and, if we look further into that, more than 1.1 billion DKK of that comes from operating activities and then we have the cash flow from investment activities, as mentioned before, of 532 million DKK, down from the 800 million DKK level we were at in 2011. So overall a strong cash flow for the year.

With that, I hand over to Thomas.

Thomas Hofman-Bang

Thank you very much. If we then flip a couple of pages, we will move into the section on NKT Cables (page 29) just to illustrate the composition of sales on applications, geography and customers so that you are updated on that. A key take-away here is that as part of our strategy we want to move Cables to be focusing on Electrical Infrastructure and you can see (if you flip back) how this has stacked up in previous years and we continue to have more and more business volume in that segment and it is now up to 67%, linking into the overall agenda about expending the transmission and distribution networks in Europe and China and Australia, in particular, and, of course, also linking to the overall agenda about renewable energy with the offshore wind. As result of that, we become less and less dependent on the more cyclical part of the Cable business within low voltage products, going primarily to the construction industry.

If we flip to page 30, then I will not cover the numbers (Michael has already covered that) but you can see we had some comments on the operational aspect and also on the strategic direction of NKT Cables. This is from a more elevated perspective, taking a more overall view on the business, not focusing on Q4 in particular. If we look back at 2012 and reflect on what we have achieved in 2012, then I guess the overall headline is that we have achieved more stability and you saw that when Michael presented the numbers on EBITDA with the quarterly breakdown, that there is a step change from H1 to H2 and that is a reflection of more stability, better execution on projects, better risk management, better procedures, more efficiency in the factories, etcetera.

In terms of how we are positioned now, we are almost done with all the shuffling of machines between the factories. We have a little bit less for 2013 where we are moving a medium budget line that we had sitting in the old Cologne factory that has all along been planned to be relocated to Czech and that will take place in H1 2013. We have already started on that. That will give a little bit of interruption in the medium voltage area in 2013 in the sense that customers will not notice it but we have to shuffle around. Some of the other medium voltage factories have to take some of the load that previously was running on that line before it was moved.

We see overall a high level of competitive pressure in our industry basically across the board in Europe but also in China where the cable market is tough and that is also why the strategy for China on cables is to move to higher voltage levels and thereby move into the territory where we see less competition and better opportunities and with the expected qualification in place for 240kw cables, that is the starting point for entering a new market segment in China and that era will start then later in 2013 as an action to combat the pressure we see in the current part of the high voltage market that we are sitting in, around 110kw in China.

Another trend is that the offshore market is difficult in the sense that not a whole lot of orders are being awarded for cabling to the offshore wind mill parks. There are still a lot of prospects. There are still a lot of projects for coming years in the works but they are not being tendered. The hesitation in the market as a result of some alternatives that existed on the legislation side in Germany, that was resolved in late 2012 but it caused a slowdown in activity in the sector until it was resolved. Also the development within the CO2 prizes in Europe, the development within gas activities and coal prices, shell gas impacts to the gas market, all that has the effect on our customers being the utilities and it is also causing some hesitation. So that's why you have not seen us nor the competitors and now it's a whole lot of orders within AC Cables offshore wind parks the last 6-12 months and, as a result of that, we do not have a full backlog on offshore for 2013 entering the year.

We have basically coverage for half of the year and, as a result of the lead time between winning a project and start manufacturing it, there is always some development time and planning. It becomes less and less realistic to win, size of your business, to fill that capacity in 2013 and to comfort you just a little bit on that, it is already embedded in our guidance. So our guidance is not assuming that we win more offshore business. It is based on the current backlog for offshore and on high voltage you can see in the Annual Report that we have a coverage of about 75% for the terrestrial high voltage cable business, which is basically in line with what we usually have, what we turn a year and we feel comfortable about that level.

Looking at railway in China, as you all know, that has not developed as expected in 2012 where it was anticipated that we would see a reactivation to a greater degree in H2. We did see a reactivation but at a slower pace than anticipated and the change of the Government in China and other aspects have probably been some of the causes for why that is moving slower. As you see from Michael's presentation, we actually did see growth of about 15% in Q4, so we are seeing this development moving forward but it is happening at a slower pace and that is also embedded in our guidance for 2013.

So those are some of the key observations on the market side moving out of 2012 and into 2013. 2012 we spent an enormous of resources on stabilising the Cable business, improving procedures, etcetera, and, as already covered, we are starting to see the effect of that but it is also fair to stress that we are not in any way satisfied with the performance of the Cable business. With the current level of earnings, it is equal to 0% return on invested capital and therefore far from where we want to be with that business, where it is still our ambition to drive the Cable business forward in the coming years to support our overall return target of 15-20%.

If we look forward, we are also mentioning in the report that we are organising the Cable business into three distinct business units: one for products, one for projects and one for the APAC region. You will notice – we will not change the segmentation of our reporting in this format but that is how we internally drive the Group basically as of Q1 2013 and therefore it will drive more transparency, it will drive more accountability within those three distinct business areas where the nature of the business is very different from one to the other and that's the key reason for why we have now organised the business accordingly to the business dynamics.

We will, of course, continue all our effort on improving our operational excellence programmes and from that we should see further stabilisation of the business and we should also start to see enhanced earnings coming out of those initiatives. We have some opportunity to boost our efforts within the high voltage offshore area, opportunities that await more visibility on the market development in that area but we still expect the renewable energy area within offshore to come back and show a step change in activity in coming years. All research points in that direction and we will continue to monitor that development and in due time take the necessary actions where we have opportunity for relatively modest investments to add another CCB line in Cologne. We are planning to add one more turntable in Cologne which will increase the flexibility quite a bit and we have established the logistic hub in Rotterdam, which will be ready in Q1 2013. With all that in place, we are well-positioned for the opportunity within offshore wind but after awaiting that, it really starts to take off to a new level.

With that, let's move to Nilfisk-Advance. On page 32, you here see the demographic of sales. Not a whole lot of change compared to last year. So I will move further on to page 33 and reflect a little bit on what we saw in 2012 and what is ahead of us in 2013. As already covered, the mature markets do not yield a whole lot of growth but we have seen a good development in some of our key markets and it is also our reading that we continue to gain market share in Europe. One of the reasons for that is that we have a very strong footprint on our service offering in Europe and we continue to pay due attention to that and invest in it and that has also been the case of 2012 where we have also increased our service organisation further.

In the US we earlier on in 2012 reorganised the Americas business in line with how we have been operating in Europe and APAC for years. So now we have a global one company organisation where the operation is organised in one distinct organisation, including all factories and supply chain activities, including the Americas. That change took place January 1st last year, so we are now one year into that and it's moving in the right direction. That left then the go-to-market part of the organisation, the front end of the US organisation to be reorganised and realigned and that took place mid-year. So now we are in place and have the same organisational structure all over the world and thereby we have the right set-up to go for the opportunities we see in the coming years.

We continue to expand in markets where it is relevant to expand our footprint, in emerging markets and other interesting markets. A small initiative in that aspect was our establishment of a subsidiary in Peru in this year. We continue to have a strong focus on the BRIC+MT and other emerging markets and we have seen very satisfactory development in China. In particular the outdoor segment in China is showing a very healthy development where, among others, we have seen the benefit of introducing some of the outdoor machines we got into our portfolio as part of the recent positions within outdoor in the last couple of years and they are being well-received in the Chinese market and other emerging markets.

Then, as already covered by Michael, [where costs] is combating the fact that we have not seen a whole lot of growth overall and therefore we have maintained and therefore we have maintained a very strong cost focus and focus on import duty increase and that is why we have been able to elevate the EBITDA margin from 11.6% to 11.9% despite the lack of operational gearing with a flattish top-line. That will also get a lot of attention in 2013 as we do not expect a whole lot of change in market dynamics. So that will remain high on the management agenda also going forward.

We continue to execute on our Must Win Battles, which are the cornerstones of the strategic development in Nilfisk-Advance. As we have discussed on previous calls, we did 12 months back and in earlier periods have some issues with our delivery performance and then we changed the efforts in that area and the Must Win Battle within delivery is basically fulfilled now. We now have a very high and stable performance, delivering products according to promises to our customers and therefore the expectation is basically that we can declare victory on that sometime in 2013, not meaning that it will not receive attention going forward but then it moves lower on the management agenda.

Quality continues to get a lot of attention and we are step-changing actually on quality efforts in line with the well-known recognition that the number one criteria for buying Nilfisk machines in the contracting segment is reliability and therefore we do see, indeed, opportunities also to further increase the quality of our products to support that and go for those opportunities. In order to stay aligned with our customers, we have over the last more than a year put a lot of effort into implementing promoter score in the global business system of Nilfisk-Advance and we continue to track that according to that system. We also there see opportunities to further our step changes in 2013. So those are some of the headlines on Nilfisk-Advance.

Moving to Phototonics on page 36, I will cover that briefly but the overall headline is that we basically are ready for the industrialisation of these products based on the acceptance we have seen from global blue chip application builders in the last couple of years. We continue to see strong sales of the Super K lasers primarily going into the microscope arena but also in a number of other application areas like oil and gas, temperature assessing, etcetera. We see good traction from those technologies and the Photonics Group continue to expand also on their front end to be sure we are in front of all relevant customers with these interesting technologies.

With that, we are ready for the Q&A so I will ask the operator if we have anybody online that wants to ask a question.

Questions and Answers

Operator
Please press *1 if you would like to ask a question. Your first question is from the line of Klaus Madsen. Please go ahead.

Klaus Madsen – *Handelsbanken*
Hello, it's Klaus Madsen here from Handelsbanken. First on the Cables business, you said that the coverage on the submarine side is about 50% for 2013 but how do you look at 2014 and 2015 with the pipeline of projects that you are addressing? Then on Nilfisk, could you elaborate on the geographic performance in Q4 and perhaps also shed a bit of light on how you view the key regions into 2013? Then finally, on the Photonics business, you have had a strategic review of that business I believe and considering to invest more heavily in integrational or channel access or applications. Is there any news on that? Thank you.

Thomas Hofman-Bang – *NKT Holding A/S*
Thank you, Klaus. If we take the questions in the sequence you asked them, on the Cable business it is correct that we have about 50% coverage on submarine for 2013 and, of course, it's a relevant question, how do you look at 2014 and 2015? We look at 2014 and 2015, as basically already covered in the presentation, that we see many, many projects out there that are being worked on and they are sizeable. Actually, we see a trend in this industry that the size of projects is becoming bigger and bigger and we are in dialogue also, close dialogue, with customers about projects, sizeable projects, for 2014 and 2015 but it's impossible to judge the timing of it, when they are ready to push the button, when they have the finance in place, when they read the environment so that they want to go ahead and do it. Just to give you a sense of size on these projects, many of them are of a nature and size so that they basically cover a year of production capacity for us. So it's rather binary what time of coverage you have with that nature of business.

If we turn to Nilfisk-Advance, Michael covered the development in Q4 which, if you just compare it to available numbers from peers, looks fine but it clearly reflects a Europe which is tough and where there is no growth and it reflected a US business that does show growth. So it is very much in line with the manufacturing PMI trends that we showed you earlier on in the presentation. Looking into 2013, we do not have any different perspective on that. We have basically a perspective that it will be the same with basically no growth in Europe, very modest growth in the US and okayish growth in emerging markets are the headlines for 2013.

On the Phototonics business and a strategic direction, it is correct that we have undertaken a strategic review on Phototonics in 2012, out of that coming a clear segmentation within three distinct business areas: sensing as one area, imaging as another area and equipment for fibre handling and manufacturing as a third area. With that and with the current performance and with the market acceptance, it is correct, yes, we have high ambitions for Phototonics in the coming years. Will it result in further investments? Will it result in acquisitions? Hard to tell but we have a better feeling about Phototonics and therefore we believe we have a better platform for going for the opportunities we see in that industry but it will happen gradually, no big bangs to be expected.

I hope that answered the questions.

Klaus Madsen – *Handelsbanken*
Yes, thank you. And just one follow-up on the Cables business. As you now have broken the business into three parts (the products, projects and I guess the emerging markets part of the business), does that in any way signal any changes or direction in your strategic commitment to parts of that business and have you become more or less likely to potentially divest certain parts?

Thomas Hofman-Bang – *NKT Holding A/S*
It does not signal any changed prioritisation. It is a clear reflection of the fact that the nature of the business within those three areas is very different and therefore we should align ourselves accordingly but it is also fair to say that it, of course, creates more transparency and more flexibility because it’s different opportunities we need to pursue in those three areas. As we are also stressing in the report and I have also covered in this presentation, we do see a high level of competitive pressure in the cable industry and it will lead to further consolidation of the cable industry where you saw a bigger example of that more than a year back when Prysmian and Draka merged.

We expect more will happen and it is clear that we will participate in that in any way that makes sense for our shareholders in terms of value creation. Whether that means partnerships, divestments or even acquisitions is not possible to tell today but it will then distinctly happen within those areas and we are still committed very much to all three of them. I hope that answers the question.

Operator
Thank you. The next question is from Patrick Secterbert from Nordea. Please ask your question.

Patrick Secterbert – *Nordea*
Hello, gentlemen – two questions relating to Q4. The first one is relating to your working capital development in Q4. Was that as you were expecting or was it better than expected and, if it was better than expected, what caused this rather nice flow in the working capital?

Thomas Hofman-Bang – *NKT Holding A/S*
Working capital received a lot of attention for a long time and also received a lot of attention in Q4 and, as we have also discussed on previous calls, we were not satisfied with the level of inventories in Nilfisk. We took deliberate action one and half years ago as part of the issues we had in our supply chain to increase our inventory levels and then when we reached the more than 95% delivery performance, we then started to work on bringing inventories down and we have seen a very good development on that also in Q4 in Nilfisk.

On top of that, we have worked hard on the receivables side in general and on the overdue side in particular. Also there we have seen good development in both Cables and Nilfisk on bringing the absolute level and relative level for overdues down. We have had some specific issues in China and we have worked hard on that as well and also seen good development on that. Then, of course, on the projects side of Cables, depending on how the production is planned and how the milestone schedule is agreed with customers, that can give some fluctuation and we see the very positive impact from that in Q4 as well.

So it’s the sum of many different initiatives that has caused this development but it is also important to stress that actually on a negative note it is reflecting that we have not been able to announce any orders. Had we been able to announce orders in the offshore business with prepayments, which is typical for those projects, you would have seen an even stronger development in working capital. So that upside remains for future periods while we, hopefully, start to see good strong order in the offshore side again.

Michael Lyng – *NKT Holding A/S*

Maybe just to add to what Thomas already said, you should expect going into 2013 that we would see an increase of working capital, so a build-up in the coming quarters which is reflecting the seasonality pattern that we have in our business. We have also seen that the last couple of years and then we always see a stronger Q4.

Patrick Secterbert – *Nordea*

That was my next question because I suppose with a year with no growth, there should be room at least from a full year perspective to reduce the working capital further.

Thomas Hofman-Bang – *NKT Holding A/S*

As already covered by Michael, we have ambitions for further reductions. We are still not at the level where we believe we should be in total terms for working capital in our two main business lines.

Patrick Secterbert – *Nordea*

Okay. Then my second question is related to the growth in Nilfisk-Advance again. You clearly outperformed your peers in EMEA and in Americas. Have you been doing something special in Q4 to achieve this stronger growth?

Thomas Hofman-Bang – *NKT Holding A/S*

There are no simple tricks in this business. It’s a matter of having the right product offering, being in front of the customer, having good delivery performance, having a good handle on the customers, good service offering, etcetera. So there are no unusuals, no special tricks or one-offs in the quarter. It’s the effort or Nilfisk has simply been doing a very good job.

Patrick Secterbert – *Nordea*

Okay, thank you very much gentlemen.

Operator

Thank you. Your next question is from Claus Almer from Carnegie. Please go ahead.

Claus Almer – *Carnegie*

Thank you. Hi and congratulations with the share price performance today. The first question goes to your net debt to EBITDA target. This is now below your guidance of 2.5 times. Are you leaving some flexibility for M&A or how should we read this target? That's the first question.

Thomas Hofman-Bang – *NKT Holding A/S*

It's, of course, an opportunity but it's not that we have a lot of prospect stacking up. So it's an opportunity and now we have the muscles to pursue M&A, if relevant and if value-creating, and that opportunity has not existed the last couple of years with the high gearing level as a result of the strong organic efforts, in particular, in the Cable business but now, with the house in order and the balance sheet in order, we do have the muscle to do what is necessary and relevant to do and we will continue to have a very strong focus on the development of the Group but should we come across interesting M&As, we will, of course, look at it and we have the muscle to do that.

Claus Almer – *Carnegie*

Okay. Then about Nilfisk and the impressive margins received especially in Q4, are these margins sustainable going forward or would you now start to invest in sales activities and so on?

Thomas Hofman-Bang – *NKT Holding A/S*

We are very committed to protected earnings in Nilfisk, as you have seen in the last couple of years, so that has a high priority. We, of course, also have a view to investing in the business and being long term. If you read the strategy part of the Annual Report, you will see that we are stressing that we are long term and we are investing for the long term value creation in our business lines. We will continue to have that philosophy. So could the margin drop for a quarter or two? Yes, it could, not that we have planned it but we are doing what is the right thing to do for the business and we definitely have higher expectations longer term EBITDA in Nilfisk than the current 11.9%, that is also fair to stress.

Claus Almer – *Carnegie*
Then my final question goes to the Cables and the high voltage]segment. Let's just assume that these [sub-sea] orders will continue to be at a very low level for 2013 and 2014 maybe. Will there be any other markets like Russia that you could target to keep a certain utilisation rate on your factory?

Thomas Hofman-Bang – *NKT Holding A/S*
Yes, there are opportunities in areas outside Europe and we historically have been operating high voltage cables in Russia and that is an opportunity. There are from time to time also opportunities in the Middle East even though it has been extremely competitive for the last couple of years, so we have not been very active in that region. You saw us moving into Australia a couple of years back where we have actually had some good high voltage business and are now also starting to have some good medium voltage business down there. So yes, we are, of course, looking for other market opportunities but that can only compensate partly because part of the factory is predicated to offshore and those assets, of course, will not benefit from terrestrial high voltage business in other regions.

Claus Almer – *Carnegie*
Okay. And are you right now starting to pursue these other market opportunities or is it a kind of wait and see, let's see what happens for the next six months or so?

Thomas Hofman-Bang – *NKT Holding A/S*
It's on the radar.

Claus Almer – *Carnegie*
Then my final question goes to the pricing and terms for high voltage and sub-sea orders. If you could talk about sub-sea without having any orders, have you seen any changes to that during 2012?

Thomas Hofman-Bang – *NKT Holding A/S*

Overall, the answer is no, meaning that we still see the high voltage market as being quite competitive and we have not seen any (motion] in prices in the offshore, reflecting that the nature of those two business areas are quite different. The number of players in the offshore still is limited and, if you follow communications from competitors, you will see that a number of competitors had issues in that field and customers are also quite aware of the limited capacity on the cable side should all the planned initiatives go ahead and therefore we see a tendency among potential customers that they are very observant of the fact that they might discuss capacity in 2014/2015. So a lot of dialogue is also centring around how they can secure production capacity.

Claus Almer – *Carnegie*

But that we have heard I guess for one or two years now. That has not triggered the signing of contracts?

Thomas Hofman-Bang – *NKT Holding A/S*

It has not and it's a moving target.

Claus Almer – *Carnegie*

Okay, thank you so much.

Operator

Thank you. Your next question is from Klaus Kehl from New Credit Markets. Please go ahead.

Klaus Kehl – *New Credit Markets*

Hello, Klaus Kehl from New Credit Markets – a couple of questions. First of all, could you talk a bit about what's going on in the high speed cable market in China and what would be reasonable to expect for 2013 since it has been kind of a roller coaster for quite a while? Secondly, could you just remind me exactly how much submarine constitute sales in cables? After that, I have another question.

Thomas Hofman-Bang – *NKT Holding A/S*

On high speed, you saw we grew 15% in Q4 2012. We are not guiding specifically on segments for 2013 but it is part of our planning that we also expect growth in railway compared to 2012 and what we have planned we already have in our backlog. We are not planning or we are not depending on winning more business. We are purely depending on that projects already in backlog... That's how far we can go on answering that question.

On sub, we have never given you, the market, of what is exactly our revenue on sub. So what we are breaking out is what high voltage and sub is in total and you see that our project business, which is basically high voltage and sub, account in Europe for around I think 35%.

Klaus Kehl – *New Credit Markets*

Okay. Then you guide – for 2013 you say you expect an EBITDA of approximately the same level as in 2012 but what should we expect below that line? First of all, should we expect one-offs and, secondly, should we expect depreciations to be roughly in line with 2012?

Thomas Hofman-Bang – *NKT Holding A/S*

We are not planning for any one-offs and depreciation should run at the same level as you see the current trend.

Klaus Kehl – *New Credit Markets*

Okay. Finally, what about the tax rate? The tax rate seems quite high here in 2012 and we have also seen some changes from the Danish Government the other day. Could that have a positive impact on you?

Thomas Hofman-Bang – *NKT Holding A/S*

I think that's a question for Michael.

Michael Lyng – *NKT Holding A/S*

As you probably know, we have tax assets related to the joint taxation in Denmark and we today value that at a current tax rate of 25%. So if they decide to take down the tax rate to 22%, we will actually have a negative impact from that journey of approximately 10 million DKK hitting the P&L

on the tax line but, other than that, the tax rate is more or less in line with what we have communicated previously, the range of 28-30%, and that is also the expectations going forward.

Klaus Kehl – *New Credit Markets*
Okay, thank you very much.

Operator
Thank you. Your next question is from Daniel Patterson from SEB. Please go ahead.

Daniel Patterson – *SEB*
Good morning gentlemen, Daniel Patterson here – a couple of questions. First of all on the guidance, you have stopped giving divisional guidance and I guess that makes a lot of sense but any flavour you could add here would be good. From reading the report and what you are saying, the indication is and the feeling is that Phototonics probably a little bit better, Nilfisk better and Cables worse, netting out around zero. Is that the right way to think about it? Any flavour you could give would be appreciated.

Thomas Hofman-Bang – *NKT Holding A/S*
That's very easy to answer, Daniel. We are not adding any flavour to it. It's well thought through why we are guiding as we are and therefore it would not be fair to start adding flavour to it on a conference call.

Daniel Patterson – *SEB*
Well, then I might follow up on that. What would you suggest that shareholders do here? What sort of metrics should they use to gauge the performance of the individual business lines through 2013?

Thomas Hofman-Bang – *NKT Holding A/S*
I believe we are very transparent about the business model and how it works in the individual divisions and therefore it should not be very complicated to model. We have been very specific about the operational gearing level in our businesses, meaning what does it mean if we grow or if

we do not grow, and analysts that have followed the Group for a long time should also have a good feel for what are the opportunities within further structural improvements to the business. So that's where shareholders should consult good, intelligent analysts and they should then be able to help them.

Daniel Patterson – *SEB*

Okay, duly noted. One additional question on guidance: a year ago you guided EBITDA of 1,050 to 1,250. So my question is, is not possible to reach 1,250 or, if it is, what could bring NKT up to around the 1,250 level on EBITDA?

Thomas Hofman-Bang – *NKT Holding A/S*

Daniel, we are not going to add any more flavour to the guidance. It is as it is and you know as well as everybody else that with our business model growth on the top-line delivers a lot of problems on the bottom-line and that still remains so. If we achieve different development on the top-line compared to what we are planning, it will most likely have an impact on the bottom-line.

Daniel Patterson – *SEB*

Sorry, maybe I phrased that a little bit poorly. My question is really more sort of in the range what's the risks around the guidance? What is the biggest risk that could go wrong and, on the other hand, what's the biggest upside?

Thomas Hofman-Bang – *NKT Holding A/S*

If the pre-assumption turns out differently than planned, meaning that if Europe is down 10% because (I don't know) something happens, then our numbers will be different. If it turns out that we see 10% growth, the numbers will be different. If the Chinese decide to stop all build-out of high speed rail and cancel their already ordered orders, the numbers will be different. If we see a disaster on a project in cables beyond the risk provisions we have on projects, the numbers will be different. So the risks are – as you know, the risks are not very different from what we communicated 12 months ago and on pages 10 and 11 in the Annual Report we are elaborating over our risk management model, so that should also help you in trying to understand the risks of the Group.

Daniel Patterson – *SEB*

Thank you. Just one final question: you had a fantastic cash flow performance in Q4 and you are also proposing a DKK 8 dividend. I guess that is partly due to the strong cash flow but also partly due to Flexibles. What's your thoughts on dividends and sort of the capital structure policy? Should we see starting more dividends or what's your thoughts?

Thomas Hofman-Bang – *NKT Holding A/S*

No change to the capital structure policy. So the three criteria that we have – I think it's more than 10 years ago we defined them. So what we see as an optimal capital structure remains unchanged and that also goes for our dividend policy where the dividend policy is to go with a rate around a third of the annual ordinary result after tax. Then we are making an exception in this year where basically we are paying out 100% of the ordinary result and, yes, you can read that as a desire to let shareholders feel that we had a good transaction in Flexibles.

Daniel Patterson – *SEB*

Okay, thank you very much.

Operator

Thank you. Your next question is from Jesper Christensen from Alm. Brand. Please go ahead.

Jesper Christensen – A*lm. Brand*

Hello gentlemen – two questions if I may. The first one is on Nilfisk. Your margin in Nilfisk in Q4 as I read it is 13%. That is magnificently up from Q1 and from the prior three quarters that was around 11.5 on average. Is there anything particular going on in Q4 that increased margin to this record-breaking level? I don't think I have ever seen Nilfisk at almost 13% in margin. If you could just take that one first.

Thomas Hofman-Bang – *NKT Holding A/S*

There are no one-offs. There are no particular items to mention because, if so, we would have mentioned them in the report. So it's a result of good discipline in the market, good execution, good cost containment, good capacity adjustments in the factories, which is an area which we have not covered yet in today's presentation. It is worth mentioning that that is actually a challenge from reducing inventories on your overhead in your factories and, despite the fact that we have been able to reduce inventories and therefore have even lower activity in our factories, Nilfisk has been able to adjust the capacity and therefore bring the overhead cost in line during the year and in Q4 in particular.

Jesper Christensen – *Alm. Brand*

Okay, thank you. The second question is you no longer guide on how the different divisions are expected to do on organic growth, I am particularly interested in Electricity Infrastructure, as it is still called... Could you just ... give us an idea on what you expect from this division in 2013 now with your view on the order book? Will it still be able to grow its revenue from 2012 level? What's your view on that?

Thomas Hofman-Bang – *NKT Holding A/S*

I have a view but I'm not going to share it with you, unfortunately, because we are not guiding on that detailed level.

Jesper Christensen – A*lm. Brand*

Thank you.

Operator

Thank you. We have no further questions at this time.

Thomas Hofman-Bang – *NKT Holding A/S*

Then I would like to thank everybody for participating on today's audio-cast. We will back with our Q1 on the 22nd May and before that we will have our Annual General Assembly on the 21st March where we will also I think (I am looking at my communication manager here) we will have a webcast I guess – or what will we have? Yes, we will have a live webcast from the Annual General Meeting so you will be able to follow that if you don't participate physically. Thank you very much for now, bye-bye.