

Transcript from NKT presentation of Interim Report Q1, 2011

Welcome to the Q1 presentation for NKT. My name is Thomas Hofman-Bang. I am president and CEO of NKT and I am seconded today as usual by Michael Lyng, CFO, and Søren Isaksen, CTO.

This morning we published the Q1 numbers and that is what we will try to cover in this presentation. We have an agenda as usual where I cover the headlines. Then Michael covers the financial aspects and then I will come back and make some comments on the four business lines and then at the end cover expectations for this year and we will have the usual Q&A. We also have participants here in the room and welcome to you and we are also webcasting this and we are having a telecon opportunity for participants on the web to dial in. When we get to the Q&A, we will ask for questions here among the audience first and then we will take questions on the telecon afterwards.

The group structure is unchanged. The conglomerate structure with our four business lines is as it has been for many, many quarters so there is no change. On the M&A front, we made a small acquisition in Nilfisk-Advance this quarter. That I will come back to. But other than that the structure is unchanged.

In terms of headlines for the quarter, a strong first quarter where we delivered 13 % organic growth and in nominal terms we delivered 23 % growth and the difference being metal prices that are all-time high and then also a small impact from acquisitions. Michael will be back on the composition of that.

Looking at growth in the business lines, Cables is leading this quarter with reported organic growth of 20 %, Nilfisk-Advance delivered 5 %, Photonics 13 % and this is not reflected here because we consolidate NKT Flexibles into one line but they actually also had strong delivering more than 80 % growth which also in all fairness was easy because they had very low quarter last year due to some production issues.

On the profitability front we are more or less flat compared to last year on EBITDA. However, looking at those numbers you should bear in mind that unfortunately we are once again hit by a loss on a specific submarine cable project that also troubled us last year. The impact in this quarter is 58 million. Adjusting for that, it is actually a pretty OK quarter in terms of profitability where – as expected – Cables and Nilfisk-Advance are moving in the right direction and we will come back to that in further details.

In terms of full-year guidance, also illustrated here, we continue to expect 5 % growth for the full year despite a strong first quarter and we have also maintained our EBITDA guidance of 1.2 billion on the operational version of EBITDA despite the fact that we have this loss of 58 million in the quarter.

Graphically, it can be illustrated as shown on the screen where we remain basically flat around the 1 billion if you look at our EBITDA operationally for the last twelve months. However, the 971 million that you see after the first quarter trading twelve months is significantly impacted by this specific submarine cable project that we took the loss of in the first quarter (58 million) and in the fourth quarter last year we took a hit of – I think it was about 70 million so if you adjust for that, a more meaningful last twelve months EBITDA is actually around the 1.1 billion and you can compare that then to our full-year guidance of 1.2, so it gives a clear indication that we are moving in the right direction towards this guidance.

If you look outside the window and look at: How is the world economy using the PMI as an indicator for that, it looks like the world economy is doing pretty OK, which is also reflected in our numbers where we do see growth basically all over in all our markets and if you look at some of the bigger markets, Germany remains strong on the macro front and that also goes for a number of other markets and if we compare that to what we experience looking at Nilfisk-Advance as a provider of capital goods and thereby being a mirror of the world economy it is a clear indication that yes, there is growth out there and then on top of that we are enjoying that we are, particularly in infrastructure, in which we have invested heavily over the last couple of years and therefore our 13 % is driven to a large extent by that. That was the short introduction and the headlines. Then I will hand over to Michael for a more in-depth coverage of the financials and then I will be back.

5:19

Michael Lyng

Thank you Thomas, and as more or less usual we will start off by looking at the P&L.

Thomas has already covered some of the numbers, but we had a revenue of DKK 3.7 billion compared to the 3 billion last year so we are up DKK 712 million similar to nominal growth of 23 percentage points and then if we adjust for metal prices FX and we will go into that in further details on the next slide, then we are back to the organic growth of 13 %. EBITDA, the face value of the EBITDA is at DKK 221 million in the quarter so we are down DKK 14 million from 235 last year and we are also down from consensus. The consensus numbers in the right side of the slide were DKK 259 million so compared to that we are off by some DKK 40 million and a large part of that relates to the DKK 58 million loss that we took on this particular submarine project that Thomas mentioned in the beginning and if we adjust for that DKK 58 million, then we are actually slightly above consensus and also above last year. So it is very important to understand that

Depreciation DKK minus 119 compared to DKK 93 million last year so we now have the full impact of depreciation on the new factory in Cologne so the DKK 119 million is representing a full value for the quarter and also for the full year times four. So after that EBIT came in at DKK 102 million down from DKK 142 in the first quarter last year and also off compared to consensus. Very much related to the project I mentioned before. Then we are still having small one-off costs in Nilfisk-Advance. DKK 5 million but it is significantly lower than the minus DKK 22 million we had last year, and financial items are minus DKK 43 million versus DKK 27 million last year so here we clearly see that are having a higher interest-bearing debt and we also have a higher financial expense on that. So result before tax came in DKK 53 million compared to DKK 93 million. Taxes are doing significantly better due to the composition of the profit in the group so we only have a tax expense this quarter of DKK 3 million so the net result is DKK 51 million compared to DKK 61 million last year. And if we look at the EBITDA margins at standard mentioned here on the slide we are 7.7 % down from 9.4 % in the first quarter last year but if we adjust for the project mentioned, the DKK 58 million loss, and we also adjust for the profit that we wrongly took in the first quarter last year, we are actually at an EBITDA margin of 10 % now compared to 8.8 % in the first quarter last year.

And if we look at the revenue composition, the increase of DKK 712 million, it is clear to see that we are still significantly impacted by very high copper and metal prices in general, which are here impacting the revenue positively with DKK 177 million: Also FX are positive. We have a positive impact from that of DKK 57 million and then we made the acquisition in

Nilfisk impacting by DKK 45 million so adjusting for those three factors we are at the DKK 433 million in real organic growth and we already mentioned the split between the different divisions. The EBITDA decrease of 14 – a large part of that relates to Cables where, if we look at the reported numbers we are down from 5.8 % in the quarter last year to 2.3 % this year and that is the largest impact. Nilfisk-Advance, despite the fact that they had a strong quarter this year they also had an even stronger quarter last year where they reached a 12.1 % EBITDA margin compared to the 11.7 % this year. The Photonics Group is more or less flat and then we saw an improvement in NKT Flexibles – they maintained a margin of around 18.2 % impacting the numbers positively with DKK 12 million. And also here, if we adjust a little bit on the Cables side of the DKK 58 million loss we are actually looking at an EBITDA margin of 7.2 % this quarter compared to 3.8 % in the first quarter last year.

Looking at the trend curves for Cables, nominal earnings of DKK 29 million in the quarter and a 12.2 % trading twelve month EBITDA margin so we have not yet seen the improvement that we forecast but that will come from now on and the remaining part of the year. If we look at the composition of the growth, the 20 % realised organic growth in the quarter, it is illustrated here that we are seeing positive growth in all the different four segments that we are looking at. Electricity infrastructure is up 30 %, construction, the low-voltage part is up 7 %, Railway, despite the fact that they also had a fairly strong year last year, they are up 29 % in the first quarter this year. And also, Automotive is up 21 %. And if we compare these numbers with peers, one peer reported 13 % organic growth, so are up versus that, but if you analyse the numbers we are more or less seeing the same trends in the different markets.

Continuing with Nilfisk-Advance, where we are during the last twelve months at 10.6 % EBITDA margin so we maintained the level from the end of the fourth quarter last year but there is still some distance to go up to the guided target for this year, which is 11.7 %, and we expect to see that improvement over the next coming quarters. DKK 181 million in nominal earnings up from DKK 172 million in the first quarter last year. Also here, if we look at the growth in the different segment, Europe is up 5 %, very much in line with what we expected at the beginning of the year. Americas are down by 2 %. It is not a satisfactory development in the US. We will come back to that later in the presentation, but part of it relates to how we are positioned in the market where we have high exposure to the commercial segment and then another part is related to the fact that we are in the middle of shuffling a lot of production from the US down to Mexico. Asia-Pacific, the more emerging markets are up 25 %. Also here if we compare to one peer, they reported 13 % organic growth, very much driven by strong development in the US where they had reported 16 % and that is the main reason for the difference. Looking at gross profit development in Nilfisk-Advance, we are at 42.3 % reported in the quarter compared to 41.9 % reported for the full year 2010. So it is an improvement compared to that, but if we analyse the number and compare them to the first quarter 2010 we are slightly below. In the first quarter of 2010 we reported 43.2 percentage points. So it is clear that we are negatively impacted by all-time high raw material prices and they are of course partly offset by the price increases that we took to the market at the beginning of this year, but in order to compensate fully for the raw material prices, we expect to implement another price increase in the middle of the year 2011. On NKT Flexibles we had a nice development, very strong revenue due to very efficient production. We reported here DKK 397 million up from DKK 216 million so organically 83 percentage points and the EBITDA margin came in, as mentioned before at 18.7 %, which means that we have incorporated a profit of DKK 28 million in the numbers for NKT Holding compared to DKK 16 million last year.

The order backlog is still pretty good so we maintain the visibility of approximately one year of production.

Looking at the balance sheet starting here with working capital, we clearly see that we are impacted by all-time high copper prices in particular, but of course also raw material prices in general in Nilfisk-Advance and that is the main reason why we are increasing. We are now at 20.5 % - last twelve months average numbers, and if we analyse the different divisions in this number, then it is clear to see that Nilfisk-Advance – they are reporting 19.3 % compared to 19 % for last year so they are basically where we expected them to be, but in Cables we are looking at an increase from 19.4 % last year up to now 21.2 %, significantly impacted by the copper prices. In nominal terms we are now looking at a working capital of approximately DKK 3.5 billion so we are up DKK 500 million on working capital compared to numbers at the end of 2010. And that is the main reason why we have seen an increase of debt position. We are now at DKK 4.8 billion compared to DKK 4.1 billion at the start of the year. DKK 500 million of that is related to working capital. Part of it was expected and we have also communicated that we expected to see an increase of our debt position in the first two quarters of the year and that is partly illustrated on this slide.

That being said, we expect to see a reduction on the debt position, particularly in the second half of 2011 so the target of a ratio between debt and EBITDA of 3.5 times at the end of 2011 remains unchanged.

And it all ends up in a cash flow where cash flow from operating activities is negative by DKK 453 million compared to a negative figure of DKK 221 million last year and here we have the change in working capital impact of minus DKK 554 million being the main reason. Cash flow from investment activities, we are now at a significantly lower level of CAPEX due to the fact that the Cologne facility is more or less completed. Tangible assets are negative by DKK 93 million but then we acquired Egholm in the beginning of 2011 having an impact here of DKK minus 109 million so cash flow from investment activities is negative by DKK 231 million, so all in all we are having a cash flow from operating and investment activities of DKK minus 684 million.

One slide on capital structure and cash resources. It is basically an unchanged picture compared to what we looked at when we met in March. We still have good resources, committed lines. Our total cash resources are DKK 1.2 billion at the end of March so are still in a fairly position on this aspect. And with that, I will hand over to Thomas

18.00

Thomas Hofman-Bang

Thank you for that Michael. I will then add some flavour to the individual divisions on top of what has already been said and starting with Cables it is worth repeating that this is a milestone quarter for NKT Cables in the sense that we are now completed in Cologne. This has been a tough task to establish the new high-voltage and submarine cable factory in Cologne. A lot of effort has been put into this by our employees, particularly in Cologne, and we are very satisfied that we are now in place. The first quarter was the quarter where we moved the last lines so we had one full CCV-line out of operation in the first quarter and we also had one conductor line out of operation in the first quarter and that is being put in place at the end of March and has been calibrated in April meaning that as of May it is now functioning and it is now fully producing so looking at performance in the first quarter you should remember this aspect that we actually did not have full capacity availability in the first

quarter and then going forward we are now in place. That is the key message, so if we take the picture for the first quarter for NKT Cables where adjusting for this unfortunate loss on a specific project, we are almost doubling the EBITDA margin. Then try and think ahead, that we then also have full capacity availability and we start to load that capacity with profitable making projects. It bodes well for the future and combined with the strong tender activity that we see particularly in the offshore segment where we see many, many projects being prepared and planned by customers in Northern Europe that also bodes well for the future and when we look at that tender activity and see at what stage it is in, it has been ongoing for quite a while now and it is our feeling that several projects are moving closer to awards now by customers over the next six months and then of course it is up to us to hopefully secure a fair chunk of that to NKT.

The performance in the first quarter in general I would say also confirms the strategic direction for NKT Cables. If you look at the growth in the four application areas we see strong growth in the electrical infrastructure segment, which is the key segment for NKT Cables, also in Railway we see a good performance, Automotive showed a good performance and then we are satisfied to see that the Building Wire segment, the Construction segment actually also showed growth in this segment of 7 %. Not necessarily reflecting what the building cycle is yielding right now, but it is also a sign of the way we are positioned in the market where first of all we have a good position in Eastern Europe where in particular Poland is holding up quite OK and has been doing so all along during the crisis. On top of that as part of our reorganisation and strategy we are also introducing products into new markets where we already have a sales organisation. We also start to see the effect of that and that is also part of the growth in the construction segment that we are starting to sell building wire cables in other markets compared to what we have done historically. Looking to China, we continue to upgrade and prepare our high voltage cable factory in China. It is the factory that we acquired in the beginning of 2010. It was a mothball factory for those not remembering the story and we have then spent 2010 building up an organisation getting ready to produce and in the second half of 2010 we started to produce basically 110 KW products that can be sold without type tests and qualification tests and in parallel we are working on qualifying 220 KW for the Chinese market we now have the type test ready and we will all through 2011 achieve the prequalification test meaning that we then have the licence to operate on the big national tenders for the state grid in China starting in 2012, which is the turning point for that investment, so that is important to report on that. In Europe we continue the work to develop products for the high-voltage/DC market. Historically we have primarily played in the AC market, but we also start to see opportunities in the DC market and we want to have also our fair share of that so we are working on a type test of a DC cable and there it is our expectation based on how that goes that we will be ready to start tender activity in 2012 for DC projects. So that is what is important to report on NKT Cables, on top of what has already been said. If we move to Nilfisk-Advance, Michael touched upon it. We have seen good growth in Asia, we have seen good growth in Europe, but it is also fair to say that we are not satisfied with the performance that we see in the US, where we had a slight decline in this quarter and comparing to competition they are apparently doing it better than us in that market, which we will not accept so we are taking measures to correct that and we will hopefully start to see the effect of that in the coming quarters where we will do our utmost to come back and get our fair share of a growing US market both on the industrial side and on the commercial side. As mentioned in the opening, we also made a small acquisition in this quarter where we acquired a manufacturer of combo outdoor machines, a Danish manufacturer, and we have high expectations with regard to that acquisition in terms of the fact that they have a very good product. It fits our offering well and that is why we acquired it. And we will then and have

started to leverage that by introducing that product in all our markets using our sales organisation in more than 50 countries globally. So that should also be a growth contribution in the coming quarters. On the relocation efforts, they are ongoing where we are relocating activities from the US to Mexico and we are relocating activities from Italy to Hungary and we are basically done in Europe so zooming in on the US that is ongoing, which is also mentioned in the report. We are also struggling a little bit with our delivery performance in the US, which is probably also partly the reason for our soft development on the growth side, and that is why we have decided to be a little more patient as to how fast we can move this to Mexico. Not a whole lot, we are talking of a few months, but we are taking measures to try and rectify our supply performance at the expense of how fast we can be ready with everything in Mexico. That is what is worth reporting on Nilfisk-Advance, which brings us to this one but before moving on to expectations, just a few words on NKT Flexibles where Michael said that the order intake and order backlog are actually pretty OK. We are full in the factory in Kalundborg. The frame agreement with Petrobras that we won a couple of years ago is a large chunk of what is going on in our factory so we are working full speed to execute on that purchase order that Petrobras has given us under that frame agreement and in terms of product development we continue the work on introducing a product that can go to 2,500 metres of water depth and that is going well so we continue to expect that we hopefully also in 2012 will have that available, a solution for 2,500 metres, the test production that we already have conducted looks OK but we are now going into the phase where we will then analyse this and get more insight into whether it can operate at 2,500 metres of water depth. On Photonics, we saw good growth in the quarter and we are building a backlog, the book-to-build ratio is very good in Photonics and we are also mentioning a few examples of projects that we have won. We are mentioning a – I would say – a breakthrough where we are now qualified and have orders for providing lasers for an oil field in Brazil where these lasers will be used in an application to optimise oil production in a given oil field in Brazil, which is an important order for us. By that, let us move on to expectations 2011, we already have touched upon it. We have here reflected what the consensus was before publishing today's report and we have then made a few remarks. We have maintained our guidance for this year on the top line of 5 % organic growth and we have also maintained our EBITDA guidance of 1.2 despite the fact that we have loss of 58 in the quarter. So that is basically our outlook and our reading of the numbers for the first quarter is that they support well this guidance and that is why we have maintained it. Moving on to Q&A and as mentioned we will start with questions from the audience here and then afterwards we will move to the telecon. And please, a microphone will be handed over to you and then please state your name and organisation before raising the question.

28.56

Thank you very much Daniel Patterson SEB Enskilda. I have a few questions on Cables and then Flexibles. First on Cables, what have you learned from the Baltic 1 Project?

29.10

Thomas Hofman-Bang

We have learned a couple of things. We have learned that it is risky to take a large project and try to produce it while you are building a brand new state of the art factory at the same time, which is one of the reasons for the delays we have seen on this project, that we were probably too optimistic in our ability to do that. And therefore we did experience some classic run-in problems with a number of the processes on the factory that had nothing to do with the projects but were related to the fact that it was a new factory where we are deploying new technology. So that is one lesson learned. Another lesson learned is that on the installation

side you should be careful with the type of risk that you accept in the contract with your customer in terms of what type of risk in the installation, what type of risk in terms of your ability to get the cable into the sea bed are you willing to accept. So those are some key lessons learned where we definitely will have a different perspective on what kind of risks we take on future projects on the installation side.

30.18

Daniel Patterson SEB Enskilda

OK, also on Cables, we see a pretty big increase in working capital. I guess a lot of it is metal prices as well. Is there any reason to believe if things sort of pan out this year as you think that all of this increase in working capital would not flow back in the second half or later in the year?

30.37

Thomas Hofman-Bang

Yeah, first of all look at our growth pattern and growth is driving working capital as one remark. The other remark is that the current working capital position, you know, on top of what Michael has already explained with the metal prices, is also impacted by the fact that before you have closed out commercial negotiations on big project, you know, you do have a sizeable receivable sitting there that will then be paid once you have finalised your commercial negotiations. That is another aspect. The third aspect is that we continue to see a lot of growth in China. Payment terms in China are just different compared to what you see in Europe. That is also an explanation for the working capital development we have seen over the last year. That we see a different mix in the working capital in terms of which markets does this stem from and what terms do you have in those markets. But having said all that, yes, we do expect an improvement in working capital, which is also why we maintain our full-year guidance on the debt to EBITDA around 3.5 at the end and of course a big chunk of that is coming from working capital improvement in Cables.

31.51

Daniel Patterson SEB Enskilda

OK, and maybe one follow-up on, I guess, working capital and maybe the structure of the Cables industry. Now that the metal prices are so high – record-high in fact – is there any chance that you might be able to start getting prepayments from customers on contracts. It has not really historically been an issue but could the industry turn in this direction?

32.11

Thomas Hofman-Bang

Yes but that is how the industry works. On projects you do get prepayments. That is, you know, you have a milestone schedule and you do get prepayments linked on, you know, typically you get a chunk upon the award of the contract and then typically, you know, you get a milestone payment linked to sourcing of material, etc. etc. etc. So that is the structure. Then over time depending on the competitive pressure and how many contents are there on a given project. These can be at different levels, but the structure is that you get prepayments. On supply only business, that is not customary to get prepayments. I do not see signs in the industry that it is moving in that direction. It would be nice if it had, but I have not seen it so far.

33.04

Daniel Patterson SEB Enskilda

OK, just on Flexibles. You mentioned one thing that you have a price regulation mechanism in your Petrobras frame agreement that may have a positive impact later in the year. Could you elaborate on this?

33.16

Thomas Hofman-Bang

Yeah, we mentioned that in our annual report that we do have an escalator mechanism on a given project, a sizeable project in Brazil and that has been negotiated and is still being negotiated and it is not resolved yet. Based on how these raw material prices have developed over that period where we have worked on these projects it is our expectation that it will have a positive impact, but before negotiations with the customers are settled, we are not able to quantify what that effect will be. That is why we separately mention it in our guidance for this year and why we repeat it again and it is not included in our numbers actually in the first quarter or in our guidance because we don't know what kind of number will come out of that so that is where we are.

And being on NKT Flexibles, I also forgot that before, maybe I should also update you on what has been labelled as the steel case in NKT Flexibles where we also mention in the report that we expect this to be solved in the course of the second quarter. And an enormous effort has been put into testing around 700 deliveries of steel items going back to 2007 and we are down to – what is it that we are measuring the report on – 20 projects might be impacted by this. We expect to have a clear picture of that in the course of the second quarter. Looking at these 20 projects we today's knowledge we do not expect that there is any, you know, we don't see any smoking gun in there but before you are all done with your check notes and it is all cleared with your customer testing the – putting the actual data into our design models of the circumstances that these pipes are operating in, terms of temperature and dynamics, etc. and comparing with the real numbers for the quality of that steel you don't know what the outcome will be.

35.30

Daniel Patterson SEB Enskilda

OK, and just a final question also in Flexibles. Your ongoing negotiations with Petrobras, how are they are going?

35.37

Thomas Hofman-Bang

We are having a good dialogue with Petrobras and they are ongoing and we are still having expectations that we will be able to expand our activities in Brazil.

35.53

Claus Madsen, Handelsbanken

How confident are you that we will now never have to discuss Baltic 1 again?

36.00

Thomas Hofman-Bank

You know how it is with accounting estimates that you don't know what the truth is before they are realised. We have done our utmost to try to reflect it adequately in our books for the first quarter. We also tried that in the fourth quarter and as you can see we missed – we are now further advanced with the project meaning that it is easier but still before these commercial negotiations are closed on this project you don't know what the number is so what

we have reflected is of course our position on, you know, what is needed of crude costs, what is prudent to accrue for if the customer should have any claims against you and what do you believe that you have of claims against the customer. It is a mix of all those aspects reflected in our books and if they are accounting estimates you don't know what the outcome is before it is settled.

36.57

Claus Madsen, Handelsbanken

Right and then any view on the time line for the settlement?

37.01

Thomas Hofman-Bang

I hope that it is again solved within the second quarter but I cannot give you a guarantee.

37.08

Claus Madsen, Handelsbanken

Then, on the Cables Division, you had double cause in Q1. Could you quantify what kind of double cause was related to the final parts of the relocation?

37.18

Thomas Hofman-Bang

I don't have that number at the top of my head.

37.22

But the closer you get to only operating on one side, the more difficult it gets to get a firm number, but you know it is a relatively small number between DKK 10 and 15 million

37.34

Claus Madsen, Handelsbanken

Good, then on Nilfisk-Advance you mention that part of the explanation for the weak US growth is transfer to increased use of leasing. Could you, first of all, elaborate on this commercial initiative? What the impact is on a pro forma growth basis? And then finally, how this is financed. Is this sitting on your own balance sheet? Or do you use an external partner?

37.55

Thomas Hofman-Bang

There has been a long tradition in the industry for providing leasing – a leasing solution to your customers. And the industry has worked in such a way that you typically have a third party provider then stepping in and offering the leasing to our customers. We are now taking the next step and we are also offering a more comprehensive leasing solution provided by ourselves, meaning that we also use our own balance sheet for that the reason being that having a third party in there is - yeah, it does provide financing to the customer, but it is only half way to what the market might really be asking for and therefore we are now testing the market where we are coming with the full package where we have the offer that they can lease, we have terms that they also have a right within certain limits to hand back machines and thereby a certain flexibility. We have a model set up for refurbishment of machines and resale in the second-hand market. We strengthen our sale of after sale service so a number of components is in that offer and that is what we are testing to see what the market response is and we are actually expecting that over the years to come that will grow because it looks like a quite interesting business opportunity and that is why but right now it is more or less a pilot

both running in the US - we are also preparing for a launch in Europe with selected customers to also test that. And in terms of impact in the quarter, again, I don't remember the exact number - but are we talking, Michael, of half a percentage point or one percentage point or?

39.45

Michael Lyng

On growth? One percentage point probably in the US to two maybe

39.52

Thomas Hofman-Bang

Yeah

39.54

Claus Madsen, Handelsbanken

Then finally on the Flexibles and the potential extension of capacity, I think you have mentioned before that you expect this to be financed at the company level in Flexibles and it will not be a capital requirement – a requirement of capital from the group. Is that still the situation?

40.12

Thomas Hofman-Bang

We are working on the business case with a number of different work streams to prepare for an expansion and one of those work streams is of course financing and I would say: Yes, we are still working along those lines that we will be able to handle the financing in NKT Flexibles for an expansion initiative as a combination of leveraging the results already now being achieved by the current setup, which is not very geared at the outset, and then of course also leveraging the expected earnings from the expansion initiative.

40.52

Claus Madsen, Handelsbanken

Then just finally on visibility on both high voltage and submarine for the business, do you see similar visibility as some of your key peers have reported recently?

41.02

Thomas Hofman-Bang

We see good visibility for this year, you know, the risk is execution. We are not depending on further order wins in NKT Cables for this year. I guess, it is Cables we are talking about, right?

Yeah, and so we can confirm there is good visibility. We are also building a backlog for the coming years and as I mentioned earlier good tender activity and it is also expected that there will be a number of awards in the remaining part of this year. So yes, we can definitely confirm that.

41.36

Claus Madsen, Handelsbanken

Thank you

41.44

Yes hello, Patrick Setterberg from Nordea Markets. A couple of questions as well. The first one is to Baltic 1, this 58 million which you have taken in the first quarter could you please elaborate on what this is covering?

41.57

Thomas Hofman-Bang

First of all, we never mention projects by name. So I cannot comment on specific projects by name, but I can comment in more general terms about the 58 million overrun that we have in the quarter. And it is related to installation activities. It has nothing to do with the cable and it has proven to be quite difficult due to the soil conditions to get this cable down to the required laying depth and that is the key reason for the overrun in the first quarter.

42.36

Patrick Setterberg, Nordea Markets

OK, my second question is relating to Nilfisk-Advance. You are saying that you have to carry out some price increases during I suppose in the second or the third quarter in order to compensate for the higher raw materials. Could you quantify what price increases we are looking at?

42.55

Thomas Hofman-Bang

We are probably looking in the magnitude – a couple of percentage points. Just as we were earlier this year. That is the typical type of price increases that you implement in the market when you do it so that would be my expectation that we are looking at something along those lines.

43.17

Patrick Setterberg, Nordea Markets

OK, my last question is probably to Michael. Could you please specify the expected increase in the net debt in the second quarter? And I suppose that means that you have to use your uncommitted facilities. Is that correct?

43.31

Michael Lyng

Yes, we don't give you detailed numbers on how our debt will develop from quarter to quarter because it is very difficult and you need to know what is the copper prices and all that, but we expect to peak within this or the next month and then we will see a reduction so what it will be precisely from the end of the first quarter and the end of the second quarter I don't know yet, but we maintain the overall target of reducing in the second half and remaining at the target of 2.5 times EBITDA to debt.

44.01

Patrick Setterberg, Nordea Markets

OK, thank you

44.09

Claus Almer from Carnegie

The first question: This different risk profile within submarine cable business, how will that affect or impact your business? Or your opportunity to get business?

44.23

Thomas Hofman-Bang

Our attitude to taking risks based on what is going on out there in terms of number of parks being planned where Germany is a very strong market. You have seen the UK and Ireland being a very strong market. Denmark being a strong market for quite a long time so looking at what is ahead in these markets, combining with the fact that France has now also announced that they plan for a number of parks and now also on a national strategy for this. I do not expect any negative impact from that because looking at the supply-demand balance here, I think it is in favour of the manufacturers of submarine cables and therefore I am sure that we in good order and in harmony mutually together with our customers can find the right risk balance.

45.16

Claus Almer from Carnegie

Then a second question about Nilfisk which had very strong results, at least the EBITDA in Q1. This impact from higher raw materials was offset by higher prices. Did these two things go along in Q1 or shall we see any pent-up either in the raw materials or in the impact from high prices.

45.37

Thomas Hofman-Bang

We do not have a one to one coverage of input cost pressure in the first quarter. If we try to quantify it, we are probably impacted negatively by around 3 percentage points in the first quarter from input cost pressure. And we have probably in round numbers been able to get a benefit of 2 percentage points by price increases in the quarter so we have a gap of 1 percentage point in round numbers. So we have something to cover, which is also the reason for implementing one more price increase to get fully compensated for the pressure.

46.11

Claus Almer from Carnegie

So the average price increase in Q1 was 2 percentage points. Around this. But in the gross number or the... so when this is fully impacted for the quarter, is that 4 % or ...

46.22

Thomas Hofman-Bang

No, I don't think so. It is implemented early in the quarter and therefore we have had a – not a full quarter effect but a sizeable effect in the quarter. There might be a little effect left for the second quarter. But it was implemented on 1 January and therefore you should not expect a huge impact in the second quarter from additional price impact.

46.48

Claus Almer from Carnegie

Then my final question is about specially the low-voltage business and price development. We can see the overall number in organic growth in revenue, but does that split between price and volumes?

47.03

Thomas Hofman-Bang

I don't have that at the top of my head. I would expect that it is volume driven and that prices are flatish.

47.00

Claus Almer from Carnegie

OK, thank you

47.16

Klaus Kehl from Nykredit Markets

A couple of questions. First of all, you stick to your guidance on group level, but have you made any changes on the divisional lines?

47.28

Thomas Hofman-Bang

I would say no.

47.30

Klaus Kehl, Nykredit Markets

OK, and then you mentioned that the tender activity in the subsea cable market is quite strong, but what about the high-voltage market for land-based high voltage?

47.40

Thomas Hofman-Bang

That segment is pretty much as we have reported for a couple of quarters where volume is a little on the low side in that market and prices in particular in the lower half of that segment remain competitive. And there is no change to that in the first quarter.

48.04

Klaus Kehl, Nykredit Markets

And then my final question. You mentioned the steel case in Flexibles. Could you elaborate a bit on how the customers have reacted to this?

48.14

Thomas Hofman-Bang

They have reacted very cooperatively and open-mindedly to this incident. We also invited for that attitude by involving all our customers from the first day in an open book process and so the customers are just as us to resolve this and that is why we are working closely together with our customers and we have put an enormous amount of effort into resolving this. I think we are talking about 20,000 engineer hours being put into this project. And, of course, it does impress customers that we are taking it that seriously and putting that much resources into resolving it quickly, fast and in a good manner with quality.

49.03

Klaus Kehl, Nykredit Markets

And is it correct that some of your competitors might have the same issues?

49.09

Thomas Hofman-Bang

It is not for me to comment on what kind of issues my competitors have.

49.15

Klaus Kehl, Nykredit Markets

OK, thank you

49.25

Thomas Hofman-Bang

That looks like we exhausted the epitaph for questions here among the audience so we will turn to the telecon – ask the operator if there are any questions.

49.34

Operator

Thank you. If you have a question please press star and then one on your touch tone phone. We have a question from Jacob Pedersen from Sydbank

49.42

Jacob Pedersen, Sydbank

Hi gentlemen. Just a couple of questions. First of all, in NKT Cables you guide for organic growth around 5 % on the full year. You have overachieved that quite a lot in the first quarter. And with more capacity coming on line and the first quarter being not at full capacity, could you maybe talk a bit about what we should expect in the coming quarter? It seems like a very large drop in growth.

50.18

Thomas Hofman-Bang

That is absolutely correct. Just looking at the numbers, bridging from 13 % growth or 20 % growth in the first quarter to 5 implies a whole lot of growth in the next three quarters, which is a reflection of trying to build in a cushion from potential execution issues that then hopefully will not materialise and then we will be able to do more. Secondly, looking below the surface into the composition of sales, once you remember that our sale is in broad terms a mix of supply-only business and turnkey projects including installation business and the installation component, which has nothing to do with our capacity in our factories, is fluctuating over periods and we did have a sizeable chunk of installation work in our numbers last year and looking at the composition of projects for this year, the amount of installation work this year will be smaller so that should also be remembered looking at the numbers and the reason for that is that a number of the submarine cable projects that we are producing on this year are actually for 2012 installation and therefore the revenue recognition based on percentage of completion this year will be pretty much based on cable manufacturing and no installation and then you will have the opposite picture in 2012.

51.48

Jacob Pedersen, Sydbank

OK, great and then a last question on Nilfisk-Advance then. You say that you have some issues in the US. Could you maybe talk a bit more about the problem that you are experiencing in the US and if there might be any costs related to regaining your position?

52.10

Thomas Hofman-Bang

You should not expect any specific risk or cost related to rectifying the development. It is a matter of making sure that we are organised correctly in the market. That we leverage our quality offering in a correct way in the market to our customers and then also make sure that we can deliver on time where the aspect of a delivery performance that is below par is hurting us currently so it is an effort on all fronts here.

52.47

Jacob Pedersen, Sydbank

OK. Thanks a lot.

52.50

Operator

The next question comes from Massimo Bonisoli from Equita

52.55

Massimo Bonisoli from Equita

Good morning, Massimo Bonisoli from Equita. Thank you for taking the questions. The first question is regarding NKT Flexibles. You mention in the interim report you have two riser projects for the Norwegian shelf. Can you just elaborate a bit more on that?

53.15

Thomas Hofman-Bang

We are just mentioning a couple of projects that we have had in the Norwegian market. There is not a whole lot to add to that other than it underlines our very strong position with the key customers in the Norwegian sector and we continue to win business in that sector due to that strong regimen with these customers so that is why we are mentioning it.

53.43

Massimo Bonisoli from Equita

But there is no guidance or no indication for the top line for that project, for those projects?

53.47

Thomas Hofman-Bang

No

53.49

Massimo Bonisoli from Equita

The second question is regarding the twenty projects in the steel quality issue. One of those projects is related to the recent project in Brazil from Petrobras or not?

54.08

Thomas Hofman-Bang

I do not want to go into a dialogue on the telecon on which specific projects are affected. The customers who are affected are fully aware of that and I want to keep the dialogue at that level.

54.22

Massimo Bonisoli from Equita

OK, just another question on the Flexible. Recently there was an accident at a project in the Pre-salt Brazilian area. That flexible pipe was produced by NKT or another supplier?

54.39

Thomas Hofman-Bang

That was not an NKT pipe

54.42

Massimo Bonisoli from Equita
OK, very good

54.44

Thomas Hofman-Bang
That I can confirm – ha, ha, ha

54.49

Massimo Bonisoli from Equita
Can you mention the utilisation rate in the NKT Flexibles right now?

54.52

Thomas Hofman-Bang
It is very high, close to 100 %. We have basically a packed production schedule for NKT Flexibles.

55.01

Massimo Bonisoli from Equita
OK, the last question regarding NKT Cables given the performance in the submarine project. Do you change your expectation on the profitability for the submarine and high-voltage project going forward?

55.19

Thomas Hofman-Bang
Not in general –the profitability level that we see in the projects that we are tendering are at a satisfactory level and on an unchanged level compared to what we have seen for quite a while and what was in our business plan for building the submarine cable activity.

55.37

Massimo Bonisoli from Equita
OK, thank you very much.

Operator

As a reminder, if you have a question, please press star and 1 on your phone.
We have no further questions from the phone thank you.

Thomas Hofman-Bank

Then I would like to thank you, everybody, for participating. The ones watching on the web and the audience here with us, and we will be back with our second quarter in August and we look forward to discussing those numbers with you when we get there. Thank you very much.