

Transcript from presentation of NKT Q2 Report 2010

Welcome to the second quarter webcast for NKT Holding. My name is Thomas Hofman-Bang. I am the President/CEO and, as usual, I am seconded by my CFO, Michael Lyng, and my CTO, Søren Isaksen. If we start with the picture on the front page of the presentation, then you will see a lot of cable on a turntable and you will see 16 km of cable, submarine cable, on a barge floating up the river Rhine, which is an illustration that our new factory in Cologne – despite all the obstacles that we have experienced in the start-up phase – is producing, cable is coming out according to specifications and in the right quality so bear that in mind when we come to the numbers part of the discussion about the outlook. It is very, very important to remember that we are not discussing whether the NKT Cables factory in Cologne can produce or not. It can, but it has been a cumbersome process during the first six months of this year. I will come back to that in further detail. Because that seems to be where all the attention is on today's report and therefore, unfortunately, not focusing enough on all the positive developments that are also in today's announcement where in particular Nilfisk-Advance is delivering a stellar performance which we will also come back to.

If we look at the agenda, then it is very usual. I will cover the headlines. Michael will cover the financial results. I will be back with more updates on the individual business lines and then we will cover the expectations and have Q&A at the end. The Q&A will be a teleconference where participants watching on the web have the opportunity to dial in. We will start with them when we get to the Q&A and then after that we will take questions from the audience.

Group structure is unchanged with our four business lines. In the quarter we have seen small M&A activities also as mentioned in the report. NKT Cables now have a foothold in Australia with the acquisition of Aussa Power which is enabling us to also bid for high-voltage projects in Australia and New Zealand and thereby expand our opportunities by adding those markets to where we are already operating and thereby also increasing the opportunity to leverage our assets in Cologne, but also in China where we acquired a high-voltage factory early in the year as previously communicated.

If we look at headlines for the quarter then we are up 16% in nominal terms on the top line. Influencing that number is obviously vessel prices and FX. If you exclude that, then we have underlying organic growth of 5 %, which is exactly also the same picture we saw in the first quarter and therefore we are up 5 % for the first six months. The key driver behind that number is Nilfisk-Advance which is up 10 % for the second quarter bringing full-year growth up to 8 %. NKT Cables with low growth, 1 %, but with a very diversified picture on the individual business lines, which we will come back to, bringing them to 2 % for the year and Photonics got up to speed in this quarter delivering 23 % and thereby now is showing positive 3 % growth for the year so far. On the earnings side we saw a slight decline on EBITDA compared to last year and also thereby taking the trading 12 month EBITDA down a little bit. It stands now at 1 billion and 11 for the last 12 months and therefore it is tying beautifully in to our full-year guidance of 1 billion which we have kept unchanged today so that we still have a perspective to deliver the 1 billion for this year. As already covered on the front page and which we will come back to, this year was negatively impacted by an unsatisfactory development in Cologne where we had hoped for better performance, faster implementation of new machines and processes, but it has turned out to be a competent process, pretty much as it always is, but we had hoped to do it better this time around and then that is offset by a very positive performance by Nilfisk-Advance bringing them to all-time high performance in terms of profitability where they are now up to 11 % on the trading 12-month EBITDA, which is very impressive.

Looking at the development in the EBITDA at a group level, you see that we are basically flat on the trading 12 months so we are still around the 1 billion after the second quarter and that

is also where we expect to be in the full year. As has been very visible today, the market had a different expectation, expecting that we would come out and operate guidance for about 100 million to 1.1 that was the consensus. We are not doing that and we will not do that later in the year either. It is our firm expectation that we will deliver the 1 billion this year and the sole reason being the complications and inefficiencies in Cologne. All other aspects of Cables and Nilfisk-Advance and NKT Flexibles are according to plan or better. The macro environment, as you are all aware, has improved compared to where we were last year but there is still uncertainty as to where the macro economy is heading. There has been a lot of talk and debate recently about whether we are heading for a double dip. We are not going to claim to be the experts on whether that will unfold or not, but it is our expectation that we will probably see more modest growth ahead, which is also embedded in our guidance and how we conduct ourselves.

And thereby I will hand over to Michael for a more detailed coverage of the financial results for the quarter and then I will be back with more on the business lines.

Michael

Thank you, Thomas. And as usual we will start by looking at the P&O for the second quarter compared to the second quarter last year. Some of the numbers we have already covered in Thomas' beginning of the presentation. We had a 3.6 billion turnover in the second quarter compared to 3.1 last year so this is up 16 % more or less also in line with consensus in the market. EBITDA 282 million, almost the same figure as in the second quarter last year, but of course slightly below consensus in the market due to the negative impact coming from mainly Cologne in the cable business. Depreciation is starting to increase so it is up from 91 last year, up to 98 this year in the second quarter as a result of starting depreciation on the new factory in Cologne and that leaves us with operational EBITDA of DKK 184 million compared to 203 million last year. Then one-off costs related to Nilfisk-Advance of 24 million compared to 57 million last year. This was also the consensus in the market, the DKK 24 million, and then financial items, negative by DKK 22 million so there we are doing slightly better than in the second quarter last year and better than consensus so despite the fact that we have high interest-bearing debt we are having focus on optimising our cash flow and keeping financial items down and that leaves with a result before tax of DKK 138 million, up versus last year where we had 120 million, but of course below consensus in the market due to the missing EBITDA. Tax is calculated at 30 % similar to last year so the net result after tax is 97 million, which was more or less that same figure last year where we had DKK 94 million. If we dig into the revenue, as already mentioned we are up DKK 491 million but of course significantly impacted by higher metal prices and higher FX, mainly coming from the US dollar, so if we deduct the DKK 208 million coming from metal price increases and the DKK 113 million coming from FX, then we are down to the real organic growth of DKK 163 million. Having said that we also have a small impact coming from acquisition in Australia coming in with DKK 7 million, but DKK 163 million is the real organic growth of 5 % split up with 1 % to the cable business, 10%, remarkable, to Nilfisk-Advance, and also the Photonics Group did very well in the second quarter having organic growth of 23 %.

Similarly, if we more or less do the same exercise on EBITDA where we saw a reduction of DKK 12 million, then first of all a large part of that is coming from the cable business where we saw the EBITDA margin coming down from 10.9 % nominally in the quarter last year down to 5.9 % in the second quarter this year. Of course, impacted by ramp-up costs and lower productivity in the Cologne plant and we will come back to that later on. Then we more or less saw the opposite effect coming from Nilfisk-Advance. They are up DKK 66 million compared to last year, significantly up on the margin up to 12.5 % from 9.4 % last year. The Photonics Group up DKK 7 million doing slightly better than last year and then, as also

communicated earlier on, we saw a negative development in the Flexibles business, NKT Flexibles, where the EBITDA margin came down from 23 % last year to 16 % this year, which is reducing our EBITDA by DKK 20 million.

The trend curves, as we normally look at them, DKK 81 million nominal earnings in the quarter in the cable business, which is of course not catching up to the 145 we had in the second quarter last year and as a result of that the EBITDA margin for the last 12 months is coming down from 8.9 % to 7.4 %. At the beginning of the year we actually had guidance for the cable business of 8.5 % for the full year so we did expect the margins to come down in the second quarter this year, but not to the effect that we have seen as a result of cost in Cologne.

If we look at growth in the different segments we are actually quite satisfied with the development. We are more or less flat in the low-voltage business, down by 1 %, which is an OK situation compared also to what our peers are looking at in that segment. And then it is worth looking at the medium-voltage segment where we are up 14 % compared to the second quarter last year so the result of the frame contract that we have communicated on earlier on in the year is clearly coming into the figures now so it is a very nice performance that we see there. Then, despite the fact that we are missing some turnover and some progress on the high-voltage and submarine area, we still have organic growth of 16 %. Then what is not mentioned on this slide is that we are down in the railway segment, but that is based on the fact that we had a very strong second quarter last year. We do not have any concerns really about that segment at all and we also expect to see a strong development in the second half in the railway segment and also in the automotive segment we have seen a nice development. We are up 54 % versus last year but of course also based on fairly small figures.

If we compare our figures to those of our peers, we are basically seeing the same development. One of the peers is still having negative growth for the quarter and is still negative in the utility segment and in the construction segment where we are doing slightly better and another one of the peers is having positive growth in all segments.

Continuing with trend curves for Nilfisk-Advance, up to 11 % if we look at the last 12 months' EBITDA margin so this is a very nice increase from 10.2 % at the end of the first quarter and actually we are back at the earnings level that we saw before the crisis hit us in mid-2008 and if we look at the nominal earnings in the quarter it is also very close to being all-time high, DKK 191 million in the quarter and if we compare that back in time we had more or less the same figure back in 2008 in the second quarter before the crisis came in. Looking at growth in the different segments, the 10 % organic growth that we realised in the second quarter – we can split it into Europe being up 11 %, the Americas being up 10 % and Asia/Pacific being up 9 % so we actually see very nice growth figures and a strong development in all the different parts of the world in the second quarter and if we compare that to peers they were up 12 % but here it is remarkable that they are still down in Europe by 2 % organic growth, but then on the other hand up by 16 % in the Americas.

Looking further into the gross profit development in the Nilfisk-Advance business, we continued to see increases during the last 12 months. We came in at 42.3 % versus 41.8 % at the end of the second quarter so we still see the result of all the structural initiatives that we have implemented over the last couple of years. And we continue to trade above the curve for the last 12 months. Looking into the second half, in the gross profit development we expected to flat out as a result of increasing raw material prices that we started to see kicking into our figures and also as a result of focusing on reducing inventories in the Nilfisk-Advance business from which we also have a small negative impact on the gross profit development.

Trend curves for Flexibles confirming the picture that we saw at the end of the first quarter. Organically, we are down by 18 % as a result of lower prices in the market so turnover came in with DKK 318 million in the second quarter this year compared to 387 in the second quarter last year. The EBITDA margin is 16 % versus 23 % in the second quarter last year,

but we are still looking at the figures for the last 12 months, we are still trading around an EBITDA margin of 20 %.

Looking at the backlog, it is a more or less an unchanged picture. Compared to the end of March we are still having a backlog of around 1.5 billion and a large part of that is related to the Petrobras frame agreements.

Continuing with the investments in tangible assets, we now clearly see in the figures that we are very close to finalising investments in Cologne so you can see that the orange curve is starting to decline, but it is still, of course, high, it ended at 7.3 % if we look at it against the revenue. If we exclude the investments in Cologne and in China, then we are trading at a very low figure, only 1.5 % of revenue, which is also a figure that we would like to continue at going ahead into the second half of 2010 and going into 2011. Still a large part of the investments is related to the cable business when we look at fixed assets and on the other hand if we look at the intangible a large part of that is related to the Nilfisk-Advance business related to focusing on research and development.

Working capital. We ended at 17.4 % of turnover based on the figures for the last 12 months. We are slightly up if we look at the figures, compared to the end of the first quarter where we ended at 17.1 %. Looking at the working capital in nominal terms we are at DKK 2.8 billion so we are up by approximately DKK 400 million compared to the end of March and of course we are also up if we compare the figures to the end of December where we had a working capital of 2 billion.

This development and the increase in the working capital is more or less in line with the communication that we have had during the year already when communicating about the guidance for 2010 we clearly indicated that we would expect a working capital increase over the year, but now we also expect it to decrease in the second half of 2010 and the different strategic targets that we have both in the Nilfisk-Advance business and in the cable business are unchanged.

And, of course, as a result of still high investment and working capital build-up we have seen an increase in net interest bearing debt, it ended at 3.8 billion at the end of June so this is a further increase from 3.4 billion at the end of March,

The different ratios that we normally look at: We are at 3.7 x operational EBITDA compared to our internal target of 2.5 x operational EBITDA, so there we are above our internal target but looking at gearing and solvency ratio we are still below target.

And that leaves us with the cash flow from the second quarter, the cash flow from operating activities is negative by 263 as a result of further working capital build-up and if we compare that figure to the second quarter last year we had a more or less flat result, so of course the working capital build-up is impacting the figures. The cash flow for the first half of 2010 – looking at operating activities – is minus DKK 484 million – included in that figure is the working capital build-up of close to DKK 800 million. And then the cash flow from investment activities, we still see the impact from Cologne which now should be reduced significantly in the second half but we invested DKK 153 million in property, plant and equipment in the second quarter and DKK 448 million in the first half 2010 so cash flow from operating and investment activities is negative by DKK 400 million for the second quarter and negative by close to DKK 1 billion for the first half as a result of the investment and the working capital build-up.

Capital structure and cash resources, a very much unchanged picture compared to what you have seen earlier on at the end of March. We have worked a little bit on our committed lines so you see a slight increase of committed lines between 1-3 years and a similar reduction of committed lines below 1 year but our total committed lines and total lines are unchanged at the level DKK 5.3 billion and that leaves us with cash resources of DKK 1.5 billion going ahead.

We are still in a situation where we do not have any financial covenants with the banks and looking at the interest bearing debt we looked at just before we expect that to top very soon and we also expect it to decrease during the second half of 2010. And that was the figures for the second quarter. Thomas.

Thomas

Thank you.

So now you know all the in and outs on the numbers part and I will continue with putting a little bit more flavour on the business part in addition to what Michael has already covered starting with NKT Cables where obviously the focus is on Cologne and the question is: What is going on and can you perform on that huge investment you have undertaken? And as illustrated on the front picture, yes. the answer is very clearly: Yes, we can, we can deliver cables out of that factory of the right quality to the full satisfaction of our customers but it has been a cumbersome process during this year to start up the factory and get to know the processes and tune them. It is also a factory that is, of course, built with the most advanced technology in order to make sure that we have a cutting edge factory in the industry now that we have the opportunity to greenfield and therefore, also, we have had some lessons learned on technology and new types of equipment and that all plays a part in the picture as to why Cologne has not been better than we have reported so far. We have no doubt that we on track to be successful with that investment. The rest of this year will more or less continue in the same way as what we have seen during the first six months and tying in to what we have consistently been communicating to you that 2010 is a transitional year. Don't expect any quick fixes, it does takes time and it takes more than a year to run in a factory with the complexities that we have on our hands here. And therefore the most updated schedule on when we will be out of the old factory is at the end of the first quarter next year. Due to the challenges we have had we have postponed the relocation of the last machines by a quarter so where we previously expected to be completely out at the turn of the year, now the expectation is at the end of the first quarter. A majority of the machines will be moved this year, but we will still be operating in the first quarter on Schanzenstrasse in Cologne. And in terms of profitability, what we have experienced this year and thereby why we are short of expectations and the lacking upgrade of earnings ties in to the nature of being in project business where obviously the volatility is higher and the discrepancy between what we are guiding for this year and what the market is expecting is tying exactly in to what we have experienced on a few specific projects in our factory so that is the swing factor that we will see on these projects and there is a learning curve that we are climbing and then, at the end of this year, we are then done with the first complex project, have that under our belt and we have gained experience meaning that the next project around will be easier and that is the way we will climb that ladder in terms of reaching the optimal performance of that factory over the next year. And in terms of the market side supporting the investment in Cologne also there it looks quite OK. We have a remark in the report today that our backlog situation is unchanged meaning that we continue to see an influx of orders supporting the outflux in terms of delivered products. And the tender situation out there is also comforting. There are many projects being tendered. We are in discussion with many customers discussing technical specs and commercial terms and the only remark to be added to that is that we continue to see a little hesitation on the customer side to then also award these projects, but it is positive that there is still a lot of momentum on the customer side tying in to the overall agenda about how to strengthen the transmission and distribution networks in Europe.

If we turn to the other parts of cables, then we are very satisfied with the performance on medium voltage where we have solid growth tying in to our success on the frame agreement negotiations earlier on in the year and now that starts to flow into the P&L so there we have

good performance also supported by the fact that we are starting to see the effect of our new sales organisation in terms of, of course, selling medium-voltage cables to railway customers where in particular in China we have seen a couple of good wins supporting also our medium-voltage performance. On automotive, as Michael explained, we have seen good growth where we have close interaction with the car manufacturers and we have seen a quite strong commitment from our customers, which has resulted in growth of 54 % in the segment. We also have good dialogue with car manufacturers on tomorrow's technology in terms of what they call high-voltage cables in cars, meaning very different cars up to a different voltage level compared to what you have in cars today in hybrid cars, we believe we have some good technology that we can help customers with there so there we have a good dialogue. On the railway side we saw - compared to the same quarter last year as Michael explained - a somewhat slower activity this quarter, but it is not really fair because this was an unusually high activity closing some large projects in the second quarter last year. The backlog situation is very strong in railway meaning that we have a high visibility and are heading for very good performance in the second half in railway, so no concerns at all there. Also the fact that we continue to be at the forefront in terms of technology on the railway is being continuously confirmed by customers where we are being awarded the most complex high-speed train connections. On low voltage we saw a flattish development in the quarter - minus 1 % - which compared to the lack of activity in the construction sector in Europe is actually quite OK. We continue not to have a - let us say - we continue to have a somewhat dark outlook for that segment. We do not see any real pick-up in construction and do not expect it soon, so if we can continue at this level or start seeing modest growth then it is quite OK compared to what the market yields in terms of opportunities.

Then in the quarter, we added our front-end in terms of acquiring a company in Australia, Ausssa Power which added an installation for us and sales people in that market and thereby going forward you will see us more and more active in that market utilising that platform and products for that market will be delivered out of Cologne or out of China depending on specs. That is pretty much what we can add on the cables side, so don't be alarmed by the unsatisfactory performance in the first six months. We believe we are on track to be successful. 2010 is a transition year and starting 2011 where we are focused on one factory in Cologne it will be a different picture.

Nilfisk-Advance has a stellar performance in the second quarter, 10 % growth, meaning that they have seen accelerated growth compared to the first quarter and terms of profitability, as Michael showed you, we are back to all-time high as a result, of course, of the leverage coming from the growth but also to a large extent from all the cost containment programmes and the structural investments that we have undertaken during the last couple of years and if I should add a little bit more flavour to the restructuring project then we are pretty advanced with the relocation of platforms out of Italy to our Hungarian facility and in the USA the move of platforms from the US to our new factory in Queretero in Mexico is on track so it is going exactly according to plan and has so far yielded a very good performance in terms of quality of products and delivery performance so we are satisfied with that. So overall, Nilfisk-Advance is showing a very good performance. For the full year we expect slower growth, not related to any internal factors but purely related to a cautious outlook in terms of macro economy where all the talk about the double dip of course creates some uncertainty and we have in our guidance embedded an expectation to see slower growth in the second half so where we are up 8 % for the first six months our full year expectation is 5 % growth. That brings us to the expectation for 2010 where we are maintaining our outlook. We are guiding 1 billion operational EBITDA for this year which is unchanged and on the top line we are also maintaining our guidance of growth between 6 and 10 per cent for the group consolidated so no change on top line and no change on profit outlook. In terms of the

underlying assumptions, they have shifted round so we have upped our growth expectation and our margin expectation for Nilfisk-Advance and at the same time we have lowered our margin expectations for NKT Cables whereas we have maintained our top line expectation of growth of 10 % so by doing that we also indicate that we expect quite a strong performance in NKT Cables in the second half on the top line as they are up about 2 % for the first six months and we expect them to deliver 10 % for the full year. And that is the result of expected completion of quite a large project that we have in our factory right now. NKT Flexibles is also performing well and on the basis of that we have increased our margin expectation a little bit from previously 13 % to now 15 % for them. They are currently standing at 20 % so we expect a slight deterioration in margins in the second half which ties into the nature of the backlog that we are sitting on. By that we are at Q&A and as promised in the opening we will start with the teleconference part and 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 touchstone phone. Once again, if you have a question, please press star then 1 on your touchstone phone.

Daniel Patterson from SEB Bank is on line with a question.

Thomas

We cannot hear you, Daniel.

Q: Daniel Patterson

Can you hear me now? Sorry about that. Yes, I have a couple of questions, firstly on Nilfisk, you said in the report that you have seen increased price pressure in the second quarter versus Q1 and therefore sort of playing down expectations a little bit for the gross margin and then of course on the presentation you are expecting the gross margin to flatten. I just want to sort of get your wording right here, are you saying that gross margins for the rest of the year you think will be around the level you reported in Q2, or will it actually come down as raw material prices come up?

A:

We expect to see a slight deterioration in gross margins in the second half as a result of the price pressure we see in general in the market as a result of the fact that we expect raw material prices to increase in the second half compared to the picture we have seen in the first six months, and then the third factor, as Michael explained, due to the seasonality in our business and the way we build up inventories, we expect to reduce inventories in the second half, meaning that we will have a slightly lower absorption of overhead in the second half compared to the first half, so we expect these three factors to deteriorate the gross margin slightly compared to where we are currently, and that is also why we expect the EBITDA for the full year to be slightly lower compared to where we actually are right now on a trading 12-month basis.

Q: Daniel Patterson

All right, and to follow-up, as you said Nilfisk in the quarter is doing very well, but on the other hand you are also saying, I think that there is increasing price pressure and previously you said that you, as always, increased prices in the beginning of the year, I mean how is this dynamic playing out at the moment?

A:

The dynamic is that we, as we always do, adjust our prices early in the year, the remark in the report is more related to larger volumes, larger contracts in the market where we do see more fierce competition in terms of rebate structures that you have to apply to win these volume orders.

Q: Daniel Patterson

Okay, then finally on Cables. Just to understand here, you spend quite a lot of time here to try and explain that the miss in the second quarter certainly compared to market expectations is mainly due to some start-up costs and difficulties, I mean, how comfortable should we be that this will actually be worked out and next year Cologne will be running at if not full capacity but certainly running at a good level? I mean, can you give us some examples of what went wrong in the second quarter that might be a one-off effect, what is your comfort here and how could you comfort the market?

A:

I am quite comfortable and the fact that we actually have shipped out the first 16 kilometres of cable which is now on a laying ship north of Germany in the process of being installed gives me comfort that this factory can produce the product, but the individual production steps to get there have proven to be more difficult because it was the first time around that we were operating these machines, so the extrusion, we had overruns in terms of cost and production time on that, more scrap because of interruption in production until you get the machines calibrated and so you can take all the steps with the lead press, the jacketing, the screening, the twisting, the armouring, all production steps have proven to be slightly more difficult compared to expectation, all related to the fact that it was new machines. So now that we have proven it once that we can do it, it is a matter of optimising and climbing the learning curve and we have fixed the more mechanical issues that we have met during the first time around, so we should not see those issues again, so now it should more be an issue of productivity in terms of being able to operate the machines faster and more efficiently.

Q: Daniel Patterson

So does that also mean that prices going forward do not have to come up in order for you to make decent margins on this, you basically just need to get cost and efficiency under control?

A:

It is a matter of efficiency, and just to be slightly more specific, if we had not experienced the difficulties that we have seen, we would have been able to meet the market expectation for this year, so that is the kind of swing factor that you are looking at at individual projects.

Q: Daniel Patterson

All right, thank you very much.

Operator: Christian Nagstrup from Jyske Bank is on line with a question.

Q: Christian Nagstrup

One question on Cables, is it fair to say that 2011 will be quite heavily impacted by the delay in the Baltic 1 project, I mean you are still going to work on the old factory in Q1?

A: It is not going to be heavily impacted, 2011, Baltic is going to be delivered this year meaning that it is out of our hair at the end of this year. The implications of what we have

experienced this year is a slight delay on moving machines by about one quarter, so you could say 2011 is going to be impacted by that delay of a quarter on certain machines but other than that the projects in the factory in 2011 are going to be according to what we have in the backlog and has nothing to do with the projects that we have been executing on this year.

Q: Christian Nagstrup

Okay. You will not be able to execute on the production if you have one extra quarter?

A:

The delay is going to have a minor impact compared to the original plan.

Q: Christian Nagstrup

Okay, thanks. And then the Baltic 1 project delay, has that changed the way you will approach larger projects in the future, any changes here or unchanged?

A:

I would say no, it has not. We are as confident as we have been all along that we can do this and we have proven it now also by shipping the first load out, so no direct impact on other projects. The only consequence is that of course now we have better knowledge in terms of our own productivity which plays into our scheduling in terms of how we load the factory and how packed we dare to be in the factory, so it has an impact on scheduling but nothing else.

Q: Christian Nagstrup

Okay, thank you, and then lastly on Nilfisk- Advance, could you give any indications of activity in July and August so far, is it turning downwards or is it mainly Q4 that is the big question mark?

A:

I missed the question.

Q: Christian Nagstrup

Regarding Nilfisk-Advance, could you provide any indications of activity levels in July and August so far, is it turning downwards or is it mainly Q4 that is the big question mark?

A:

It is confirming our guidance for this year - is the round answer on that.

Q: Christian Nagstrup

Okay, thank you.

Operator

Jacob Pedersen from Sydbank is on line with a question.

Q: Jacob Pedersen

Hi gentlemen, you have to excuse me if I ask a question that has already been answered, I think my Michael's microphone was out of order for some minutes. First of all I would like to talk about Nilfisk-Advance and how you expect to improve your market position further, it seems a lot like you are gaining market share at the moment, what are your plans to improve market share further into the future? It seems that you have a very strong foothold.

A:

We do, and that is also why we are very, very satisfied with the performance of Nilfisk-Advance and we will continue to embark on the strategy that we have where we will continue to make sure that through product introductions we gain market share in mature markets by having the best offers in the market, we are mentioning in the report that we are launching our EcoFlex platform as a response to the focus on sustainability among customers where we have a very strong offer to the market as one example, in the report you can also see that we maintain very high momentum on product introductions, I think it is mentioned that we introduced 16 products in the quarter, so we continue on a high note on product introductions, that is the key to maintaining your strength in the market and increasing your market share. And then we continue with our focus on emerging markets where over the last couple of years we have established ourselves in a number of emerging markets and we will continue to enter new markets when we believe it is the right time to do so and that strategy is unchanged and we will continue to leverage also our offers on products with lower price points where in particular the Viper platform has proven successful in emerging markets but also in mature markets during times where customers sometimes trade down a little bit, so these are some of the key instruments and we are as dedicated to continuing to increase our market presence and market shares as we have been for a number of years.

Q: Jacob Pedersen

Okay. Coming to Cables, I think you have earlier mentioned your larger projects as a reference project. The fact that these are not exactly playing out as expected, could this have some kind of impact on your competitive situation going forward?

A:

I don't think so. By proving that we can deliver on the Baltic projects and other projects we are already in the process of demonstrating that we are a serious key player in this industry and with our new factory and our ability to establish that factory with the technologies embedded in that factory we have also proven that we are a very serious player. Of course we would have liked to be more on time with the first couple of projects but due to the fact that some of these projects were tendered and won at a point in time where we did not have a factory at all it was of course also very clear to our customers that it would be special on these first projects and therefore we continued to have a very, very good dialogue and there is a good atmosphere with these customers, so the concluding answer is no, we do not expect that to have any negative spill-over effect on other customer relations.

Q: Jacob Pedersen

Okay, that is comforting. You have also talked about this: large projects increase uncertainty, increase risk and now we are seeing it also increases cost, at least for now, do you have any thoughts on how your pricing on these tender projects is? Are you going to raise prices in order to accommodate for uncertainties or any thoughts on that coming out of the second quarter?

A:

It is of course a very natural consideration and I would say that overall the market determines the pricing and the pricing in the market is okay to balance the risk that we take in these projects and it is of course something you have to be very aware of on each project, how you price it and how the pricing compares to the risk that you take, it pretty much plays into your scheduling because the key risk is not very much on producing the cable, the key risk is on producing the cable on time, that is actually where the majority of the overruns are because if

you miss installation windows you might be short on ship capacity and have to tender for new ship capacity as one example as it is very common in the energy sector as we have known for years in NKT Flexibles, there typically are consequences of being late and not meeting deadlines with customers, and therefore it is a matter of being on time, then you are as profitable as you should be.

Q: Jacob Pedersen

Okay, a last question concerning restructuring and cost in 2011. Should we expect anything in 2011?

A:

I am sorry, I missed that question.

Q: Jacob Pedersen

Restructuring cost in 2011, should we expect anything there?

A:

In Nilfisk-Advance?

Q: Jacob Pedersen

Yeah, actually both Nilfisk-Advance but also Cables...

A:

I don't expect any restructuring cost in Cables. In Nilfisk-Advance we will probably see a smaller charge tying in to the completion of the ongoing project, but the assessment right now is that it is going to be a relatively small number.

Q: Jacob Pedersen

Okay. Thanks very much.

A:

You are welcome.

Operator

As a reminder, if you have a question please press star, then one on your touchstone phone. We have no further questions at this time.

Thomas

Thank you very much. Then we will turn to the audience, and we have the first one here.

Q: Stig Frederiksen from ABG Sundal Colliers

One question first to Cables, when you are now adjusting your expectations regarding Cables, how sure are you that you have, I wouldn't say worst case but taken into consideration no further delays, weather conditions or what could happen going into the more rough weather in the second half?

A:

It is our best estimate but of course I cannot guarantee you that we will be on time, there are no guarantees in this industry. We have applied our best estimate according to the schedule based on the knowledge and experience we have today and hopefully it will prove to be THE

schedule so that we will not see any further delays but I cannot guarantee you that there will not be any further delays.

Q: Stig Frederiksen
Thank you.

Q: Klaus Madsen from Handelsbanken
On the cost overrunning in the second quarter, could you pencil out how much is actually related to the Baltic 1 project in terms of penalties and double costs and what else and what will be the phasing of the total cost overrun on Baltic 1 over the physical year?

A:
I don't want to be that specific on a conference call on a specific project, so the only thing I can add is that had we been according to the original schedule, then we would have met your consensus numbers for this quarter and we would also have been able to upgrade for this year.

Q: Stig Frederiksen
Then on the Tenant project, is that explicitly assumed to be completed in the guidance of 10 % organic growth or is it non-conditional for meeting the organic growth guidance?

A:
It is expected to be delayed.

Q: Stig Frederiksen
Okay. Then on the two other segments, medium voltage and low voltage, would you expect the momentum you see in the second quarter to be sustainable for the second half of the year?

A:
We expect to see continued growth in medium voltage supported by the frame agreements supported by a very strong desire on the customer side to get cables, in particular in Germany we see that the incentive scheme, also mentioned in our report imposed by government has an effect, so utilities are very, very keen on investing in medium voltage cables this year supporting growth and tying nicely in to our frame agreements. And on low voltage, there the visibility is basically nil, so I cannot give you any specific guidance for low voltage in the second half, it is our overall assessment that the construction industry is not going to recover in the second half and of course our performance is probably going to be according to that.

Q: Stig Frederiksen
Okay, then just finally on your Chinese facility now. After having completed the first two smaller projects, are you confident that you will cover your capacity for 2011 or what?

A:
We will not be at full capacity for 2011 in our new factory. It is a new factory that we got control over in January, we acquired basically assets, so we have been building up an organisation during the first half of this year and now we have delivered on the first project project and we are in the process of type testing a 220 kW project so it is going as expected, there is a three-year business plan for that factory as we have already communicated and we are exactly following that business plan with the order wins and the type testing activities and where we are in terms of building up organisation on that factory.

Q: Stig Frederiksen
Okay, thank you.

Q: Klaus Kehl from Nykredit Markets
First of all, a question related to Flexibles. I think it was Michael who mentioned that the backlog is primarily related to a frame agreement with Petrobras and just to clarify, is that 100 % confirmed and unconditional?

A:
Yeah, Michael used the word frame agreement, actually it is firm orders today but we have just been so used to talking about the frame agreement but they have executed the frame agreement in firm orders, so the full frame agreement is utilised and on two specific projects, the P56 and the P57 project, and that is in the backlog and that is why it is in the backlog and not outside the backlog because it is now firm orders.

Q: Klaus Kehl
Okay, and then a follow-up question for Flexibles. It seems like the margins continue to hit downwards and you also expect the margin pressure in second half of this year but should we expect in 2011 that we will see an even steeper dive in margins in 2011 based on the...

A:
It is too early to guide for 2011 but then still no, we don't expect margins to decline further. We do believe that there is a kind of a flaw according to the guidance and performance for this year.

Q: Klaus Kehl
Okay, and then finally a question related to NKT Cables. It seems like you expect a decent capacity utilisation next year but also that the cost might be a bit higher than you previously had expected. Would it then be fair to assume that the margins in 2011 might be slightly weaker than you previously would have expected?

A:
We have never guided margins for 2011.

Q: Klaus Kehl
Okay, in your mindset at least.

A:
In our mindset the business plan is intact based on what we see in the market.

Q: Klaus Kehl
Okay, thank you very much.

Q: Claus Almer, Carnegie
The first question is about Cables and this Baltic 1 project. Of course you cannot guarantee that everything will be as planned, however as you have shipped the first part of the cable, doesn't that decrease the risk quite dramatically that you should see new delays?

A:

Of course we are more comforted by the first load-out and thereby that we have now proven that all projects work and it is based on that knowledge that we now have revisited the scheduling on the project and therefore expect it to be completed towards the end of this year, so I agree with your observation that it should be more safe compared to previous schedules on the project where we were less experienced, but still, Murphy's Law and other factors exist so I cannot guarantee it.

Q: Claus Almer

If you are going to mention, let's say two things that could go wrong. What would that be?

A:

Suddenly a machine malfunction for whatever reason because a sensor doesn't work, we have seen it over the years in Flexibles as well where even very, very experienced operators suddenly make a mistake and you have to redo a production step, it just happens.

Q: Claus Almer

Okay, and then Nilfisk. About July-August, you said that the performance in these two months has confirmed your guidance; does that mean you are looking at a 3 % growth yield a year?

A:

We cannot report numbers on a quarterly basis so I do not want to give you a number for what we have seen; the round answer is that it is confirming guidance.

Q: Claus Almer

But there is no visibility within this business, so if you are heading for 5 % in Q3...

A:

I am comfortable with my full-year guidance for Nilfisk-Advance.

Q: Claus Almer

Okay, so actually what you are saying is that it is a little bit better than what you are guiding?

A:

That is your conclusion.

Q: Claus Almer

Okay, thank you so much.

Thomas

Anybody else? Then I will take the opportunity to thank everybody for participating in this conference call, also the viewers on the web and we will be back with our third quarter in November and look forward to seeing you again. Thank you very much.