15. May 2015

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NKT Holding A/S

Transcript :: Q1 2015 Presentation ::

Welcome to NKT's first quarter results for 2015. My name is Michael Lyng, Group Executive Director of NKT Holding and CEO of NKT Cables. With me today I have Jonas Persson, CEO of Nilfisk. We will use the normal format. First I will cover some highlights and financials before we move on with the development in the businesses. For the last part, Jonas will assist as usual and cover the Nilfisk part including for now a deep dive into the new Nilfisk strategy plan with the name 'Accelerate' expanding our company to lead the industry. But let us start off by the highlights for Q1 2015. Overall for Q1 2015 we see a performance in line with expectations. We are increasing our operational EBITDA with 11% on the basis of organic growth of 6%. Also if we look at the cash flow we are satisfied with the development. Normally we see a working capital build-up in the first quarter and that we have also seen in the first quarter this year but we have been able to offset that negative effect by positive effect from the operations. On the basis of this quarter we are maintaining the 2015 outlook.

If we look at NKT Cables, we continue to see the positive development. We continue to transform the business and we see a significantly improved operational EBITDA, to a large extent coming from DRIVE that fuelled the EBITDA with DKK 72 million in the first quarter. We are now looking more into the phase 2 of DRIVE and I will come back to that later on in the presentation. In Nilfisk we saw a performance weaker than expected. We are down organically with 2% and of course that also impacted our earnings negatively and we have had some delivery issues in two ways. First we have had some port strikes in the US, which means that we have had difficulties in getting in products to the US market and for the European market we have had some delivery issues caused by new IT systems but both of them are behind us and Jonas will elaborate more on this when we come to the Nilfisk part of the presentation, but of course it means lower sales and it also means that temporarily we are looking at a higher cost base because we are trying to offset the delivery issues with higher distribution cost. Jonas will come back to that in his part of the presentation. Then for Photonics Group we saw an okay quarter, very much on par with the first quarter last year and we continue to look into the business called Fiber Processing where we are looking into potential to divest that later on in 2015.

If we look at page 6, looking at the financial highlights, organic growth came in at 6% and you can also see here the split: -2% Nilfisk offset by 16% organic growth in NKT Cables and then a negative development in Photonics Group of -4%. Operational EBITDA if we look at the margins they are more or less flat compared to the first quarter 2014, slightly up to 8.1% from 8% last year. And nominally, it is a result of DKK 283 million compared to DKK 254 million for the first quarter 2014. One-off costs, we will come back to that but of course they relate to the DRIVE programme and then maybe surprisingly here looking at the financial items we are actually having a gain of DKK 16 million in the first quarter compared to nominally an expense of course and you also see there an expense of DKK 25 million in the first quarter 2014 and this is entirely due to some positive FX adjustments, partly also related to some hedge contracts that we have had in Chinese currency. And on the basis of that we are seeing a profit after tax of DKK 91 million, very much similar to the

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first quarter 2014. Working capital as already mentioned developed positively and I will come back to that in further details later on in the presentation and then we see a cash flow from operations of DKK 95 million down from the first quarter last year as a result of the increased working capital in the first quarter. We continue to see overall a pretty good cash conversion rate here. For the last twelve months the number is 114% due to an overall reduction of working capital in NKT Cables. And on the basis of that cash flow we see an increase of interest bearing debt of around DKK 200 million and I will also come back to that later on, but we are still trading at around 1x operational EBITDA/debt so at a very low level.

On page 7, we are looking at operational EBITDA measured at the LTM curve. We see overall a more or less flat development so we maintain the level of around 9.6% where we ended in 2014 so we still have some way to go in order to meet our full-year guidance where we have communicated an improvement of up to 1%-point.

If we dig a little bit deeper into the P&L and the composition of revenue here as illustrated in box no. 1 we have a revenue nominally an increase almost DKK 300 million but it is clear that that is positively impacted by FX changes partly in China but also and more importantly in the US and if we adjust for that and adjust for metal prices where we have seen a more or less flat development then we are down to the 6% organic growth with the spread as illustrated here and as mentioned before.

Then if we look at the operational EBITDA we have seen a nominal increase of DKK 29 million and here we are positively impacted by an increase of almost DKK 60 million in NKT Cables and it is clear to see the margin pick-up from the first quarter 2014 where we ended at 3.6% to now realising 6.7% in the first quarter 2015 so it is a very nice improvement coming from NKT Cables. In Nilfisk, we are partly offsetting that positive effect with a negative development of DKK 31 million and it is also as illustrated here – you see the margins in the quarter coming down from 12.3% to 10.1%. Of course, that is impacted by the negative growth for the business and then also by what I mentioned before – higher distribution cost in order to offset the delivery issues that we have had in Nilfisk but of course it is also impacted by our continuous investment over front-end in more sales people, feet on the ground, and we strongly believe that that is still the right thing to do and Jonas will elaborate more on that when we talk about the strategy plan for the coming years. And then last but not least just the split of the financial items where you can see the positive impact coming from the FX effect of DKK 27 million.

If we did a bit deeper into the working capital composition here compared to the end of 2014, we see an increase of around DKK 400 million, Nilfisk increasing DKK 271 million and NKT Cables DKK 158 million and we should bear in mind that normally we are building up working capital in the first quarter in order to deliver products into the market in very strong second and third quarters, both for Nilfisk and for NKT Cables so that is pretty normal but on top of that we are also here having an impact of around DKK 200 million due to higher FX rates in the US and China so if we had not had that the impact – or the increase would only have been DKK 200 million.

On the next slide, we see the trend curves that we normally look at and it is good to see that we are at an all-time low here despite the increase in the first quarter – 17.2% and that is actually coming down from 18.1% at the end of 2014 so we continue to see a positive development in the businesses. If we look at the blue box here it is stated how the development is in the different businesses and it is also here the positive impact is coming entirely from NKT Cables where we are declining down to 14.9%-from 16.8% at the end of 2014. And then the development in Nilfisk is more or less flat compared to 2014.

On the basis of that we can look at cash flow – the fact I mentioned before about the FX impact on working capital is also clearly illustrated here where you can see, of course, cash flow from operating activities being positive with DKK 95 million but that is then impacted by the increased working capital cash flow-wise of around DKK 200 million. We continue to invest but also continue to hold back on the investments that we make particularly in the cables business so we are looking at acquisition of property, plant and equipment of DKK 38 million, other kinds of investments very much being intangible assets and development costs, DKK 55 million so all in all DKK 93 million, which is more or less comparable with the first quarter 2014 if we adjust for the divestment of business activities we had back then when we divested the sanders business where we had a positive development or a positive impact of DKK 108 million.

Then just a picture here on our leverage situation. As mentioned in the beginning, we see a more or less flat development. Of course the net interest-bearing debts are increasing but so are LTM operational EBITDA so we are maintaining the level of around 1x debt/EBITDA and we continue to be fully in line with our own definition of how we define the optimal capital structure and that is illustrated here in the blue box and that also means that we have sufficient room to expand the business in particular to focus on making the right investments in the front-end in Nilfisk in order to fuel more growth for that business. And with that I think actually I will hand over to Jonas to continue with the presentation of Nilfisk.

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Jonas Persson

Thank you very much Michael. And then we move directly on to page 15 where we see the growth of the quarter and the development in the growth: -2% in the first quarter 2015, this is of course not to satisfaction. We also have to say then that there is an impact of the divestment last year of sanders. That is actually giving us – if we take that into consideration we will actually have a flat start of the year, still not good and of course that sanders business comes from the Americas that will also impact Americas sales so if we go into the Americas that will also be a flat development if we take that into consideration. So on top of that we have had delivery issues as Michael also mentioned before in the Americas we have had a port strike on the west coast that has very much affected us here in Q1 with many orders delayed and also some loss of customers and on top of that we also have a new system implemented in Europe – a distribution centre – and that has also affected us but anyway it was a very much a disappointing start of the year with -2% or flattish if we take into consideration the divestment.

Go into the Americas -7% and as I said before flattish if we take the divestment into consideration and having said that of course flat or -7% is not good so this we continue DRIVE and try to improve the Americas sales. In EMEA up +2 % also better but still not good and that is very much affected by the distribution issues we have had here in EMEA and then we come to APAC -16% which is of course not good and here we have very much suffered from consumer loss in the Pacific which I also mentioned for the last quarter. That will hopefully end here after this quarter and we will see an improvement going into quarter 2 and then we also had some re-organisation, a restructuring of the sales force in Asia which was very much expected. That will also come to an end here after Q1.

Going into the next page of course the low sales in the quarter have very much affected the earnings as well. We ended up with 11.1% compared with Q4 11.7% affected by the drop in sales. That is a big effect that we also have had huge distribution costs in order to balance the issues we have had on the supply side.

Then we go into next page talking about our strategy. It is very much still a front-end strategy we try to invest and drive growth and going on then to page 18 the fixed trends that have very much shaped our strategy is that we see commoditisation in the industry. There is more need for basic products and more simple products and also there is pressure on the cleaning cost in the industry, which dilutes of course the price in industry. Battle for distribution – here I think we are in a strong situation in Nilfisk but it is very much a battle worldwide to get the distribution and to drive sales via that and then of course we also see a technology change where we see more automation, we see more need for robotics and also to be able to track the machines when it comes to where they are, when they are serviced and how much they are used. And on top of that we see a trend also that we have seen emerging markets growing faster. With the new salaries in the emerging markets, increasing salaries there is also of course more need for automation.

Then what are our strengths in Nilfisk? Going then to page 19 we have an extensive and very good product range. I would say the world's best. That we would like, of course, to maintain. The brand – a strong brand in professional sight and we have very strong market coverage in the sales channels also the service and after-sales coverage. We have globally a good position but of course an even better position in Europe. Our direction and financial aspiration we talk about 2-3 above GDP growth and then we have to mention that the business is a GDP minus where we see dilution in the prices constantly and on top of that of course we should grow above this so we still believe that this 2-3% is aggressive going forward over a business cycle. Return on Capital Employed 18-19% - that is slightly above what we have today but then we should need to take into consideration that we are talking of continuous investments and also an acceleration of acquisitions in the period.

Going to page 21 then we have the different six themes that are driving the strategy and I am very much going into four of them here and going a little bit deeper in those but generally we would like to grow market share. We will do that by organic growth and continuous investment in the front-end but we will also continue to accelerate also the efforts we make in the M&A and in order to do that we would like to have a more agile and commercial organisation driving our already very good employees and very competent employees to be more customer-oriented and more commercial. Then strengthen the front-end we will come into that but we would also like to drive the competitive offerings, build a strong brand in the industry continuously and also power up our supplier chain. So let us jump into the front-end investments.

Slide 22 shows very much what we try to do here and of course many of these activities have already started here at first in 2014 and will continue now and stretch into 2015-2018. Resources, we have already in 2014 increased direct sales people and service people by roughly 10%. We will continue to drive this to get more resources into the front-end and we are also rolling out here in 2015 a sales academy, make sure that we are working in the same globally when it comes to how we sell and how we perform the service and then of course on top of that we have also introduced an new performance management when it comes to the sales force with new incentive programmes for the team and to support that we have also rolled out ComEx in six countries – now we are on the 7th – UK is on the list right for the moment and these 7 countries are covering more than 60% of the total revenue so this will continue to drive and rolled out over this period as well and this ComEx makes sure that we are focusing on the right segments, makes sure that we focus on the right customers and also drive our performance in a more professional way. In order to be able to do this we also need new systems tools to support this and therefore we have also started rolling out the sales force, our CRM system and also rolling out the service max.

When it comes to our competitive offerings we have a very strong product range today, we would like push more for innovation and have maybe fewer launches but make sure that the launches we have give more impact into the market and create also more growth for the products we are doing so I think that is also a very big part of the strategy going forward. Then, of course, we need to continue to drive the complexity reduction and drive complexity out of our range to make sure that we are focusing on the right things and putting the right efforts and resources into the most important segments and products.

Next page, 24, we are talking about our brands. We have defined our market with a high-end, mid-market and low-end where we see the high-end stands for roughly 45% in our way of defining the market. Here we have today a very strong market share and we would like to maintain that position. This stands for 45% and here we have a global brand Nilfisk but of course we also have local brands as Advance in the Americas for example. This is important this segment that we have a high quality, a full range of course driving service and complete offers to our customers with quick response times. In the mid-market, 40% today out of the total market. We should also note that the mid-market is actually growing faster in the high-end for the moment and therefore we need to be more present here. We are already present but we would like to increase the presence in this segment. Here we have Viper as a global brand that is bolstering this segment, we have also local brands. And this here requires more basic products, reliable but also very easy to use. And then we have the low-end which is roughly as we see it 15% of the market and here we don't want to be – this is a market where I don't think we can cover it with our ability and our brands.

In order to support his, of course, we also need a power supply chain performance. We see especially in the mid-market, there is a need for faster deliveries for simple and basic products but we also see a huge push for faster delivery when it comes to spare parts and

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service ability for the high-end where we also introduced and rolled out a new way of service to market by overnight delivery to the customers

And then of course on top of that we will continue to drive the efficiency in the supply and the cost reduction in the back end. Then we come to my last slide in the presentation to sum up – not a good start of the year -2% - very much impacted by the divestment last year but also the distribution issues we have had but having said that we are still not happy with the start of the year.

Gross margin turned out well, very much due to price increases and price management but also of some mix effect. When it comes to fixed costs we have very much administrative costs under control, distribution costs were very high in the quarter due to the problem we have had and of course we continue to invest in the front-end and it also of course affects the margin.

With that, I would like to hand over to Michael.

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Michael Lyng

Thank you, Jonas and we will continue with the NKT Cables part of the presentation on slide 28. Let us look at the different market segments that we are serving. Overall, we reached 16% organic growth which is a nice number and in order to understand that better we need to look at the projects, products and APAC development. Let us start with the project business. Here we did 52%, which of course on paper seems to be a very high growth figure and it is also a high figure reflecting full capacity utilisation at the Cologne site where we are producing products for this segment but it should also be seen in light of the weak Q4 2014 where we did -24% and as mentioned earlier on it is in this part of the business more difficult just to look isolated at performance in one given quarter because it is very much impacted by the composition of projects – whether it is including installation, excluding installation, how much we have installed, how much we have finalised, etc. etc. etc. But overall we are of course satisfied with that development.

If we look at the product part of the business, we are also satisfied because we see small growth 2% - this is the more cyclical part of the business where we are linked directly into, for example, the construction industry so it is good to see that we start to see some more growth in this segment and it actually goes for all the different markets but if I should just highlight one of them, the Central European market is actually picking up very nicely compared to what we saw last year so markets like Poland, the Czech Republic, Hungary and those markets are developing positively for us. The Nordic market is flattish and it is impacted by a pretty tough winter, in particular in Sweden, the northern part of Sweden and in Sweden in general compared to a more mild winter in the first quarter 2014 and that is having a negative impact but overall we are satisfied and we see a more positive development for the Nordic market going to the second quarter. And then the speciality area – this is the market where we are producing the railway products for the European market but also the accessories – we are also satisfied with the development. When it comes to APAC, -14%, so we continue to see a very, very difficult and tough market in China in particular in the railway segment we are seeing a declining trend and declining

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growth whereas we are more I would not say satisfied but we see a more flattish development in the medium-/high voltage market. But overall to sum up we are satisfied with the 16%. We should of course bear in mind that we are still guiding organic growth for the cable business of flat development in 2015 as compared to 2014, which also means that we expect growth to come down in the coming quarters in particular in the second half of the year.

If we look at operational EBITDA, it continues to increase. Margin-wise we are up from 8% at the end of 2014 to now 8.6% and that actually means that we are just entering the low end of the interval that we have guided for 2015 – being 8.5-9% - and if we look at nominal earnings we are realising DKK 108 million compared to DKK 49 million in the first quarter last year and as is also illustrated here we normally see a pretty weak first quarter due to winter season in Europe so we are actually satisfied with the development. In the Q1 report we do mention some issues that have impacted the result negatively in the first quarter. One thing is the Anholt provision where you are all aware that we have a failure in the cable. We have properly provided provision for that and we are also negatively impacted by increased bad debt reserve in China with DKK 13 million and that is of course included in the numbers here.

Then the big driver behind the improved EBITDA is of course coming from DRIVE. We continued to execute well on the DRIVE project and it has management's top focus to continue to do this because there is still some way to go from where we are at the end of the first five quarters of this programme at DKK 241 million in impact up to the full-year impact that we would like to have going into 2017 of DKK 400 million. But the development in the quarter as illustrated here – the first quarter 2015 – we realised DKK 72 million so that is entirely – a big part of the improvement that we have seen in the cables business in the first quarter. It also comes with one-off costs of DKK 38 million, which is as earlier communicated, and it also has meant in the quarter that we have laid off an additional 19 people in the organisation, unfortunately. So programme to date we still have some way to go in realising the full potential as mentioned before and a big part of that will come from further FTE reductions where you can see here that we are accumulatively at 290 and we need to be at around 450 people when we are having this programme fully realised going into 2017.

Then DRIVE is not only about the ‘Get fit’ part as we have talked about earlier on. The ‘Get fit’ part is very much about reducing cost, reducing complexity and focusing on restoring profitability for the cable business and that is ongoing and as mentioned before we need to continue to have high focus in order to make sure that we continue to execute well here but it is also clear that we also need to improve the business going forward so that is also why we continue to look into the more ‘Be excellent’ of this 3-stage programme so now we are more focusing on how can we even strengthen our business more going forward in the different segments that we are serving, for example by driving excellence into all the different functions that we have as part of our business system.

And if we look at page 32, we have listed three areas that are on the agenda right now and that take up a lot of focus in the organisation. First of all, we are looking into the strategy plan up to 2019 for the next coming five years and it will very much be centred around how to increase shareholder value. We are of course satisfied with the development that we have seen from DRIVE and that should bring us to a return on capital employed of

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around 8-9-10% - something like that, but that is also very clear that that is not meeting our requirement and we need to do better so that is very much the fundamental or the starting point for how to address this strategy plan for the coming five years and I look very much forward to coming back and explaining more about the strategy plan when we launch it in August so only a quarter from now in connection with the second quarter announcement. Two other projects that we are focusing on here are Tender management – the way that we go to the market in particular in the project business and there we have streamlined the organisation and we have implemented a lot of different tools in order to make sure that we prioritise rightly the projects that we are actually able to win and that we spend the resources on the projects where it makes sense. So there are a lot of other tools and other process optimisation issues in this tender management topic but I am very confident that that will also fuel better performance going forward in the cables project part of the business.

Then it is also about sales excellence – this is a topic that Jonas in Nilfisk has spent a lot of resources on and we have also explained and the sales excellence for NKT Cables is more or less similar to what we have been doing in Nilfisk the last couple of years. Of course, it is – we do have lower complexity when we look at our front-end in the cable business compared to Nilfisk so it is relatively easier to drive excellence with a higher speed because we have less people and less sales offices to work on but this is very much about increasing the sales force effectiveness. It is very much about implementing tools and methodologies for how do pricing in the market to make sure that we are also driving excellence into this and that we are also in the end optimising our pricing in the different markets that we are serving.

A slide here on visibility for offshore – it is still pretty good, at least if we assume that we start up production of Race Bank here at the beginning of the third quarter, which is still depending on the final investment position by DONG Energy but as it is today we are all involved parties in this project working as scheduled and we strongly believe that we will start up executing as planned very soon.

But right now the focus for the offshore business is very much about the Gemini project that we have communicated about earlier. It is about delivering 209 kilometres 220 kV high-voltage offshore cable with a lot of accessories as well and that project is going according to plan. We have more or less finalised the cable production part of this project and now we are in the process of handing over the different cable lots to the end customer and as you know here we are not depending on doing the installation part. This is a supply only project. Then looking at the more traditional high voltage onshore business we had earlier on communicated that this business has been extremely tough and that we have seen price pressure and it is not that we have seen a big change of that but it is probably fair to say that we have a more positive view of this part of the business than we had in earlier quarters. We are looking into full utilisation in 2015 – we have around 9 months' visibility in this business and that means that 2015 is fully booked and we start to book orders into 2016 and we here mention some key projects that we are serving and we also are mentoring some reference projects and how we think we can differentiate from competitors with for example our ability of producing cable solutions for end customers with a few number of joints compared to competitors – here mentioned the around 20% less – and overall we are trying to use the know-how that we

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have gained over many, many years of experience in this business and deliver that to your customers.

Then to sum up here on slide 35 on DRIVE – on NKT Cables DRIVE proceeding as expected we have touched on many of the numbers here but maybe just highlighting the Return on Capital Employed where we see a pick-up from 0.8% in 2014 first quarter to now 5.8%. That is one of the more important numbers to look at in the coming quarters and years because of course we cannot be satisfied with just around 6% RoCE so we need to do much better and as mentioned before, DRIVE will bring us one step forward and then this strategy plan needs to close the hole up to what the requirement will be decided to be for this business but we will come back to that in August this year.

The continuing on one slide here on Photonics. It is pretty simple because we have had a first quarter development very much in line the first quarter in 2014 – you don't see the negative growth of 4% on the top line because the top line is the same as 2014 and that is of course impacted by the stronger US dollar fuelling higher revenue but if adjust for that we are actually looking at -4% and then you can see the composition between the two main product areas: Imaging and Sensing where in Imaging we have seen a very strong development of 35% growth and we have been able to close three significant R&D contracts and we are happy with that because this is what should in the end fuel more growth and penetration of different market segments for the Imaging segment but unfortunately that has been offset by -32% in the Sensing market. The sensing market is partly exposed to the oil industry and that is why we don't see a lot of traction in that market right now, but having said that for all of the three segments that we are serving we have been able to increase the order backlog and that is also what should fuel more growth in the coming three quarters. We are maintaining our guidance of organic growth of between 10 to 20% for the full year so it is clear that we need to increase the top line and we also expect to do that and we are also maintaining the EBITDA margin of between 8-10% so the coming quarters need to improve significantly compared to the first quarter this year.

And with that we can turn to slide 39 looking at the outlook for 2015. It is pretty simple because we are maintaining what we said back at the end of February when we launched guidance for 2015 and that means that for the Group in total we are looking at organic growth of up to 3% and we are looking at an operational EBITDA margin of up to 10.6% equalling an improvement of up to 1%-point from the 9.6% realised in 2014 and then we have not changed our planning assumptions for the underlying businesses so targets for Nilfisk, NKT Cables and Photonics are unchanged compared to what you have seen earlier on and that is on that basis that we are maintaining consolidated guidance for NKT Holding.

And with that we can finish this session with the Q&A session so operator any questions on line here?

0.40.44.3

Operator

Thank you – ladies and gentlemen, if you have a question for the speakers please press 01 on your telephone keypad. That is 01 if you want to ask a question. We have the first question coming from Mr Kristian Johansen from Danske Bank, please go ahead sir

0.40.58.3

Kristian Johansen

Yes, please a couple of questions from me. First of all, can you elaborate a bit on these supplier challenges for Nilfisk. What exactly has been going on? And has this been carried into Q2 as well?

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Jonas Persson

I would like to do that Kristian. When it comes to the strike in the US which has caused some issues for us there has been a strike on the west coast for more than 5 months actually and that is over now. They are still catching up in the ports and that will affect also April and a little bit going into May but it should be solved after that but that is one part. And then we have a system implementation, a distribution system implemented in Europe and that has also caused us problems but that is over so we have already caught up and we will not see an effect of that going forward.

0.41.55.1

Kristian Johansen

Okay, then in terms Cables and this provision you say you have made for Anholt, can you quantify this?

0.42.03.8

Michael Lyng

No because if I could I would also put in the quarterly report so we cannot quantify.

0.42.10.2

Kristian Johansen

Okay, then for Cables you mentioned that you will finish the Gemini project and hopefully start up the Race Bank. This gap that it will leave for Cables in Q2 as I assume you are finishing or that Gemini will not have full impact in NKT. Can you sort of help us a bit on how much that will impact your Q2 results?

0.42.35.6

Michael Lyng

Yes, at least I can try to guide you a little bit here. You know when we are talking about that we will have a hole in the capacity utilisation you know it is really a simplistic way to look at it because looking at the production steps in Cologne of course there are a lot of different steps and some are related to offshore, some are related to onshore and the majority of them are mixed so it is not that the factory then will be completely idle for two months before we then start up Race Bank. That is not at all the situation. Q2 will be a very strong quarter because we will finalise a number of projects, among others have much more clarity on Gemini where a handover is at the end of the quarter and we also have some other projects that we will finalise so Q2 will be a good quarter for NKT Cables and that will most likely also flow into Q3 and it is always difficult to say how much will then end up in Q2 and how much will end up in Q3 because sometimes we are not fully in control of delivering to customers when they actually start up the different tests that they need to do before we can finally close down the project and take in the remaining income. So but quarters 2 and 3 will be strong and then quarter 4 will be weaker as quarter 4 last year because there we will be more exposed to just doing normal production so to say, in particular on Race Bank where we will just produce and we will not really meet any milestones in order to take in or to have more visibility on the provision side of the project. So hopefully, this is giving you some guidance.

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Kristian Johansen

Yes, that was very helpful and then just my last question in terms of the DRIVE and the phase 2 – I know you will address it more in detail in August but can you just elaborate a bit on whether the phase 2 will be more cost cutting or whether you will be doing slightly more similar to what we see in Nilfisk – what you will have to invest in the business in order to achieve your targets?

0.45.00.6

Michael Lyng

I don't expect that cost cutting will be the overlying theme of the new strategy plan – on the other hand, I will not rule out the issue around doing further cost reduction because it ties very much into what will the result of the strategy plan be and what consequences does it have for the way that we, for example, are serving the market, the way that we are organised, etc. etc. etc. but of course the main theme of the strategy plan will also be how to grow the business further and how to restore profitability even more than we have been able to do with the DRIVE programme. So it will be a mix but more in the direction of what you have seen with Nilfisk.

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Kristian Johansen

Okay, very clear. That was all from me, thank you.

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✓. None

Operator

I remind you that if you want to ask a question you have to press 01 on your telephone keypad – that is 01. We have the next question coming from Mr. Jesper Christensen from Alm. Brand Markets, please go ahead, sir.

0.45.58.9

Jesper Christensen

Yes hello, just really back to basic questions from me. In Cables your operational EBITDA was 108 million. Is it then correctly understood that if there had been no provisions in China then it would have been 122?

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Michael Lyng

Yes, it would.

Jesper Christensen

Okay, and if there has been no provision on the cable projects in Anholt it would have been higher again?

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Michael Lyng

That is also right.

0.46.36.7

Jesper Christensen

Okay, as I said these are really basic questions but they are important. Thank you very much.

0.46.44.5

Operator

We have a follow-up question here from Mr Kristian Johansen from Danske Bank, please go ahead, sir.

0.46.48.2

Kristian Johansen

Yes thank you – can you just update us on the M&A situation for Nilfisk. You have been talking about this for a while – are things progressing or how does it look?

0.47.01.4

Jonas Persson

Very much progressing and of course – which I also mentioned – we are talking about why we have accelerated the efforts into this and of course our pipeline today looks totally different from what it has done before but having said that of course you should also know that it takes some time to get two to tango so to speak but we have a more extensive pipeline today and more people to talk to so I think it is progressing but of course I cannot talk more than that about it since we have not decided anything.

0.47.36.4

Kristian Johansen

But you are optimistic that something will be signed in 2015?

0.47.41.7

Jonas Persson

Yes, I am positive on this and I believe that but of course it is very hard to say when it exactly happens.

0.47.50.7

Kristian Johansen

Okay, I hear what you are saying. Then just a clarification question: You say that the organic growth for Nilfisk is relatively impacted by the sander divestment. How can organic growth be impacted by that?

0.48.05.7

Michael Lyng

Yes, that is a good question, Kristian, and the way that we normally do organic growth is that we adjust for large either investments or divestments and the smaller one that we do we don't adjust for and we did not properly adjust for the sanders business when we divested it in the first quarter last year. And you know, seen with hindsight, we should probably have done that because in particular in the first quarter this year it did have a very negative impact or positive impact if you have adjusted for it in the US so that is why we give the flavour but – and you know, it is difficult to adjust backwards now. So that is how it is.

15. May 2015

Transcript

:: Exhibit ::

✓. None

Kristian Johansen

Okay, I understand. Will there be any impact in Q2? No?

Michael Lyng

Very limited

Jonas Persson

Very limited going forward

0.49.00.8

Kristian Johansen

Okay that is clear. That was all from me. Thank you.

Operator

There are no further questions at this time. Please go ahead speakers

0.49.08.8

Michael Lyng

But okay, that was a short Q&A – but that makes life easier here on our side so we will thank all of you for listening in to this first quarter announcement and we will be back 20 August with the Q2 result – hopefully with some more positive news on the growth side in Nilfisk. Thank you.