Report by the Board of Directors for Roblon A/S – financial year 2019/20
Jørgen Kjær Jacobsen, Chairman of the Board

At Roblon's annual general meeting last January, the Company expressed expectations of growth in revenue and profit before tax for 2019/20. Management forecasted total revenue in the DKKm 260-280 range (DKKm 267.2) and a profit before tax in the DKKm 20-25 range (a loss of DKKm 19.7).

The Group's revenue was expected to grow in 2019/20, primarily within strength members for fibre-optic cables (the FOC product group). This expectation was supported by market growth in the FOC industry segment, which includes a number of Roblon's strategic customers.

Profit before tax was also expected to be favourably affected by changes in product mix and expected improved productivity in the FOC product group.

2019/20 proved, however, to be a difficult year for Roblon.

It began on a positive note in the first quarter with a better-than-expected performance. Order intake, revenue and profit before tax were above the guided levels and, as expected, the product mix was more attractive. Also, in the first quarter Roblon signed a conditional settlement agreement with wind turbine manufacturer Senvion and its subsidiary Ria Blades. As most of you will remember, the large operating loss realised in 2018/19 was due to the failed trading arrangement with Ria Blades as a direct result of Senvion's suspension of payments in the spring of 2019.

Let's rewind to April 20**18**, when Roblon issued an announcement stating that it had invested DKKm 13.7 in acquiring business activities in the USA and in that connection entered into a **three-year** project contract with the blade factory Ria Blades, which was owned by Germany-based wind turbine manufacturer Senvion, to supply fibre-based products for the wind turbine industry.

Having exercised due diligence by ensuring a strong contractual basis, Roblon was able to obtain a settlement amount of USDm 6.6 (approx. DKKm 45) following Siemens Gamesa Renewable Energy (SGRE)'s acquisition of Ria Blades. The settlement amount was due for payment shortly after closing of the conditional acquisition of Ria Blades. In January 2020, SGRE closed the acquisition of selected European assets from Senvion. Roblon had to await further information from Senvion, however.
At the end of the second quarter, on 30 April 2020, we were able to inform our shareholders and the press that Senvion would pay Roblon USDm 6.6 (approx. DKKm 45) in accordance with the settlement agreement. Against this background, Roblon upgraded the full-year guidance for 2019/20. Management now expected revenue to be unchanged in the range of DKKm 260-280 (2018/19: DKKm 267.2; DKKm 241.8 ex. Senvion), but an upgraded profit before tax of DKKm 65-70 (2018/19: a loss of DKKm 19.7, a profit of DKKm 4.4 ex. Senvion), compared with the previous guidance of DKKm 20-25.

This was about a month and a half after the Danish government's first press briefing announcing lockdowns and restrictions due to the COVID-19 pandemic.

Roblon's above-mentioned announcement also stated the following:

"In relation to COVID-19, Roblon in Denmark is complying with the Danish government's request that Danish companies take every possible precaution to contain the spread of the virus. A number of similar strict precautions have been taken at the Group's production facility in North Carolina, USA, which remains in full operation. At this time, Management assesses that, overall, Roblon will be able to execute the business activities that form the basis of our full-year guidance. However, the COVID-19 situation may have an as yet unknown negative effect on Roblon's revenue and profit."

This was a reservation that all companies had to make in their profit guidance for the coming year. And the concerns proved fully justified, as was becoming apparent half way into the financial year. Roblon, too, was hit by the consequences of the ongoing pandemic.

At the beginning of May 2020, Roblon obtained a loan from one of the COVID-19 aid packages provided by the US government. The loan, which was equivalent to approx. DKKm 5, would be classified as a forgivable loan, subject to certain criteria being met. One of these criteria is that the existing number of employees must be maintained, which we at Roblon decided to do, regardless of the risk of low productivity during the period.

On 24 June, we presented Roblon's interim report for the first half, in which we lowered our full-year profit guidance. The profit for the period was not particularly affected by COVID-19, but the pandemic was beginning to have a negative impact in the following ways:

- a shortfall of orders and signals of uncertainty from the composite area, in which the primary markets in North and South America were – and are – severely affected;
- production equipment to enhance productivity at Roblon's US factory could not be delivered and installed as planned;
- productivity negatively affected by staff at Roblon's facilities and our business partners being infected by the virus;
- drastically reduced travel activity of Management and technicians between Roblon DK and US and to strategic customers and suppliers.

Management now expected revenue in the DKKm 250-270 range (DKKm 267.2; DKKm 241.8 ex. Senvion), against the earlier guidance of DKKm 260-280, and a profit before tax of around DKKm 0-5; DKKm 45-50 including Senvion (a loss of DKKm 19.7; a profit of DKKm 4.4 ex. Senvion), against the earlier guidance of DKKm 20-25; DKKm 65-70 including Senvion.

On 17 September, we released Roblon's interim report for Q3 2019/20. We maintained our profit guidance from the interim report for the first half, but with the risk of a downward trend due to the COVID-19 situation. The guided full-year profit before tax was expected to be realised, supported by a US government COVID-19 grant to Roblon's factory in North Carolina.

Unfortunately, the pandemic had a somewhat greater adverse impact in the fourth quarter than Management expected. The Composite product group, which has activities related to the oil and gas offshore industry in South America, including Brazil, was particularly hard hit by the pandemic, which meant that orders expected for concrete projects were not placed as expected. Project orders had been put on hold. Consequently, Roblon's full-year guidance for 2019/20 was further downgraded on top of the downgrade announced after the first half.

This despite favourable market conditions for the FOC product group in North America and growing demand from strategic customers throughout the financial year. During this period, demand even exceeded the capacity of Roblon's US subsidiary.

Throughout the period, activities were initiated to expand capacity and improve productivity. The implementation of these improvements was, and will continue to be, hampered by COVID-19, causing delays to the original schedule for the financial year.

Deliveries of essential machine parts for the improvement measures at Roblon's US factory were delayed. The current travel restrictions have also taken their toll, preventing the physical presence of critical competences from Roblon DK. Finally, key employees at the US subsidiary have been hit directly or indirectly by COVID-19.

The Group furthermore incurred a number of expenses related to COVID-19, for example for recruitment of temporary staff as a result of increased sickness absence.

On 30 October – one day before the end of the 2019/20 financial year – this caused Management to once again lower its full-year guidance. Management now expected revenue at around DKKm 250 (2018/19: DKKm 267.2; DKKm 241.8 ex. Senvion), against the earlier guidance of DKKm 250-270, and a profit before tax in the range of DKKm 35-38; a loss of DKKm 10-7 ex. Senvion (2018/19: a loss of DKKm 19.7; a profit of DKKm 4.4 ex. Senvion), against the earlier guidance of DKKm 45-50; DKKm 0-5 ex. Senvion.

At the same time, Management announced the expectation that Roblon's revenue and operations will continue to be adversely affected by COVID-19 in the coming financial year.

We named 2014/15 the Year of Realisation.

We named 2015/16 the Year of Strategy.
It was in September 2016 that Roblon introduced a new five-year strategy for the period until and including financial year 2020/21.

We named 2016/17 Year 1 of the Strategy Plan.

We named 2017/18 the Year of Build-up.
The 2021 strategy was fleshed out in more detail, and the build-up of the focused fibre-based business, Roblon, was initiated. A complete renewal of Roblon's ERP platform was initiated to provide a basis for strong, IT-supporting business processes and thus the Company's growth plans.

2018/19 will forever be remembered as the Year of Senvion. The sudden and total halt to the supply of products for wind turbine blades had severe financial consequences throughout the financial year.

2019/20 will be remembered as the Year of COVID-19.

The US market in Roblon's product area is still seeing strong growth – not least driven by the new 5G network. Roblon's largest US customers are located around the corner from the factory and, despite having alternative sourcing options from Chinese and Indian manufacturers, they are happy to do business with Roblon and thus have access to a local manufacturer.

A significant part of the production in Gærum is taken up by a new fibre-based reinforcement element for sub-sea energy cables. Roblon is the sole supplier of this component, which we expect to see continued good demand for in the future.
We also concentrated on servicing the rapidly expanding market relating to the 5G roll-out and the establishment of major sea cable projects. As mentioned above, however, a completely different scenario presented itself in mid-March.

At the end of financial year 2019/20, revenue stood at DKKm 254.6 (DKKm 267.2; DKKm 241.8 ex. Senvion). We realised an operating profit (EBIT) from continuing operations of DKKm 35.8 (a loss of DKKm 22.4); an operating loss of DKKm 8.7 ex. Senvion (a profit of DKKm 1.4). Net profit for the year after tax was DKKm 24.0 (a net loss of DKKm 14.6). Excluding the settlement amount from Senvion, the performance for the year was far below the targets formulated in connection with the 2021 strategy. To recap:

*Within the strategy period until and including 2020/21, the Group's aim is to **create a basis** for achieving the following financial ratios, assuming normal economic conditions:*

- *Average annual revenue growth of at least 15% (neg.)*
- *An average annual EBIT margin of at least 10% (neg.)*
- *Average annual EPS growth of at least 15% (neg.)*
- *A return on invested capital (ROIC) of at least 20% before tax (neg.)*

The Group expects to achieve these growth targets through a combination of organic and acquisitive growth. Roblon has adequate financial resources to achieve this.

The red thread
In September 2016, Roblon introduced a new five-year strategy covering the period until and including 2020/21, but also marking out the direction and ambitions for Roblon's subsequent growth.
The strategy includes a redefinition of Roblon's core business with a focus on development and sale of high-performance fibre solutions to selected key accounts, primarily in growth markets within telecommunications and energy, where Roblon sees an opportunity to achieve an attractive and competitive position.
From the outset, the strategy period was defined with a foundation phase and a growth phase.

During the foundation phase, we made necessary investments and optimisations to establish a basis for future growth:

- the business areas Roblon Lighting and Engineering were sold off in order to focus on the fibre business;
- a complementary business in the USA was acquired that specifically targets the telecommunications and energy sectors;
- initiatives were taken within Roblon's core processes: Key Account Management, Product Development and Operations Management, including a new ERP platform, strengthened product development and measures to increase capacity and improve productivity.

In hindsight, the foundation phase was a necessary, but challenging process with bumps in the road. Optimisation of the acquired business in the USA in order to meet customer demand, a major customer's non-performance of contractual obligations and subsequent settlement, and most recently COVID-19 have hampered the completion of the foundation phase.

At the end of 2019/20, we had reached a stage where we are beginning to see indications that our strategy is paying off, and under normal conditions, without COVID-19, we see a basis for realising our financial goals from 2021/22 onwards.

Guidance for the current financial year, 2020/21
Management expects Roblon's revenue and operations to continue to be adversely affected by COVID-19 in the coming financial year, particularly in the first half.

For example, the situation in South America causes uncertainty about order intake and requested delivery dates for known projects in the Composite product group. Management has lowered its expectations with respect to project order revenue in this product group, which is expected to be below the 2019/20 level, particularly in the first half of 2020/21.

In the FOC product group, however, revenue is expected to rise in 2020/21, although not until the second half. Growth is expected to be generated through the continuing expansion of production capacity in Roblon US and the introduction of new products developed in collaboration with strategic customers in the US and European markets. Earnings are also expected to be lifted by the productivity-enhancing activities, which are not expected to be fully implemented until the second half.

2020/21 earnings are expected to be adversely affected by product mix issues. Furthermore, depreciation will increase as a result of completed and planned investments in production capacity to support growing demand in FOC and the sale of new products in Composite.

In accordance with the strategy, Roblon implemented measures in 2019/20 and planned additional measures for 2020/21 that are expected to drive earnings growth in 2020/21 and subsequent years:

- completion of measures to expand production capacity and enhance productivity in FOC US;

- completion of the trimming of the customer and product portfolio in FOC EMEA;
- market introduction of Rod (central strength member in cables) to FOC customers in EMEA;
- general cost adjustments.

Revenue and profit guidance for the current financial year, 2020/21:

- revenue in the range of DKKm 260-280 (DKKm 254.6);
- operating profit before amortisation, depreciation and impairment (EBITDA) in the range of DKKm 5-13 (DKKm 53.7; DKKm 9.2 ex. Senvion);
- loss before tax in the range of DKKm 19-11 (profit of DKKm 35.8; loss of DKKm 8.4 ex. Senvion).

Management expects COVID-19 to impact performance in the first half of 2020/21 in particular, and for Q1 2020/21 Management guides revenue in the range of DKKm 40-45, an operating loss before depreciation, amortisation and impairment (EBITDA) in the range of DKKm 11-9 and a loss before tax in the range of DKKm 19-17.

Management believes that the Group has created a solid platform with strategic customers. Combined with the implemented measures to drive earnings and a high level of investment in production capacity, this supports Management's confidence that the Group will be able to achieve its financial objectives from 2021/22, assuming normal economic conditions.

Roblon's annual report for 2019/20 was published on 22 December 2020 on the Company's website. It is now available in print, as well: Annual Report 2019/20.

The next item on the agenda is a presentation of the most important parts of our financial statements by our CFO, Carsten Michno.

Despite the poor financial performance, we are pleased to note that Roblon is still a financially sound and strong company. At the balance sheet date, equity represented 83.7% of total assets.

Due to large investments, the operating loss realised in 2019/20 and an expected operating loss and continued major investments in the current financial year, 2020/21, the Board of Directors proposes to the annual general meeting that no dividend be distributed for 2020/21.

Roblon's share price closed at 176 at 31 October 2020, compared with 161 at 31 October 2019. At noon today – almost three months into the new financial year – the price was also 176.

CSR at Roblon
CSR (Corporate Social Responsibility) was on Roblon's agenda again in 2019/20. As in 2018/19, the initiatives are described in Roblon's CSR Report, which presents Roblon's CSR strategy, organisation and strategy.

Roblon's CSR policy is centred on the following:

- Environment and climate
- Social and employee relations
- Human rights
- Anti-corruption and bribery
- Responsibility

In 2019/20, the Group identified those of the 17 UN sustainable development goals to which we believe we can contribute the most. They are:

- Clean water and sanitation
- Affordable and clean energy
- Decent work and economic growth
- Responsible consumption and production
- Partnerships for the goals

Roblon's head office

Management already decided to sell Roblon's property in Frederikshavn a year ago. It is more efficient to combine all activities in Gærum, as this will simplify the day-to-day collaboration between departments in the Danish business. Selling the property will improve Roblon's results, liquidity and equity, but these effects are not included in the expectations expressed for 2020/21. Various potential buyers regularly express an interest in the property, but viewings were hampered by COVID-19 restrictions in 2020.

Closing

In closing, I want to thank the Executive Management and our employees for their good collaboration and great commitment. Let me also thank my colleagues on the Board of Directors for their good and constructive collaboration. I also want to thank our shareholders, auditor, attorney, suppliers and other business partners.

Thank you!