

Transcript from NKT presentation of Q2 Report, 2011

Welcome to the conference call for NKT Holding for the second quarter. My name is Thomas Hofman-Bang. I am the CEO and today I am seconded by Michael Lyng, CFO, and Søren Isaksen, the CTO. And let us jump into it. We have prepared the usual presentation. I will give some highlights, Michael will cover the financials, I will be back with further details on the companies and then we will cover expectations and Q&A in the end, and as always we have participants here in the room but we also have participants on the telecon. When we get the Q&A we will take questions from the audience here first, and then afterwards we will ask for questions from the telecon.

If we look at the group structure, it is unchanged so we can easily skip that one and move on to highlights for the quarter, where the top line showed nominal growth of 10 %. Below that was organic growth of 3 % and if you look at where that is coming from then Nilfisk is the key contributor with 8 %. So a very good quarter from Nilfisk where, as we will see when we get to the Nilfisk part, all parts of Nilfisk contributed in this quarter. So very good performance and all-time high EBITDA of 200 million in the quarter. Photonics - also a good quarter with growth moving towards the break-even EBITDA as guided. NKT Flexibles, which is consulted as a one line, therefore not a part of report, the top line number, also delivered good solid growth according to the business plan and therefore the only item sticking out this quarter is NKT Cables where we had a major disappointment in Cologne that did perform very poorly with an EBITDA result 62 million below the second quarter last year, whereas all other parts of NKT Cables are performing according to plan. And therefore just looking at the report today, face value, it looks like a catastrophe and we need to take the guidance down from 1.2 billion to the range 1 to 1.1 billion in EBITDA. We maintain our top line guidance of about 5 % growth, but you need to look into the details and realise that it is Cologne where we have an issue, where unfortunately execution in the quarter still is not where it should be and therefore our previous guidance has been too optimistic. We had assumed and anticipated that we would start to see a performance increase in the second quarter but that has not been the case and that is the pure reason for the numbers that we report today and the revised guidance for the year. Another important observation is that this does not in any way change our strategic perspective on our business and again here the question mark could be on NKT Cables as the other units perform according to plan. Look at the strong order intake we have seen in recent quarters. We are now standing at an all-time high backlog within high voltage and offshore cables and looking ahead that bodes for a significant earnings increase in 2012 and we should start to see the sign of that also in the remaining five months of this year, which is embedded in the guidance.

Those are basically the key observations. If we look at how the numbers stack up, the trading 12-month EBITDA is displayed here, which is showing the operational EBITDA. The amount of excluded items here is minimal and only relates to the relocation of factories in Nilfisk so when adjusting for a small restructuring number in Nilfisk we are now standing at 908 million. The last 12-months' EBITDA and that is the number that we expect to increase to between 1 billion and 1.1 billion over the next 5 months

Looking to the world economy, the manufacturing PMI is one of many indicators for that, and clearly there are signs of a changed macro-environment out there, which is of course also impacting the way we conduct the business and our outlook. However, it is important to stress that our outlook is not factoring in a very severe stop in the world economy or a very severe change in the world economy so our guidance is based on a normalised world economy

basically as we see it currently. And looking at the PMI, the verdict is still out: What is ahead of us, so that remains to be seen.

With that I will turn over to Michael who will give you a lot of further details on the financials and then I will be back with further details on the companies and the business.

Michael Lyng

Thank you Thomas and as usual we will start by looking into the P&L and the second quarter development illustrated here on this slide 8. Thomas already mentioned the revenue, the top line. We came in at slightly above DKK 4 billion so we are up nominally by 10 % and we are almost in line with the consensus numbers on that line. EBITDA, operational EBITDA came in at 218 million down from 282 million last year so a negative development of 63 and on this line we are significantly below consensus and if you dig into the development and compare entity by entity the big disappointment on that line is related to NKT Cables as already mentioned by Thomas.

Depreciation is now reflecting the normalised depreciation level for depreciation reflecting the new investment in Cologne so it came in at -114 million versus 98 million last year, more or less in line with consensus, and that leaves us with an EBIT of 104 million compared to 184 million last year. We still have some one-offs related to Nilfisk-Advance with 8 million up from 24 million last year. Financial results, financial items negative with 61 million reflecting the significantly higher debt position that we have and we had in the second quarter this year so also on this line we are slightly above consensus level and that leaves us with a result before tax of 35 million down from 138 million last year. Tax is calculated at 5 million so there is a net result of 30 million compared to 97 million last year and also as mentioned here it gives us an operational EBITDA margin for the quarter of 7.1 % compared to 9.5 % last year.

If we dig into the development on the revenue side, there is an increase of DKK 381 million. Metal prices are still having a positive impact reflecting higher copper prices so there is a positive impact from metal prices of DKK 235 million. There is a negative impact from FX changes of DKK -20 million and then a positive impact from minor acquisitions in Nilfisk of DKK 44 million and that leaves us with the 3 % organic growth similar to DKK 122 million reflecting a 0 % in growth in NKT Cables, Nilfisk Advance up 8 %, and Photonics Group up 6 %. If we then look into the EBITDA development, the DKK -64 million compared to last year, it is clear to see that the big impact is coming from NKT Cables. They are diluting EBITDA by DKK 72 million reflecting that EBITDA margins are down from 5.9 % last year to 0.7 % this year. On the contrary, Nilfisk-Advance is doing pretty well, an all-time high quarter nominally reflecting a positive impact of DKK 9 million in the EBITDA bridge. Also the Photonics Group is doing slightly better than last year and NKT Flexibles is more or less even with last year.

If we then look into the trend curves for NKT Cables, it is clear to see the disappointment. Only DKK 9 million in nominal earnings for the quarter reflecting an EBITDA margin of 3.9 % so significantly down from last year and in the box in the right side of the slide you can see that Cologne is impacted negatively with DKK 63 million whereas the rest of the group is having positive earnings of DKK 72 million significantly supported by high earnings in China.

9:36

If we look into the composition of the organic growth, the flat organic growth, it was actually expected that we would realise more or less flattish growth for the second quarter reflecting that we did a lot of movement of production lines and also tying into the full-year guidance where we guided organic growth of around 5 %, we assumed that we could see flat growth in the second quarter. The infrastructure segment is down by 3 % organic growth but for the first six months we are still up with 10 % organic growth.

On the construction side we started to see a declining market or declining markets. The last two quarters we have seen a positive development on construction but this quarter we realised -4 % growth which means that we are only up 1 % in growth for the first six months. The railway segment and automotive segments are still doing pretty well with organic growth of 10 % and 14 %, respectively.

If we continue with the trend curves for Nilfisk-Advance we can see that we realised nominal earnings of DKK 200 million. That is an all-high earning in a quarter so we are very satisfied with that and that leaves us with a more or less unchanged level for EBITDA margin. The organic growth in the quarter came in at 8 % and, as Thomas mentioned in the beginning, we did see a positive development in all the markets. Europe is up 8 % but also Americas are up 8 % after a very weak development in the first quarter in the USA and also Asia-Pacific is up 9 % so it is in all the markets that we see positive developments.

And looking into the second half we will now see an EBITDA margin increasing towards our full-year guidance.

The gross profit development is illustrated here on slide 12 reflecting a gross profit for the last 12 months of 41.4 % versus 42 % at year-end 2010, so it is clear to see that we are under pressure reflecting the fact that raw material prices are still increasing and increasing when we do sourcing from sub-suppliers and what we will see in the second half here, is hopefully an improvement reflecting that we will now see the result of the price increases that we implemented in mid-year this year so our full-year guidance for Nilfisk and also for the gross profit development is unchanged.

NKT Flexibles had a fairly good quarter, especially if you look at the growth side. They were up 23 % organically and that means that turnover increased from DKK 380 million last year up to DKK 390 million in the second quarter this year. The EBITDA margin came in at 14.5 % in the second quarter down from 16.4 % last year - fully as expected - and that means that we have incorporated a profit in our group numbers of DKK 21 million compared to DKK 23 million in the second quarter last year.

Still, fairly good visibility reflecting a backlog of DKK 1 billion. And on top of that we have the new frame agreement with Petrobras with a value of DKK 9.7 billion.

Working capital. If we look at working capital as regards nominal figures we ended the quarter at DKK 3.5 billion unchanged from the first quarter this year which is actually reflecting a small decline because normally we do see a working capital build-up in the second quarter reflecting high earnings in Nilfisk-Advance. Looking at the last 12 months figures, we ended at 21.6 % so we are up from last year 17.4 % and if we dig into that development illustrated in the right box on the slide, here you can see that NKT Cables increased from 19.4 % at the end of 2010 up to 22.9 %, whereas Nilfisk-Advance is

unchanged at a level of around 19%. So working capital in Nilfisk-Advance is doing pretty well whereas we have an issue in NKT Cables reflecting the fairly high activity level but also the changed order backlog. 14:40

The net interest-bearing debt ended the quarter at DKK 4.9 billion more or less unchanged compared to the end of the first quarter. We did see as also forecast a peak of the debt position in April and May where we had a debt above DKK 5 billion. Now we expect a further decline in the second half as illustrated and reflected in the quarterly announcement, but of course we are high in the various measurements that we have for leverage. We have debt to EBITDA of 5.4 times, a gearing of 124 % and a solvency ratio of 29 %.

Cash flow for the second quarter and also for the first half. Cash flow from operating activities positive by DKK 72 million compared to a negative number of 263 in the second quarter last year reflecting that we did pretty well with regard to working capital. Cash flow from investing activities are negative by 186 reflecting that we are still making investments in plant and equipment illustrated here with DKK -109 million. We made some minor acquisitions, particularly in Nilfisk-Advance with DKK -39 million and they are the main items on that line. And that leaves us with a cash flow from operating and investment activities of DKK -114 million compared to DKK -400 million last year. And if we look at the figures for the first six month we are having a cash flow from operating and investment activities of DKK -798 million versus 942 million in the first half of 2010.

And the last slide here from my side to normally look at, is the gross debt and cash resources position and there are not many changes compared to the level at the end of March which means that we have cash resources of DKK 1.6 billion, so we are still in a pretty good situation here. You can also see here what kind of interest risk we have in our position. It is calculated here at around DKK 34 million, if we see a plus/minus 1 % change in interest level. And that ended the financial review so back to Thomas.

17:33 Thomas Hofman-Bang

Thank you very much. If we start with NKT Cables that is of course what attracted all the attention when we published the report this morning, and if we dive into the development of NKT Cables – first of all, in the report we have given you more details as to the composition of earning in NKT Cables compared to previous reporting, so we are telling what the EBITDA margin, what the gross margin levels are in Cologne and in the other parts of NKT Cables. And that is very important to understand to get the right perspective of what is going on in NKT Cables. And what you have on the slide on the screen now is trend curves illustrating the sales and then afterwards I will show the same perspective on EBITDA.

If we look at the sales development you can break Cables into three components: Cologne, all the other units and then we have a lot of inter-company sales between the other units and Cologne visa versa that need to be eliminated to get to the consolidated numbers and out of those three graphs, which show trading-12-months sales and index going back to the end of 2008 to give a long trend, there are a couple of observations. You see significant growth in Cologne, but you also see a development where it has reversed a little bit actually the last three months, which is part of the poor result for the second quarter that we have not had the productivity in Cologne the last three months that we should have had. The curve was scheduled to increase and with much better profit compared to what we saw and hopefully we will see that rectified starting in the third quarter and moving into the fourth quarter because that is one of the keys in Cologne, it is to continue to see the revenue increase. The other

observation is that if you look at the other units, they are doing quite OK. They continue to increase and from the low point beginning late 2009, beginning of 2010 we have seen continuous growth from an index 85 and up to now an index 110 with 100 being 2008 figures so nothing to complain about looking at the activity in the other units.

And the third observation is that our one-company setup, which we moved into more than a year ago, where the aim was indeed to specialise the plants so that we only produce one product at one facility to the extent possible and to utilise our sales presence in all markets so that we can basically sell all products in all markets where it makes sense. You see that it actually works. The amount of inter-company sales has increased dramatically from the end of or from 2009 through 2010 and all the way through 2011. So those are some of the key observations looking at the top line and it can therefore also be concluded that our issue is not the top line. That is also why we are not changing our guidance on top line today. We still expect a group outlook of about 5 % growth and also the growth outlook for the individual business lines is not changed with today's report.

Looking ahead, we have a significant backlog in Cologne. This is the Cologne part of our backlog showing predominantly high voltage and offshore cables. We have not given you that information before, but I guess it is no surprise with the recent significant order intakes from the Baltic II project and the West of Duddon Sands project that we do have a significant backlog and here we show you the numbers where it is basically up a factor 2, compared to where we used to be. A reflection of the fact that we are a recognised player in this segment. We do get the business. Now it is a matter of execution.

And then looking to the bottom line and trying to see what is going on with regard to EBITDA. It is clear again if we start to focus on the other units, that is not where the issue is. We see a small decline in the last three months which is the construction market in Europe being soft as one component and we do see a softness also in the railway market in China where they have changed the Ministry responsible for the railway area and they also had an accident recently and those are factors that are leading to probably a period of slow activity in the railway segment in China. Looking at the number here, they are marginally impacted by those two factors because those will probably more impact the tendering of work going forward whereas we are still executing on a backlog of railway projects and here it is also a matter that we had an exceptionally strong development in the railway in the comparative period last year and pretty much as expected the backlog profile was not to repeat that this year. So those are some of the key elements behind the development in the other units but not causing a lot of alarm or concern.

On the other hand, looking at EBITDA development for Cologne, that indeed gives rise to concern and corrective actions and you see that development in Cologne – if you look at the historical perspective – we are coming from an EBITDA level of 15 % in the business and then in particular the last nine months where we really have been in the move of machine mode from the old facility to the new facility and we have had some issues with a specific project that we have reported on earlier on - those are the factors behind the severe negative development we have seen the last nine months. If one wants to have the positive glasses on, you see that it has flattened out with the July numbers which are also included on this slide and we are expecting, also based on looking at the productivity on some of our key lines in July and in August, we are seeing signs of moving in the right direction but of course after this surprise in the second quarter which was also partly a surprise to us, we are more cautious and we are not daring to give you very, very firm guidance, you know that 'starting in the

third quarter it is going to be strong and booming'. That is why we have a caveat in the report where we also expect to be having an improvement in the third quarter, but the third quarter is probably not going to be fantastic either and then really the fourth quarter should be very strong. That is how we look at it right now and modelling with our backlog and assuming that we get back on track with good, firm time lead, proper execution, the outlook for 2012 looks quite encouraging.

Connecting the EBITDA margins for the other units with what we have in the report, you see that we have been cruising around 8 % trading-12-months EBITDA margin in the non-Cologne part of the business, which is actually quite OK looking at the type of products that we are producing in those units and the challenge now is to get the EBITDA performance for Cologne back to the 15 % level as soon as possible and that is our key focus. If we look behind the EBITDA numbers in Cologne that is what is shown to the right you see the gross margin and the fixed cost development with the gross margin at the top and the fixed cost development at the bottom and clearly this is the gross margin issue and thereby a productivity-, an efficiency- and an execution issue where the gross margin in nominal Euro terms was relatively flat until we started changing the footprint moving the machines and then we have been significantly impacted by that and poor execution on a project formerly reported on, and that is the reason for the declining EBITDA, or the gross margin for the last 9 months.

The cost side however is following our plans completely and we saw that we peaked on cost a couple of months back and that cost is starting to come down now as a reflection of the fact that we started to get out of double cost as one thing. We have also, due to the issues we have had, needed to staff up more than we would be in a normal operational mode to fire-fight a lot of issues we have had and we are starting to see the effect now, those people coming out of the organisation and double cost getting out of the books and we should see a stable cost development around this level going forward and then we should see the gross margin come up from around, slightly below 70 million annualised gross margin as you see here and it should move significantly up over the rest of this years and into 2012. And when we look at the gross margins we have in the backlog that I just showed you that is supporting the belief that we will see a significant upturn in gross margin.

That is basically what we want to cover on NKT Cables. Maybe one more thing before moving on to Nilfisk. Of course we have taken a number of actions to make sure we get better contracts with execution in particular in Cologne we have a new management in place, we have a new CEO, Marc van't Noordende, joining on 1 June. He is now in the seat doing a good job and we have already taken the first actions on forming the future management team for NKT Cables as you can see in the report, so we now know what kind of team we are moving forward with and we firmly believe we now have the right team to execute the plan. And as mentioned in the opening today this does not in any way change our strategic perspective on the potential in the NKT Cables Group. The significant order intake in recent months has illustrated that the investment in Cologne was right. There is a significant and very attractive window within the offshore segment and looking at what is going on politically on the energy scene in Europe it continues to support that we did the right thing and now it is a matter of getting it to work properly according to the plans and that is what we will hopefully see moving ahead from now.

If we turn to Nilfisk-Advance, Michael covered the numbers. In the first quarter we had an issue with growth in the US part of Nilfisk. That has been rectified as you can see in today's

report. We are reporting 8 % growth in the USA and in total we are reporting 8 % organic growth for Nilfisk-Advance and we are absolutely satisfied with that. It supports our outlook. It has not led to our changing our outlook. We are still looking for 5% growth for the year despite the fact that we are now at 6 % growth for the first six months, the reason being that we are cautious. The turbulence on the market scene is uncertainty and that is why we maintain our 5 % growth outlook for the year.

Nilfisk has continued in the second quarter to execute on their strategy plan. We have strengthened our position in the BRIC-MT countries by adding dealers in Russia, in China. We have strengthened management in our Brazil entity. We have increased the organisation by 30 % in Turkey as a couple of actions that have been executed in the quarter. We have made a couple of acquisitions within outdoor equipment now creating the critical mass to form an outdoor division within Nilfisk-Advance. So that is in place now. Also a segment where we believe we see good growth opportunities and we now have the complete product offering to really exploit the potential in that part of the market.

Raw material prices continued to put pressure on gross margins as Michael illustrated. We have increased prices twice this year, at the beginning of the year and then we implemented an extraordinary price increase in May-June and going forward and that is also embedded in our margin outlook for this year we expect that now we have seen the impact from the raw material prices and now we will see impact from our price increases and that, – net – ,should contribute to an increasing margin in the remaining part of the year. We have focused a lot in the second quarter on improving our supply chain and our availability. That is also the reason why we have paused the relocation of platform the USA to Mexico. We are pretty advanced with that project, but we have decided not to remove the remaining platform but to stop it and focus on getting the availability up and we clearly see the effect of that now. That is also one of the reasons why we see the good growth in the USA. It is that we now have the availability to deliver to our customers according to their expectations.

With that we have basically covered what was important to cover. No slide on NKT Flexibles. That is because it is business as usual. We got the huge frame agreement as previously reported in the quarter. Focus is on executing on that part of the business plan making sure that we have a factory up and running in Brazil two years from now and management is working in a dedicated manner to make that happen and while doing that, of course, we have also focus on executing on our 1 billion backlog for the Danish factory. They are showing good growth in the quarter, good execution so there is not a whole lot to report about and that is also why we have taken the EBITDA margin up a little bit in our guidance because it is just business as usual in NKT Flexibles. They are doing a good job.

And on Photonics, I covered it a little bit in my opening and also there good progress, good growth, a back-end loaded year which should hopefully close the gap between - what is it? - about 6 % growth for the first half year and we expect about 20 % growth for the full year. We have a good backlog to support the belief that we should see a pick-up in growth. Oil and gas is a strong segment for us where we have been delivering and with our backlog and also leads out there, we expect even more activity in that segment going forward so we are also satisfied with that.

With that said let us move to expectations that we basically have already covered. Before today we had an expectation of growing 5 % on the top line. That is unchanged. And on the EBITDA line we up until today expected 1.2 billion and that has been revised to an updated

guidance where we now are looking at the range 1 to 1.1 billion and with some wording outlining the details, the assumptions in the report and also leaving the impression that we have built in you could say a 100 million swing factor which is our risk assessment on our guidance. That is basically how you should read our guidance. And with that said we are ready for Q&A. And I would be surprised if we don't receive questions today so we will start. There is one at the front row:

Klaus Madsen, Handelsbanken

I was wondering if you could give us some more details on the remedies taken to alleviate the situation in NKT Cables. If you could also...

Thomas Hofman-Bang

I did not get that question...

Klaus Madsen, Handelsbanken

If you could give us more details on the remedies made in the Cables division? If you could give us your implied gross margin recovery in Q3 and Q4 in the Cables division? The risk that any execution issues will generate or drive penalties due to delayed hand-over of projects? Those are my first questions on the Cables side.

Thomas Hofman-Bang

Remedies are a strong focus on operation. Which is also part of or... one of the remedies is that we have reorganised as you can see in today's report and we believe with the reorganised management team we are well equipped to take on the challenge to bring Cologne back to much better performance and that is the key remedy. It is all about people and with the right people in the seat they can also do the job. There is a plan for what needs to be done and therefore we know what to do and we now believe we also have the people to do it.

On the gross margin, we saw a very, very low and unsatisfactory gross margin of 20 % in Cologne in the quarter. We also mention in the report that the budget assumption was 35 % and it is basically the 35 % that we should get back to, in order to get back on track with the mix of business we have in Cologne, where besides from the high-voltage and offshore business, which has significantly higher margins, we also have a big portion of medium voltage and related products in Cologne with lower margins. And we also have a lot of trading going through Cologne as part of our new strategy, where a lot of our commodity products in Eastern Europe are being sold in Western Europe by the sales organisation in Cologne, thereby floating through the numbers diluting margin in Cologne. When you take all that together, we should get back to the 35 % that we had planned for this year also.

Klaus Madsen, Handelsbanken

And the risk of any penalties following mis-execution?

Thomas Hofman-Bang

With the profile of the projects we don't expect penalties and penalties are not embedded in our guidance, but we don't expect it either.

Klaus Madsen, Handelsbanken

Then generally on the macro environment, could you comment on both main divisions and what you have seen in July, August, trading on the key markets and also what kind of

contingency plans you have for both the Nilfisk and the Cables business in the event of a severe macro downturn?

Thomas Hofman-Bang

If we look back at how the NKT Cables group was impacted in the fall of 2008 when we saw the financial crisis, it was very clear that the cyclical and thereby vulnerability of our business lines is very different. Where we saw Nilfisk-Advance by far being most exposed, being a provider of capital goods, they lost if I remember correctly 12 or 13 % basically overnight back then when the market conditions changed. That is also where we have started to build contingency plans to be ready, should the world move that direction again. It is not embedded in our guidance. We don't expect it but on the other hand, we cannot rule it out either, I guess nobody can and that is why we are starting to build plans for what to do in the event that we see an abrupt stop on the demand side. Whereas what we saw back then in the other parts of the business, the cables part with the exposure to infrastructure, the high voltage offshore cables, the good visibility with the backlog. We don't expect an impact in the short term from a changed macro environment so there we are focused on the plan we already have, where we need to bring performance up significantly and that is the plan. We are not building specific contingency plans on top of that. And where Cables could be impacted as in the construction segment where, of course, we were hurt last time but I guess the environment was also different last time, where we came out of a booming construction cycle and then it stopped. The circumstances are quite different this time around where construction is not exactly booming so to which extent we will see a significantly changed demand situation in construction if we get a crisis. I am not sure we will see the same as we saw last time. On NKT Flexibles, we are not building contingency plans there. We don't expect impact from a crisis in the short term there. We have a good visibility, good lead time to take action, should it be necessary. And with our strong backlog and the frame agreement in Brazil our belief is that we are well covered for the years ahead in that part of the business.

And then I guess, I did not answer you know what July and August were bringing. If we look at what we have seen in July and August, we have not seen signs of a changed pattern out there. If we take Nilfisk, which is probably the best indicator for the world economy, they are basically business as usual in July and August. And that is also why we are maintaining our guidance for Nilfisk because we have no reason for having a different perspective.

Klaus Madsen, Handelsbanken

Does your current debt level, continued elevated level bring any new considerations on your balance sheet and any need to strengthen your balance sheet?

Thomas Hofman-Bang

No, we took action after the first quarter as Michael Hedegaard Lyng mentioned. We have plenty of resources, we have good dialogue with our banks and we believe we are in a comfortable situation on our debt. We can see a way to reduce the leverage over the next couple of years. It is correct that the guided EBITDA to debt ratio at the end of the year has changed from 3.5 to 4, but it does not call for specific new actions.

Claus Almer, [Carnegie Bank](#)

Yes, so finally another question about Cables. Given these continued disappointments from that division, have you changed your reporting structure? It seems like you have been surprised very late into 2011 with these issues. And the second question is: It appears to be the industrial or production knowledge or setup in Cables that is causing these continued

issues. Is it enough just to change the CFO and the CEO or would you need to take more measures?

Thomas Hofman-Bang

We believe we have done.., on the people side we have done what we should do. You are asking also about reporting system and that is in the works. Clearly reporting systems need to be strengthened. They appear now not to have been sufficient, which has also caused surprises at our level, and that it is in the works to rectify that.

42:41

Claus Almer, [Carnegie Bank](#)

And then maybe the same question goes for Nilfisk where we have also seen some supply chain issues when you moved to Mexico. Will you also in that division keep a closer hand on the operation?

Thomas Hofman-Bang

I am not concerned about operations in Nilfisk at all. Moving factories is always impacting your supply chain negatively and we saw that. It came to a level where it started to hurt business and we took corrective actions and it instantly worked, so there I am full of confidence that we do not have an operations issue in Nilfisk.

43:09

Claus Almer, [Carnegie Bank](#)

OK, then just a final question about medium voltage within the Cables business where you are running a very high utilisation rate, but maybe not the most attractive margins. Will these frame agreements be fully utilised or will you be able to go for the spot market?

Thomas Hofman-Bang

It is a combination. Of course we have to meet the liabilities we have towards our key clients in the utilities segment and of course we honour the frame agreements, but we also try to prioritise and go for opportunities in the spot market so we do both.

I think Patrick is next in line.

Patrick Setterberg, Nordea Markets

One question relating to your guidance. It seems like there is included this price adjustment mechanism of 75 million. I am just wondering how certain are you about this amount and secondly what about the timing of it?

Thomas Hofman-Bang

We are relatively certain. We are in agreement with our customer about it so it is a matter of the transaction being executed, and we expect that to happen here in the third quarter and thereby becoming a third quarter event and that is also why we are not taking it to income in the second quarter.

Patrick Setterberg, Nordea Markets

Does the 75 million reflect, you can say, the lowest amount you can get from this?

Thomas Hofman-Bang

I believe it is. There is a precise calculation and that is basically the number, so that is why we have taken that number.

Patrick Setterberg, Nordea Markets

OK. Another question relating to Flexibles. Have you been finding a suitable site in Brazil for your new factory?

Thomas Hofman-Bang

It is in the works. We have spent more than six months looking at that because we of course had an expectation that we would sign the frame agreement, so we have been working on it for quite a while. It is still being worked on. We are looking at several alternatives and comparing and we expect relatively soon to make a conclusion and move ahead.

Patrick Setterberg, Nordea Markets

OK, thank you.

[Klaus Kehl](#), Nykredit Markets.

First of all, also a question related to Cables. You have moved a lot of equipment from one factory to another in Cologne and that is, I guess, a very large part of the problem here in Q2. But what exactly is remaining on that movement of equipment from one factory to another? That is my first question.

Thomas Hofman-Bang

All the necessary equipment is in the new factory. So the new factory will not receive any further equipment and thereby can now focus 100 % on execution and improving processes and thereby performance. And that was completed. I think the last machines came in over March-April and the rest of the quarter being spent to get them up and running.

[Klaus Kehl](#), Nykredit Markets

And then secondly, you say you have a backlog of approximately €550 million in Cologne. Could you just give us an indication of how much of that backlog is for delivery in 2012 and 2013? Just some rough numbers.

Thomas Hofman-Bang

I do not want to give that information, because it is sensitive in our bidding processes, if we disclose too much about our capacity utilisation. So that we cannot give you it for competitive reasons. But we have a good visibility for 2012 with that backlog and of course it is also stretching into 2013.

Klaus Kehl, Nykredit Markets

Then my final question. Will we see your CAPEX go down significantly in the second half of 2011 at group level? Have we seen the peak in your CAPEX level now?

Thomas Hofman-Bang

I am looking to my CFO.. I would expect it.

Michael Hedegaard Lyng

The CAPEX will decrease slightly
Compared to the first half

Klaus Kehl, Nykredit Market
Thank you very much

Thomas Hofman-Bang
Any further question from the audience here? That does not seem to be the case. Then I will ask the operator if we have anybody on line with a desire to ask a question?

Operator
Thank you. If you have a question please press star, then 1 on your touch tone phone.
Daniel Patterson from SEB is on line with a question.

Daniel Patterson, SEB Enskilda
Yes, hello, Daniel Patterson from SEB Enskilda. A question on Cables, in the quarter, as I understand it, it is the relocation and sort of the ramp up of and sort of the old machines being moved. How has this impacted the new production line? Is it correctly understood that this new line has then been sort of forced to work some smaller series and that has had a negative impact on profit, could you talk a little bit about that? How you see it, going forward?

Thomas Hofman-Bang
That is indeed correct; you look like a skilled production man asking that intelligent question. That is one of the reasons in the quarter is, that we have several CCV lines in our factory in Cologne and they are - each of them - have their specialties and the new CCV line that we have in the factory is designed for very long lengths of production where we can produce an enormous amount of cable with very, very high speed. That line, however, is not suited very well for small orders because you get much too – or you get too much setup time on the line and thereby very low productivity and while we have been moving one of the other high voltage CCV lines which indeed has happened in this quarter, we then have had to use the first line to run much smaller lot sizes and thereby resulting in an unsatisfactory productivity on the first-mentioned line. So that is indeed correct and that is behind us now and we actually start to see into July, into August that we are able now to run significantly higher volumes on the line designed for that.

Daniel Patterson, SEB Enskilda
So is it then correctly understood that you know running the risk I guess famous last words but then once this is – this move is done, the margin uptake should always come automatically as you run the right product from the right line. Is that correct? And hopefully in the fourth quarter or certainly next year.

Thomas Hofman-Bang
The easy answer is yes, however, you know based on experience the last couple of months I am also a little cautious, because I just know how complicated it is to get big, big factories to work and run smoothly and therefore there is no quick fix, it is hard work and it does take time and we will gradually see the improvement over the remaining part of this year.

Daniel Patterson, SEB Enskilda

All right, then a final question. I guess this has then delayed some of the production as well in the Cologne factory. Does this have any other knock-on effect or risk of knock-on effects on other projects that could you know then turn out to be not as profit-making or profitable as you would have previously hoped?

Thomas Hofman-Bang

Our current perspective is no. No knock-on effects on other projects.

Daniel Patterson, SEB Enskilda

OK, thank you.

Operator

Jacob Pedersen from Sydbank is on line with a question.

Jacob Pedersen, Sydbank

Yes, hi gentlemen, I just have a few questions. First of all, in the Cables business, China, the rail market in China. What do you expect there in the coming quarter? Do you still have backlog that you can produce or will this hold the rate in the market will that result in negative growth?

Thomas Hofman-Bang

We do have a good backlog, but it is also correct that there is probably a standstill in the market in terms of tendering new work. And therefore there will be a delayed impact depending on how long this standstill will exist. Because there is a vacuum with the new ministry being in place and they might change the philosophy a little bit from going from extreme high speed to just high speed, which still calls for our technologies, but it could also, on certain projects, open up for competitive technologies and that remains to be seen what the impact of that could be.

Jacob Pedersen, Sydbank

OK. In Nilfisk-Advance could you maybe expand a bit on the addressable market in the outdoor business?

Thomas Hofman-Bang

I don't have the addressable market at the top of my head as a number, but it is a relatively big market segment.

Jacob Pedersen, Sydbank

Perhaps also talk a bit about the possibility of cross-selling products and your possibilities with opening a new division?

Thomas Hofman-Bang

But that is exactly part of the synergy, when we have acquired a couple of smaller producers of outdoor cleaning equipment that we already see the effect of that. We acquired Egholm, a Danish manufacturer of a combo machine in the beginning of this year and we now see the effect of using our global sales organisation to push that product into the market, where we can come much further out compared to what Egholm could as a stand-alone business so there clearly is a synergy there.

Jacob Pedersen, Sydbank

OK and then a final question. I know it has been touched upon earlier in this call. The prospects of the Cologne factory getting better, should we expect this to be from one quarter to the next or should we expect it to be a long time-consuming tough process to get to the numbers that you hope for and expect?

Thomas Hofman-Bang

The safe answer is that we will see gradual improvement over the remaining part of this year into next year.

Jacob Pedersen, Sydbank

And then 2012 on par with your best expectation?

Thomas Hofman-Bang

That is my perspective today, that I have the backlog for being back on my strategy number in 2012 so I can see a connection between the backlog and where we expect to be in 2012 and with good execution that will then mean that we lost one year (in Cologne) into our strategy plan but it did not kill the strategy plan, if we can deliver the expected number in 2012 according to our plans.

Jacob Pedersen, Sydbank

OK. Thank you very much

Massimo Bonisoli from Equita is on line with a question

Massimo Bonisoli, Equita

Hello, good morning. I have a question regarding the high-speed train business in China. What sort of assumptions are behind your EBITDA target for this year in relation to this business? You mention a slowdown, but how much in terms of a decline of revenue do you have in the target?

Thomas Hofman-Bang

Oh, I don't have the number at the top of my head, but we are expecting - because we had such an exceptionally strong second half this or last year in railway we were planning for a lower activity in railway this year. In terms of number I don't remember the exact number, you know, on the second quarter, but my guess would be that we are looking at maybe a revenue in that segment of €5-10 million below last year. It is something like that. It is not more.

Massimo Bonisoli, Equita

OK and what about the 2015 target? How much of the growth is coming from the high-speed train would be in your opinion to be produced somewhat...

Thomas Hofman-Bang

Today it is impossible to have a perspective on whether this has an impact on our 2015 numbers. If you look at the importance of having transport infrastructure in place in China with the high-speed train connection grid between all the big cities is a very important component, I have a hard time seeing that this is not being realised, this project because if China wants to continue to grow then they need efficient transport infrastructure, so with the knowledge we have today we more read it as a short-term blip on the radar and not a strategy

change from the Chinese government and they are leading us to have a difficult perspective on where we should be in 2015. And then also talking about China in 2015, which is another part of our strategy is that right now China for us is very much the railway segment which of course makes us a little vulnerable in China standing more or less on one leg, whereas with our acquisition of a high voltage cable factory at the beginning of 2011 and ramping that up, as you can see in the report we have a type test for 2020 approved, we have the pre-qualification test going, which should be completed at the end of this year, which is the licence to operate with the national grid in China, in 2015 we should have a good balance between high voltage and the railway and we are also looking to take further measures in the medium voltage market where we are selling today but where we could probably do a whole lot more than we do today so that is the China strategy going forward

Massimo Bonisoli, Equita

OK, thank you. Just a question on the NKT Cables. You mention the CEO has been appointed from 1 June and part of the executives have been appointed or has to be appointed and what is the process, do you have ready all the management for that in place? Or are you still in an ongoing process?

Thomas Hofman-Bang

We have the CEO in place and he is taking over also responsibility for operations in Cologne as of now and he is taking over operational responsibility in the other unit as of the end of the year. Whether that will be the long-term solution in operation or not remains to be seen. But Mark has a background from operation, that is why it is very natural for him to take responsibility for that area. That is part of the reason why we engaged Marc as a new CEO because more than a year ago we realised that we needed to now change from very much a marketing focus to operation focus so that is why we made that decision and we are satisfied with having Mark on board and what he has been doing so far. Our CFO is leaving as is mentioned in the report and we have an interim solution in place, while we are searching for the permanent CFO solution. We are very confident with the interim solution we have in place and therefore there will not be any vacuum from this change on that position.

Massimo Bonisoli, Equita

OK, but what about the operating managers – are they already there or do they need to be appointed, new ones or?

Thomas Hofman-Bang

They are in place.

Massimo Bonisoli, Equita

Already they have the commitment to deliver the results or do they still need to be appointed?

Thomas Hofman-Bang

Yes, they are 100 % committed and we have the operation management in place also in Cologne where of course, that could be an external perspective that we needed to change the operational management in the Cologne factory but that is not the case. We have very seasoned, very skilled operational management in place in Cologne and we have full confidence that under the supervision and management of Marc van't Noordende they will deliver the results.

Massimo Bonisoli, Equita
OK thank you.

Operator: Once again, if you have a question please press star, then 1 on you touch tone phone.
We have no further questions at this time.

Thomas Hofman-Bang
Thank you very much operator, then I will close the session, thank everybody for participating here as well as on the web and on the TC and we will be back in November with our third quarter results. Thank you very much.