

Interim Report Q2 2013
NKT A/S
August 21, 2013

Thomas Hofman-Bang: Welcome to the audiocast in relation to the - - this morning's earnings release of the Q2 Report for NKT Holding. My name is Thomas Hofman-Bang. I'm President and CEO. And today with me on this call, I have my Chairman Jens Due Olsen and our CFO Michael Hedegaard Lyng.

The agenda today is slightly different than what we usually do because of this morning's announcement that we changed the governance structure and therefore we have the first item being that, and Jens Due Olsen will cover that.

So I'll hand over to you, Jens.

Jens Due Olsen: ...accountability and create a structure that is better aligned with our operations. The conclusion is what you see today is that our operating companies that were previously reporting into our holding company from now on will report directly to our Board. The overall strategy of NKT is maintained. We aim to maximise the value of our businesses over the medium- to long-term through operating improvements, sound financial management, and M&A. We will maintain the shared functions that are currently placed in our Holding Company. That is either functions that are direct consequence of NKT Holding being one listed company, so these are functions like corporate accounting, investor relations; all functions that we will - - that we do run jointly to save costs and provide efficient services to operation and these are functions like our treasury functions, our legal function, our global insurance programmes, et cetera. Michael Hedegaard Lyng, our CFO, will assume responsibility for all of the Holding functions and will also be the soul registered executive of NKT Holding with a title of Chief Financial Officer. As a consequence of this, our CEO Thomas Hofman-Bang will leave NKT towards the end of this month. Furthermore, our other Executive Director Søren Isaksen will step out of the Executive Team in NKT Holding and assume a position as responsible for the Photonics Group. The new structure will imply that the NKT Board and chairmanship will be Board and chairmanship of the Holding Company and of all three operating activities. This may increase the Board work considerably. We will adjust accordingly and also if so make a suggestion to the AGM in 2014 of appropriate Board remuneration moving forward both for 2014 and also for the remainder of 2013.

Independent of this, the CEO of Nilfisk, Jørgen Jensen, has resigned to take another job as chief executive of another company. The new CEO will be Jonas Persson, currently a member of the Executive Team of Assa Abloy AB and responsible for the large and fast growing activities in the APAC region. We are pleased as Jonas is the right guy to take over for Jørgen and to continue to the strong development of Nilfisk-Advance with the rest of the Executive Team in Nilfisk. You can read more about Jonas in our announcement. There will be a better opportunity for me to thank Thomas, Søren, and Jørgen. Here I will briefly thank Thomas and Søren for their fine and excellent contributions to the Company and for constructively working with the Board to reach and implement this structure. For Jørgen, I would like to say, "Thank you for your leadership and making a Nilfisk a world class company."

Following up on what Thomas mentioned before, I think if there are any questions to this announcement - - to this part of the announcement, I think it's appropriate for us to address those now.

Operator: Thank you. If you have a question, please press star then one on your touchtone phone. Once again, if you have a question, please press star then one on your touchtone phone. We have no questions at this time.

I will now turn the call back to your host.

Thomas Hofman-Bang: Thank you very much and thank you, Jens, for covering these - - the first item on the agenda. We will now move into covering the earnings release that we went to the market this morning, and we'll do that in the usual way where I will cover the highlights, Michael will cover the financial results, and then I will elaborate a little bit more over the performance in the quarter for our three business lines and then covering expectations and then we'll have Q&A in the end.

If we start with the highlights, we are satisfied with the positive development in earnings and growth here in the quarter, which is in line with the expectations, and that's also why we maintain our full year guidance unchanged. If you look at the growth we reported in total of 7% organic growth for the quarter and the key contributors here were the electrical infrastructure and railway parts of Cables thereby once again confirming that the strategic direction that Cables is on is right because where we had invested heavily in recent years is also what we see now deliver the growth and the earnings, but also the growth pattern of Nilfisk is very satisfactory if you compare to what we have seen from the marketplace in terms of reportings from competitors. The operational EBITDA is the highest level since 2008. And if you look up second quarter isolated, this is with the exception of 2007 and '8 where it was really cool years, this is the best second quarter ever for the Company. We have good capacity utilisation at the Cologne factory in the quarter and also with the order influx in second quarter both for high voltage and in particular an attractive submarine cable order we now are happy to report that we will have a full load of the factory for the remaining of 2013 as well. The growth in Nilfisk is delivered by Europe and the U.S. whereas the Asia-Pacific region is still running at a low level, but quite diverse because China and Australia are sticking out as being very challenging whereas other markets are delivering good growth rates. And Photonics, after a soft first quarter reported a solid second quarter with about 16% growth, and the sum of all this is that it meets our expectations and therefore we still maintaining the guidance to do a 2013 in line with what we reported in 2012.

If you look at the earnings development graphically, which you can see on page eight, then you can see that the trailing 12 months EBITDA is now stacking up to 1.068 billion and thereby making it the seventh consecutive quarter where we continue to improve earnings for the Company.

With that, I'll hand over to Michael for more details on the financials.

Michael H. Lyng: Thank you, Thomas, and we will start with an overview of financial highlights. We ended up with a revenue of DKK 4 billion, similar to an organic growth of 7% in second quarter and 5% in the first half of 2013. NKT Cables realised 10% growth; Nilfisk-Advance 4% growth, and Photonics Group 16% growth in the quarter, and on this slide you can also see the numbers for the first half of 2013.

All of the numbers are considered satisfactory, and later on in the presentation we will break it up further for each of the segments. EBITDA came in at DKK 279 million, similar to a margin of 8.5% at standard metal prices, which is above the same period last year where EBITDA came in at DKK 239 million and 7.8% margin. We're satisfied with that result and it is in line with our internal expectations and full year guidance. Working capital increased from DKK 3.1 billion in first quarter to DKK 3.3 billion in second quarter. The last 12-month trend curve also increases from 19.5% to 19.9%. The increase was mainly driven by NKT Cables and can be related to the project business, and later on in the presentation we'll come back to that in further details. As a consequence of high working capital, we also can see an interest and increase in net-interest bearing debt ending at DKK 2.8 billion, similar to a ratio of 2.7 times last 12 months EBITDA and an unchanged level compared to end of first quarter. Finally, as already mentioned by Thomas, we maintain unchanged expectations for 2013, so we still expect revenue and EBITDA to be on par with last year and in addition we expect the revenue at standard metal prices related to the Ericsson acquisition of approximately DKK 500 million.

Turning to page 11, looking at EBITDA margins and trend curves in NKT Cables. NKT Cables realised a 10% growth in second quarter and 7% for first half year. Especially electricity infrastructure with 19% and railway with 48% growth showed a positive development while construction continued to decrease now with 13%. Automotive flattened out compared to previous quarters and increased with 2% only. Electricity infrastructure was positively affected by full utilisation of the factory in Cologne as well as high activity within installation work offshore. In addition, a new order in the offshore segment with fast delivery now secured full utilisation of the factory in second quarter - - in second half, sorry. Second quarter was particularly good for railway as we catch up on the backlog and produce new orders as well. We continue to see good growth rates for railway even though not at the same level as for second quarter into second half. Construction remains tough markets and we can only hope for that the positive trends for Europe will improve the construction industry. EBITDA a nominal DKK 70 million, similar to a margin for the quarter of 4.8%, up from DKK 45 million and 3.4% margin last year, so positively affected by the high activity in offshore and railway. EBITDA on the last 12 months' margin curve is up from 5.4% end of first quarter to now 5.7% and thereby continuing the positive trend that we have seen for the past seven to eight quarters. Peers reported more or less same tender situation as we do within infrastructure where projects are continuing to be big, but also more complex, but customers also being reluctant to close contracts.

If we turn to page 12, looking at the trend curves for Nilfisk-Advance. In Nilfisk-Advance, we showed a solid organic growth of 4% in the quarter driven by Europe up with 5%, Americas with 6%, whereby we in the Asia Pacific saw that this situation differs from country-to-country and all-in-all we saw a decline of 3%. If we compare our overall growth to peer, we can - we are of course very satisfied with our performance, particularly in Europe. EBITDA nominal in the quarter of DKK 224 million, similar to 12.9%, slightly up compared with DKK 280 million and 12.3% in same period last year. EBITDA margins looking at the last 12 months' trend curve recovered the small reduction in the previous quarter. Even though gross profit is still under pressure, we have been able to reduce fixed costs compared with sales and thereby EBITDA margins are slightly up from 11.8% end of first quarter to now 11.9% where we also ended last year.

Continuing to slide 13, looking at Photonics. In the Photonics Group that we saw a satisfactory 16% organic growth in second quarter and thereby really a regained momentum after the decrease we saw in first quarter where we were down minus 6%, so year-to-date positive growth rates of 5%. For the Imaging segment, we saw solid growth and solid pipeline of opportunities where we within the Sensing entered into new development and corporation agreement and we saw positive growth and a rise in demand. For the last area, the Fibre Processing equipment, we continue to face hesitant customers and realised as more negative growth in that segment. All-in-all, we saw a EBITDA of minus DKK 1 million, up from last year's first - - second quarter of minus DKK 4 million.

Continuing to slide 14, looking at working capital. Working capital ended at DKK 3.3 billion, up from DKK 3.1 billion end of first quarter 2013. This result in the last 12 months ratio up 19.9%, up from 19.5% end of March. In Nilfisk-Advance, working capital was 1.2 percentage points lower than at the end of the same period last year, which was due to continued reduction in inventories and increase in creditors. By contrast, there was an increase in debtors where we do some deferred payments from customers. In NKT Cables, we saw an increase of around DKK 200 million compared to same period last year. The increase was expected and was driven by the shift in funds tied up in execution of the contracts from the existing order book.

Turning to slide 15, looking at debt position. The net interest-bearing debt was DKK 2.8 billion, which corresponds to an unchanged ratio of 2.7 times operational EBITDA compared to previous quarter. The development from end 2012 reflects the increase in working capital and payment of dividend of approximately DKK 200 million. We are more or less in line with our internal target for an optimal capital structure as illustrated by the ratios in the blue box, and on top of that we do expect that a cash flow from operating activities in the second half where we normally see a reduction of working capital.

And turning to slide 16, the cash conversion rate last 12 months fell from 110% to now 47% end of second quarter 2013. In the past 12 months, working capital increased with DKK 322 million, which of course affects the cash conversion negatively. But as mentioned in the previous slides, we expect improvement in the cash conversion in the working capital and thereby impacting cash conversion positively in second half.

And that ended the financial presentation, so I hand over to Thomas.

Thomas Hofman-Bang: Thank you very much, Michael. And if we continue in the presentation, the first slide in the Cables' section is a picture of the inauguration of our offloading facility in Rotterdam a couple of months back where you see one of our big barges with the drums where we able to transport the cable from Cologne to Rotterdam and then loading them onto the big turn tables that we have at that facility.

If we turn to page 20, you see the financial highlights, the growth numbers, and a couple of observations for the performance and events in the quarter and, as already mentioned, it is the electrical infrastructure that continues to drive the performance of NKT Cables where the products' business being the more commoditised products within low voltage and medium voltage continue to suffer from the recession climate that we have in Europe. On the offshore side, we've had good activity on the ongoing projects with good execution both in terms of

cable manufacturing and also installation campaigns, and on the order side we continue to see good order inflow on terrestrial high voltage with many smaller orders supporting both the situation for this year and also building up as expected backlog for the coming couple of years. And on top of that, we had the fortune to also secure an offshore project that will result in high capacity utilisation in the second half of 2013 for the part of Cologne related to that. Looking forward, we can report that we continue to see a healthy tender activity and intense dialogue with customers on many rather large projects and therefore it's still our belief that we are positioned to also build up a satisfactory backlog for 2014 and 2015. The window is still not closed for that, and we are working intensively on that and we report once the projects moved into final reward. In the China market, we continue to experience a rather fierce competition both with relation to high voltage and medium voltage and that results in rather a stiff price competition, but we are up for that battle and continue to fight it and we actually in the quarter secured a nice 220 KV project for a Chinese utility confirming the direction on the strategic case positioning our-self in medium voltage as well high voltage in China. On Railway, we had a very satisfactory development in the quarter, reporting 48% growth, which is an unusual high growth rate, which of course is partly related to the fact that the activity last year was low because that was the year where we saw the activity resuming after (inaudible) situation in previous years, but we do see a good activity level and we also expect that to continue out this year and we have full backlog coverage for our forecast for this year on railway. Construction continued to be difficult in basically all the markets we aimed in that segment and on top of that we see fierce price competition in Eastern Europe and that's why we see once again a contraction in the quarter, so we're down 13%, meaning that for first half we're down 16% in that segment. Having said that though, in the last 30 to 45 days we see small signs that could indicate that the market is bottoming out now, so we might be at the low of that market, but it's still early days in relation to that. Automotive, which is a very small segment, falls but continues to be flattish to slightly negative, which is of course a result of partly automotive industry that we're addressing. And then as already covered, we closed the Ericsson acquisition and it will start to impact our numbers as of third quarter.

Moving to Nilfisk-Advance where on page 23 we have again the financial highlights, growth numbers, and key observations related to the quarter and, as already covered, we're very satisfied with the growth in particular in a very difficult Europe and thereby it's our firm belief that we have gained market share in the quarter. Looking at the market in Europe, it's still a diverse picture where the Southern part of Europe continues to be difficult whereas we have much better performance in some of the bigger markets in Northern and Middle Europe, which of course is also a result of our very strong business model where we are having a very strong presence with direct sales forces and service backup in those markets, which definitely supports the development we see in these markets. In the Americas, we once again had good growth, 6% for the quarter and thereby 5% for first half; and we're very satisfied with that. It's in particular the industry segment that drives the growth in that region. In APAC, we see Japan and Korea doing very well and on the other hand Australia and China continues to be difficult. However, we believe that based on the backlog outlook we have for China that we will see resumed and a step up in growth numbers for China going forward whereas Australia will probably be difficult for a while. It seems to be an economy heavily negatively impacted by commodity developments and we continue to take necessary actions in that market to

secure our market positions and thereby also for hopefully growth. We early this year raised our prices by approximately 2%. We saw some effect in Q1 and we saw full effect in Q2 from that. Despite that, we in second quarter once again saw a slight decrease in gross profit, which is solely a result of mixed changes in our portfolio. If you look at the growth margins on our various product lines, there is a rather big diversity also in gross profit levels on various product lines and therefore sales mix can have an impact, and that's exactly what we see. To combat the reduced gross profit, we have a very strong focus on our fixed cost and our cost to serve and in this quarter we saw again a good result from that protecting the bottom line and that's why we continue to report flattish EBITDA margins compared to previous periods. Working capital was down, as already covered by Michael, and we did a couple of small acquisitions in China whereas part of our growth strategy we continue to strengthen our front end by buying selective dealers in selected markets and in this quarter we secured two dealers in China, which of course is strengthening our market position there.

The gross profit development is graphically illustrated on page 24. I've already covered the development, so we will move on to Photonics where we have the highlights on page 27. They continue to have a good order intake and for the quarter they reported 16% organic growth, which is satisfactory. The Imaging and Sensing areas are the areas where we see the good development whereas the Fibre Processing area, which is more instrument-based sales, continues to suffer a little bit.

With that, we move on to expectations, and that has already been covered in the presentation, so we maintain our guidance unchanged, meaning that we expect to be on par with last year on a (inaudible) basis and then of course the Ericsson acquisition will add, as already mentioned by Michael, about 500 million in revenue and also a little bit of profit, but it doesn't change the overall picture.

With that, we're ready for Q&A, so I'll ask the operator if we have anybody online with questions.

Operator: Once again, if you have a question, please press star then one on your touchtone phone.

Gionata Crivelli from Bank Syz is online with a question.

Gionata Crivelli: Good morning. I have a question. **Looking to your guidance for the full year 2013, your guiding for Ericsson acquisition for flat sales over 2012, but implying that your organic growth plus 5% in H1, it means that H2 should experience a decline.** Thank you.

Thomas Hofman-Bang: You might have a point there. We had low visibility on the Nilfisk business and that's why we overall maintain our guidance. The guidance is also more related to the profit than to the top line, so we read the guidance more as that we will deliver an EBITDA in line with last year.

Gionata Crivelli: Thank you.

Operator: Once again, if you have a question, please press star then one on your touchtone phone.

Paul Jessen from Danske Bank is online with a question.

Paul Jessen: Yes, hi. **Question on Cables. As I recall, you said earlier on the Q1 that the guidance for the full year was based on the order situation at that time in the high voltage, which was not fully covered. Now you have covered the full capacity for 2013 and guidance is unchanged for the Cables' business. Is it somewhere else where you are behind schedule or how can you... Any word from that?**

Thomas Hofman-Bang: That's a good question, Paul, and looking at the numbers for Q2, it's clear that the infrastructure part of the business is doing better than we expected and that will also be the pattern in second - - in the second half. On the other hand, the construction and the medium voltage markets are definitely below expectations, so therefore it's a mixed bag where the sum of it is that we maintain the same outlook.

Paul Jessen: **And on the earning side, the margins on the high voltage should be better than what you miss out on the construction side.**

Thomas Hofman-Bang: Correct, but it's also project business where release of risk research in the projects are very backend loaded and we're very cautious to build elements like that into our guidance.

Paul Jessen: **And the new order you got which covers the second half, is that something you'd done before or is it some new technology area?**

Thomas Hofman-Bang: No, it's something we've done before.

Paul Jessen: Okay. **Then a question for the working capital, you say there will be an improvement in the second half. It was negative about 900 million in the first half. Will you get it all back in the second half or how should we see that?**

Thomas Hofman-Bang: As you know from the past, we normally see an improvement in working capital, thereby meaning a reduction in the second half. Part of that relates to the seasonality impact or development from Nilfisk-Advance, but also in the Cables' business we normally see a low working capital. We expect also in the second half here a better working capital in second half. Whether we would get the full 900 back, I cannot guarantee that. That's a question mark. Of course it also depends on what kind of development we see within the project business where you know down payment or a missing payment easily can impact the quarter or significantly can impact from one quarter to another quarter, so definitely an improvement in second half. But whether it will be the entire 900 million, question mark.

Paul Jessen: Okay, thank you.

Operator: *Once again, if you have a question, please press star then one on your touchtone phone. We have no further questions at this time.*

I will now turn the call back to your host.

Thomas Hofman-Bang: Operator, can you include our chairman here too in the call again?

Jens Due Olsen: I'm here.

Thomas Hofman-Bang: You're there, okay.

Jens Due Olsen: Yeah.

Thomas Hofman-Bang: So just wanted to check if there were any questions related to Jens Due Olsen's presentation.

Operator: Paul Jessen from Danske Bank is online with a question.

Paul Jessen: Yes, Jens, I can have some questions for you. **Now you changed the structure and as I see the new structure on the governance of NKT, to me it seems a little more or similar to what we've seen earlier your comment GN. Should we see any indications here of a potential preparing for splitting the Company or divesting parts of the business?**

Jens Due Olsen: No, Paul, this is - - the objective of this is really just to provide alignment between the Board and our operations and to provide transparency and also frankly to make faster and quicker decisions. So you're absolutely correct, y former employer has done somewhat of a similar structure, but it is again to improve decisions, to improve transparency, to create better alignment. Our strategy is the same. We are the right owners of our businesses. We want to create medium- to long-term value, and we believe we can do that both in Nilfisk-Advance, in our Cables' business, but also in Photonics.

Paul Jessen: Okay, thank you.

Operator: Once again, if you have a question, please press star then one on your touchtone phone.

Gionata Crivelli from Bank Syz is online with a question.

Gionata Crivelli: Hi. Sorry again. **Just to better understand because you said before that it's more - - the guidance more close to the EBITDA, but looking to the EBITDA ex-one-off that you report in H1, which is already 13 million above what you had in H1 last year, given the guidance that which is expecting flat over 2012, is it implied that is H2 not as strong as the H1 over H1 or is just because you're conservative on the guidance?** Thank you.

Thomas Hofman-Bang: As you can see from the slide eight in the presentation where we are looking at the last 12 months EBITDA margin and EBITDA number, then we are at 1.068 billion, which is slightly up from last year result of 1.039 billion, so we're slightly above. So if we maintain second half last year into second half this year, then we will be slightly up, but you know we're talking about small numbers here, so - - and that is also what you should include in how you conclude on our numbers and our guidance.

Gionata Crivelli: Okay, just another question quickly. **On the submarine cable because how is the current evolution of the backlog? And for the Q4, do you have some order to be delivered?**

Thomas Hofman-Bang: Yes, we have continuous delivery from our backlog in this year and with the order inflow we saw in the second quarter, as already mentioned, we will have a full production capacity utilisation this year and we'll also have installation campaigns going this year. Some of it the backlog will also stretch into next year and we'll also probably have some installation going next year from the current backlog.

Gionata Crivelli: Okay, thank you.

Operator: Once again, if you have a question, please press star then one on your touchtone phone. We have no further questions at this time. I will now turn the call back to your host.

Thomas Hofman-Bang: Then I will thank everybody for participating on the call and personally I'll thank everybody for the cooperation between - - for the last 13 years. This will be my last call. It has been a pleasure working with you guys. Thank you very much. Bye-bye.

Operator: Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.

Please Note: * Proper names/organisations spelling not verified.
[sic] Verbatim, might need confirmation.
- - Indicates hesitation, faltering speech, or stammering.