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**NKT**
**Interim Report Q2 2016**
**Webcast, 18 August 2016 09:00 CET**

Operator
Welcome to the NKT A/S Q2 report 2016. Today I am pleased to present Group Executive Director and CEO, Michael Hedegaard Lyng. For the first part of this call all participants will be in listen-only mode and afterwards there will be a question and answer session. Speakers, please begin.

0.00.18
Michael Hedegaard Lyng
Thank you, operator. Good morning everybody and welcome to NKT webcast covering the Q2 results for 2016 that we released this morning. My name is Michael Lyng, CEO in the NKT Cables business and Group Executive Director in NKT Holding and the format for today's meeting is unchanged compared to what we have been doing the last couple of times. Presenters unchanged: Jonas Persson, Nilfisk, President and CEO, and then Basil Garabet, also President and CEO for the NKT Photonics. Together we will do the presentation of the second quarter announcement but let us look at the agenda on slide no. 4.

First, I will cover some highlights for the second quarter 2016. Then we move into the businesses first with Jonas presenting Nilfisk, I will present NKT Cables and then Basil will present Photonics before we jointly end with the Q&A session.

On slide 5, some highlights for the second quarter 2016. First of all, I think we can say and conclude that earnings are in line with expectations based on good performance in both Nilfisk, Cables and Photonics. If we start with Nilfisk then we are reporting 3 % organic growth, which is an okay number in particular if we look at -1 % in the first quarter. I think it is also important here to stress that it is supported by strong growth in EMEA of 7 % and Jonas will come back to that later in the presentation. Based on that we also see an EBITDA improvement of 0.4 % and that is actually on the back of increased gross margin, up to 41.2 % from 40.9 % and also we start to see an improved overhead cost ratio which is coming slightly down to 32.2 %. Of course, we have looked into growth for a number of quarters here in Nilfisk. It is also fair to say that looking back we have not been fully satisfied with the growth that we have realised and on the back of that we are also now reporting that we will change the organisational structure going into the second half 2016 and into 2017 and we will also start up a cost reduction programme with the aim of reducing cost base of DKK 35 million by 2019 and that should be seen as 2016 being the base so a programme very similar to what we did in NKT Cables under the umbrella DRIVE and Jonas will talk much more about this under the Nilfisk part.

When it comes to NKT Cables, we see negative growth. I have to say that this is fully as expected. It is negative by 13 %, but if we somehow look into the composition of that then I am happy to announce that we see very strong organic growth in what we define as being the product segment up 9 % and then project business is down 43 % but please bear in mind that this is as expected and it does not indicate what is actually going on in Cologne where we are seeing a production load up to the roof. And I will come back to that later on in the presentation. We also now have the group management structure complete. As you know, we are spending a lot of time here also on implementing a new target operating model at the beginning of 2017 and now the "N minus one" structure is complete and I will come back that later in the presentation.

Also NKT Photonics sees a very satisfactory financial performance and Basil will later on present this in more detail. So with that we are able to maintain guidance for 2016. Having said that we make some adjustment on the underlying assumptions as illustrated here on the slide but let me come back to that a few slides ahead of us and also worth noticing here is that we continue to see a strong performance when it comes to the balance sheet, working capital reduced further during the quarter, which is good, and we actually also have a good cash flow from operations of EUR 28.7 million so check marks on the balance sheet as well.

But let us look a little bit more into the financial figures on slide no. 6. Revenue here you can see EUR 553.2m impacted of course by the lower revenue in NKT Cables so totally we are reporting -5 % organic growth. Nilfisk up 3 %, NKT Cables down 13 % and then NKT Photonics up 9 %. Operational EBITDA EUR 52.9m, giving a 10.9 % ratio and that is also down, it should not be a surprise, compared to the very, very strong second quarter we had in 2015. If we look at the balance sheet here, working capital amounted to EUR 318.8m so we are now trading at LTM of 15.4 %, which is a notch down compared to the end of the first quarter where we ended at 15.8 % and it is actually driven by good performance in both Nilfisk and Cables. Nilfisk down from 20.2 to 19.6 % and also in Cables we see a reduction from 11.6 to now 11 %. Cash flow, as mentioned before, operating activities generate cash of 28.7 – significantly up compared to Q2 2015 and then we have investment activities of 17.5 down or also up from the negative of 29.8 in the second quarter last year but last year was impacted by some acquisitions that we made in the second quarter in Nilfisk. Then that generates a free cash flow of EUR 11.2m which is also an okay number. Net cash flow of EUR -13.4m the reason being that we continue our share buyback programme impacting with EUR 20.1m and then we have also paid out the dividends approved at the last AGM of EUR13.0m. So all in all on the balance, we will not come back to that later in the presentation in order to keep it short and sharp but in the appendix to this you will see the normal trend curve that you have seen in the past.

If we look at the overall outlook for 2016, then we are maintaining what we originally said in the annual report for 2015 so we expect flattish organic growth unchanged and we still expect an operational EBITDA on a par with 2015 where we realised 9.4 %. Then we are changing our planning assumptions slightly. Organic growth in Nilfisk is now expected to be in the range 1-3 % compared to 0-5 % before and as a consequence we are also narrowing the span on operational EBITDA, before 10-11 and now 10-10.5 %. In NKT Cables we maintain what we said on the organic growth. So we still expect it to be negative with around 5 % and then based on a pretty good performance in the project business in the second quarter and also good growth we are able to narrow the band here from before 8-9 to now the level around 9 % so very similar to what we achieved in the good year of 2015. And then Photonics unchanged growth of 10 % and operational EBITDA between 12 and 14 %.

But let us look at the next slide here, slide no. 8, where we can actually see where we are trading so just as said 9.4 we expect similar to 2015 and that is actually currently where we are trading so it should not be a big surprise.

So if we turn to slide no. 9, composition of revenue in box no. 1 in the upper right corner where we see the revenue decrease of EUR 47.2m as you can see impacted by various factors. We see significantly lower metal prices and that is diluting the top line with EUR 38m, also a negative impact from FX, but then offset partly by a positive impact in the acquisitions that we have been making in Nilfisk but also in Photonics, 20.9 before we are then down to the reported -5 % organic growth for the quarter.

The composition of the operational EBITDA, a decrease of 6.6. Nilfisk is actually improving compared to the second quarter as said in the beginning so we see margins up in the quarter but also LTM as a consequence up from 11.4 % to now 11.8 % and then we see Cables being down from 14 to 10.8 % and that should of course be seen on the back of a very, very strong second quarter last year.

With that I think actually we should move into the business lines, so Jonas why don't you take over from here?

0.10.58
Jonas Persson
Thank you very much, Michael. Then let us just look into the details of Nilfisk starting up then with the quarter. We ended up with 3 % growth in the quarter and that gives us 1 % year-to-date. In EMEA, we ended up with 7 % growth in the quarter so a very strong quarter despite the political challenges we have in the Middle East so a great quarter. Service up, very strong growth but also the mid-markets, very strong growth in the quarter. Americas on the other hand we had another disappointing quarter -4 % and it is mainly US floor care that is still struggling when it comes to growth. That is still a challenge for us. We have growth in Latin America and we also have growth in the pressure companies in Americas. So very much challenge continuously in US floor care. APAC ended up with 0 % in the quarter, which is actually quite good. We had very strong growth in Southeast Asia, very nice growth also when it comes to consumer in the Pacific but China of course maintains a challenging market for us and that is mainly the challenge to municipalities and the government. Turning then into the next page. Improving margins in the quarter and also year-to-date and also when it comes to the overheads so the activities we have when it comes to pricing initiatives but also procurements start to pay off and we also have started up the overhead reduction which also gives us an effect in the quarter.

Let us turn into the next page. We have not achieved what we want when it comes to growth. We have achieved a lot, we launched Accelerate strategy here in March last year and then we also started up with the mid-market, we have seen very good growth in the mid-market. We have seen very good growth in service and we have also seen good improvements when it comes to the supply chain but we have not really seen the growth we want to and that is why we also come into this organisation change that we would like to make. So we would like to get closer to the customer and also empower organisation but being more customer-oriented has changed organisation in the front-end in order to be closer to the customer but also created more accountability to the countries. We would also like to simplify the organisation and to take out complexity in order to increase the speed.

So the new organisation we would like to push to is actually to achieve two things. It is to achieve the growth we have not fully seen. We are still lacking what we wanted to with the strategy and this is of course in order to be able to get at, and enable us to get the growth we want. The other thing is we also see possibility to improve the margins by making this organisational change.

So first we will unify our sales companies and organise them into Premium, Value and Service in order to have the same way of organising our front-end but also be able to support the sales organisation from the back end. In order also to simplify the span of control for the sales company we would also like to take out the speciality and the consumer. This is a handful of companies, that is not really the full core, and in order to have them stand alone we will not only be able to focus more on consumers and speciality but we will also be able to focus more on the main business in our sales company so these two divisions will completely stand alone, end-to-end. In order to get out cost but also to create excellence we also push with both finance, HR and marketing and consolidated this functions in order to be able to push out cost from this. This transition will start here. We will actually go out internally as well today with a communication and we will go partly alive with this organisation already here on 1 September and then we will have a transition period, fairly short, until the end of December and we will go full live here on 1 January.

So what is then the impact financially? It will be of cost, to get the savings we will have a cost of roughly 30 million but we will also save based on 2016 and the 2019 impact we will have an overhead restructuring. We will also work harder on the sourcing savings, production footprint continuously to do that but also reduce the complexity in the organisation. And the cost of this, as mentioned, 35 million, but on top of that we have 5 million also to reorganise the front end.

So to sum up, okay growth. Quarter 3 very good growth in EMEA. Americas still below expectations, margins are improving with the activities we have. Thank you very much.

0.16.24
Michael Hedegaard Lyng
Thank you, Jonas, for taking us through the performance in Nilfisk and let us now move on with the Cables business and as indicated here we actually have something to celebrate. NKT Cables turns 125 years later in this month so many, many years behind us, a lot of experience, a lot of passion and that is actually what we try to build on executing on EXCELLENCE 2020 bringing us even one step further ahead. But if we look at slide 19, then we can use this as a talking sheet that is describing performance in the different markets. First of all the -13 %, -19 % for the first six

months and that also means that in order to achieve the around -5 % for the full year we will see positive growth in the second half.

Let us start with the project business. Now the negative number is behind us – month after month we will start to see positive growth in this business as we are moving on getting closer to the end of executing the projects that we currently have in backlog. On the market chart, we look at an offshore market still being pretty attractive. We see a lot of projects off the Dutch coastline, despite the fact of Brexit, we still see a lot of activities in the UK markets, some related to projects that have already been awarded but also recently awards of new projects. So we maintain our positive yield on the offshore segment. You know, we have full visibility in this segment up to the end of 2017 so it is more back to executing properly on those projects and that should drive better profitability in the second half but also going into 2017 in this business line. Looking at the onshore segment where we see a flattish development compared to the last quarter, it continues to be a tough segment. It is probably the toughest segment in the cable industry these days where we don't see a lot of volume and that is of course having a negative impact on prices. Not worse than we have seen before but we have not seen any improvements yet either.

In the product business we are very satisfied with growing that business 9 %. We start to see the full benefit of pricing excellence that we introduced a year back. We have also developed a new product range that is in compliance with the new CPR regulation that is very soon impacting some of the markets that we are serving and if you are not familiar with the CPR regulation, Construction Products Regulation, then I suggest that you visit our homepage and watch the video that has been prepared as an information vehicle to customers and installers because also for them it is driving a lot of changes and I think we are in the front row here when it comes to communicating to the market and also developing the new product range and we should of course benefit from that driving growth in the quarters and years ahead of us. If we look at the composition of this then the Nordic market is flattish and that is actually covering over a very strong performance in the Swedish market where we continue to see good performance. We also saw that last quarter, whereas the Danish market that is also a big market for us, is somehow a little bit more challenged and more flattish. Central Europe, a very strong performance also impacted positively by the so-called photo-year in Germany and specialities which are accessories and railway business are flattish.

In the speciality segment, we have now finalised our restructuring of the cabinet business that we have had for many years. It has now been closed down and partly divested. It was loss-making so ahead of us is a much better and more solid performance in the specialities business when it comes to the medium-voltage accessories that we are serving. China continues to be a tough market – as you can see -26 % - also representing our very low appetite to gain orders so to say because they are more or less loss-making and in particular if you look at it from a cash flow perspective and return perspective we lose money so ahead of us in APAC we need to fix this issue. I cannot foresee a situation where we will also talk a lot about APAC going into 2017.

So let us look at little bit at the composition of revenue in the project business because I do admit that the negative growth numbers are somehow pretty high and that does not reflect the fact that we are looking at a production unit in Cologne that is producing up to the roof and this is somehow the bridge where you can see that there are some accounting issues where we changed the method last year. It should not have any impact going forward. Then our composition of backlog this year contains less civil work in the projects compared to last year. That is normally a pass-on so it should not impact margins, underlying margins a lot. Then back in February, we reported this setback that we saw because of the quality issues that we had from one key supplier. I am happy to announce that now we have our arms fully around this issue – it is not an issue that will impact the second half at all, but it has impacted the second quarter because of the need of reproduction of cables and also – if you remember – we also had a similar impact in the first quarter and we expect to be fully compensated from that sub-supplier and that is currently under negotiation. Then we have the other 15 million negative bringing us down to the 51 million and that is actually very simple – very much related to pricing so a lower profitability level on current backlog compared to backlog executed in 2015 and that should also not be a big surprise.

So that brings us to EBITDA margins down to 8.2 % in the quarter despite the fact that we are okay satisfied with the performance in the quarter and having that in mind we should also notice that we are now guiding a level of around 9 % EBITDA margin and that means that we should see a stronger second half this year compared to what we saw in 2015.

On slide 22, you can actually see what is happening. We have used this slide before and if we look at the product business quarter after quarter we see a better performance. It relates to the full impact of DRIVE kicking in. It relates to pricing excellence, commercial excellence as discussed before so that is very much in line with what we actually expected for the year. And then looking at the orange curve here we see that that is the project business where as communicated before we will have significantly lower profitability from that business in 2016 because of order backlog over 2015 but we are actually doing better execution than expected and that is illustrated here by the gap between the dotted line and the fixed solid line. The dotted line reflects the budget behind the forecasting of the range 8-9 and we do better. That is also why we are able to take up guidance indicating that we will be around 9 %, similar to what we did last year looking at operational EBITDA. So to sum up on slide 23, a good quarter despite the negative growth. We see a good execution, we see good growth. When it comes to the new group management team then I am also here happy to announce that it is completed. Frida Norrbom Sams joined us at the beginning of June. She is having a lot of experience driving growth, driving commercial excellence, a turn-around of the front-end, so I strongly believe that she will contribute positively to that development and then also we have our new COO on board, Dietmar Müller, representing a lot of years of driving production excellence, optimising manufacturing footprint etc. and he will join us at the beginning of October and with that the "N minus one" layer is fixed and then also the "N minus 2" is very close to being ready to be announced and then we are ready to work under this new TOM (Target Operating Model) at the beginning of 2017. It is a long journey but we work under the frame: Go slow to go fast. We need to have proper planning and with that being done now we are ready to kick it off at the beginning of 2017 and that is part of the EXCELLENCE 2020 Strategy that we announced last year at this time and one important element and also under the different other must-win battles and segment initiatives under the EXCELLENCE 2020 Strategy we are progressing as planned so with that I would like to hand it over to Basil to take us through NKT Photonics.

0.27.53
Basil Garabet
Thank you, Michael. I am Basil Garabet and I will give you a quick review of the NKT Photonics sector and how we have done in the quarter. We had good organic growth of 9 % driven mainly by our improvements in the sensing and energy sector. If you look at the slide, it shows the three strategic sectors that we operate in. On the largest one, which is Imaging and Metrology, it is about 45 % of our business, we had good growth on our existing segment in the quarter and we are also working on capturing a number of significant OEMs and in the quarter we signed a contract – an 18-month frame contract – with a large semi-conductor customer. And that has been the fruits of many quarters of work with our customer base. In the Sensing & Energy sector again very strong growth, part of the synergies that we had with integration is bearing fruit. We have not only improved in the sectors that we are traditionally in, for instance in structural monitoring and we had a nice announcement that we supplied the equipment for fire monitoring in the Gotthard Tunnel but we are also improving in other segments, for instance in monitors for gasifiers and chemical storage so that sector is moving in the right direction and very strong and finally the smaller sector that we are in at the moment which is Material Processing which is about 13 % of our business, again very strong organic growth for the half-year. We had a small decline in the quarter but overall we are over double-digit performance for the half-year. And we had significant orders in the end of last year and in the last quarter in which we are delivering to our customers.

If you move to the next slide, the integration of both Fianium and Lios is going as planned. We have fully integrated the sales and marketing and engineering sectors in all companies at the moment and that is bearing fruit. On the Fianium side, our backlog and our pipeline is at very levels, in fact the highest we have ever had in our history and we are quite pleased with that. We will continue following that up. On the Lios side, as I mentioned earlier, that is going really well and it is better than expected and again it is due to an energised team that is doing well out there getting a number of significant OEMs in so we are very pleased with that sector.

Finally, just to sum up the final slide. As you see from the bar graph, we continue the upwards advancement of our EBITDA and again with our organic growth this year compared for instance quarter to quarter to last year we are at 9 % this year compared to -14 % last year but more significantly we are up for the half-year to about 11 % compared to -9 % for the same period of last year so all in all things are moving in the right direction. The ship is steady and we are quite pleased with our performance and that concludes my part of it.

0.31.47
Michael Hedegaard Lyng
Thank you, Basil. So with that we have finalised our part of the presentation here and we are ready to move into the Q&A session so operator, I will hand it over to you.

0.32.03
Operator
Thank you. Ladies and gentlemen, if you have a question for the speakers, please press 01 on your telephone keypad and please hold until we have the first question. Our first question comes from the line of Casper Blom from ABG Sundal Collier. Please go ahead. Your line is open.

0.32.23
Casper Blom
Thank you very much. A couple of questions from my side. First to Jonas. Jonas, in Nilfisk and the US you mention that the US floor care is sort of a challenge for you. Are you doing anything sort of particularly to cater for that challenge or will that also be fixed by the new organisational setup that you are presenting today? Also, on the whole organisation changes that you are doing have you done anything to really acid test how these changes will be taken by the organisation to avoid that you don't get into any let us call it implementation problems with this and that people are onboard from the start? And then finally, Michael, on Cables, two things there. First of all, if you could give an update on pricing. It looks as if it is stabilising a bit in the products business. And finally on your second half growth, could you give guidance on how to look at growth in Q3 and Q4? Will it be roughly on level or will one of the quarters be significantly different from the other? Thank you very much.

0.33.39
Jonas Persson
So if I then start Casper. When it comes to the US floor care there are numerous activities when it comes to how we go to market. We have been able to improve already margins and overhead there but growth is still challenged as I said but we have also decided to let go of our CEO in Americas and with immediate effect we will have a new person on board here on 7 September. When it comes to the implementation, of course we have involved also management here so far and also some big market countries and we have seen very positive feedback so far. So we feel very much that this is the right thing to do.

0.34.24
Michael Hedegaard Lyng
And then on your question about – can you just repeat what you asked about? About the growth.

0.34.34
Casper Blom
Yes, merely, I mean obviously as you also said Michael you are expecting to see growth in Cables in the second half after a decline in the first half – how shall we sort of look upon Q3 and Q4 here? I mean, will growth in the two quarters be much different? Or will it sort of be on level – growth in those two quarters. If you could give a bit of guidance on that. And then my second question was just if you could give an update on pricing.

0.35.02
Michael Hedegaard Lyng
Yes, I think on the growth side first, I think as you know we are reporting -5 % so we will be down y/y and that should not be a surprise and it is very much related to the project business and the price level in the order composition. Then looking at what we expect for the third and fourth quarters, you know, it is always a little bit tricky because the project business can easily move from one quarter to the other but if we look at comparison numbers we had -12 % growth in the third quarter last year and then 2 % in the fourth quarter and with that I actually expect that we will have a very nice third quarter but probably with an even stronger fourth quarter then realising the -5 %. Then, on pricing. Pricing is important to discuss both in the product business but also in the project business. In the project business we do see an okay price environment when it comes to the offshore market and that is also what we have said before that looking into 2017 we will have a better order composition to execute on. The onshore market continues to be tough. We don't see any worsening on pricing power and also we don't want to take orders with low margin. Then we would rather try to optimise in different ways whereas in the product business we implemented a pricing project at the beginning of last year and that is not about only increasing prices it is also about putting more intelligence into doing price setting in the market and we actually benefit from that so underlying the 9 % is a fairly even mix between volume and price.

0.36.58
Casper Blom
Good to hear. Thanks a lot, guys

0.37.02
Operator
Our next question comes from the line of Kristian Johansen from Danske Bank. Please go ahead. Your line is open.

0.37.08
Kristian Johansen
Yes, thank you. A first question regarding the strategy for Nilfisk. This might be looking at things a bit simply but if we go back to your original strategy, it was to increase the amount of sales and service people which should then result in an increase of organic growth and obviously that has not happened to the degree you expected so now you are taking out sales and service people and then that should also increase growth. I understand that it will increase margins but can you just help me understand the logic in terms of why this should improve growth?

0.37.41
Jonas Persson
No, I think, Kristian, you have slightly misunderstood this. We were taking out costs by doing several things here. Consolidation of the marketing. Consolidation of marketing people. Consolidation of finance and consolidation of P&P but that is also back-end in the sales company. We are still continuing to drive feet on the ground for the sales people and also service people so that is also a contradiction but this organisation change we will do will also empower the

organisation when it comes to the sales organisation so take the right decision close to the market and making the organisation more simple with clear responsibilities.

0.38.24
Kristian Johansen
But does that mean you are not changing the absolute amount of sales and service people?

0.38.29
Jonas Persson
No, we are not changing – of course we constantly work with taking out non-performers but we are not changing that, no.

0.38.36
Kristian Johansen
Okay that is very clear. Then on the Cables business. Can you just remind us your exposure to especially the British pound and how you are hedging this considering the recent decrease and your backlog with a couple of UK projects in projects.

0.38.58
Michael Hedegaard Lyng
We are not exposed to British pound to a very large degree – you know, by far the largest amount of orders we get in the UK market is nominated in Euro, underlying Euro so that is – you know, we don't have any significant exposure.

0.39.18
Kristian Johansen
Okay, that is quite clear. And then just lastly in terms of your Chinese business in Cables. Should we interpret what you are saying here as that you will have exited this in one way or the other by the beginning of next year?

0.39.35
Michael Hedegaard Lyng
I don't think that you can conclude that we would have exited it but I think you can read between the lines that would have reached the conclusion what to do and then you know an exit of a market can, you know, from time to time take a longer time for various reasons.

0.39.57
Kristian Johansen
Okay but does this also mean that you are not having a positive cash flow in this business because obviously it is not that long ago where you did a strategic review and chose to focus more on cash flow.

0.40.09
Michael Hedegaard Lyng
No, we do actually have an underlying positive cash flow because of collecting our account receivables but the operational part of the cash flow is severely negative. You know, it is not a big, big issue in 2016 and it was also not a big issue in 2015 but due to the fact that we have had some order backlog to execute on in 2016 also we have been able to limit our loss so to say. That will not be the situation going into 2017 because we don't want to increase our backlog with loss-making orders so somehow we need to fix that operational part of the journey now and then of course find a solution under which we can still collect our receivables in China.

0.41.06
Kristian Johansen
Okay, very clear. That was all from me thank you.

0.41.11
Operator
Our next question comes from the line of Claus Almer from Carnegie. Please go ahead. Your line is open.

0.41.17
Claus Almer
Thank you and first of all congratulations with the report. I have some questions for Nilfisk and one for you Michael in the Cables business. And I will take then one by one. Jonas, maybe you could give a few words to the new head of US operation? That will be the first one.

0.41.35
Jonas Persson
Yes, I am happy to do so. He is coming from a Scandinavian company actually and he is an American of course and he has very much international background and has also worked very much with commercial excellence and that is actually about where we have found him so he has extensive experience when it comes to the front-end activities and sales activities and turn-around for sales company so I think this is a very strong candidate for this position.

0.42.04
Claus Almer
You said he will start in September, right?

0.42.06
Jonas Persson
7 September so three weeks from now.

0.42.09
Claus Almer
Yeah, perfect. Then with the new cost-saving initiatives – how will you roll out these initiatives? And do you see any specific or significant execution risk and also any possible upside potential.

0.42.29
Jonas Persson
There is always risk when you do a transformation but I believe that we have worked through the risks and have activities around that but it takes time of course to consolidate the finance for example and we are doing this over a period and we will have roughly estimation of one-off already this 2016 of 20 million so – but of course there will always be risk but we believe that we have worked through this and the second question was?

0.42.56
Claus Almer
Potential upsides. You know, normally you do not come out with your most aggressive target.

0.43.04
Jonas Persson
No, I think of course there could be upsides as well and we might find also during this process more potential things but that will also maybe then lead to more cost but right now this is where we believe we will end

0.43.18
Michael Hedegaard Lyng
But you know, Claus, if I can just add we have a positive trend of surprising when it comes to cost reduction programmes and we would of course like to keep that trend.

0.43.29
Claus Almer
I know so that is why I am trying to figure out where there could potentially be some upside potential.

0.43.36
Michael Hedegaard Lyng
Yeah, but that we leave up to your intelligence.

0.43.38
Claus Almer
Okay, thank you. Then Jonas, did you mention you expect a 20 million positive impact this year?

0.43.47
Jonas Persson
No, no, I expect that we will be closer to one of this year there will be little or almost nothing improvements when it comes to margins this year because most of these activities will happen very late in the year.

0.44.04
Claus Almer
Okay, thank you for that clarification. And Michael with the Cable business. You mentioned you saw a lot of activity in the offshore areas, especially in Holland. When do you expect projects being awarded. Maybe you will win them and maybe you don't but when will these projects move forward?

0.44.24
Michael Hedegaard Lyng
But they are moving forward but you know it is always extremely dangerous to promise you know when we see the awards – whether it is to us or competitors because we have just learned the last many years that it is shifting from quarter to quarter even half-year to half-year so to be honest I don't want to give you a firm indication here but you should not expect a lot to happen this year so we probably need to go into 2017. It is also related to the fact, Claus, that the cable part of such a project is normally something that you do in the end of the planning process.

0.45.13
Claus Almer
Sure, any update on your work with the DC technology and possible expansion of your capacity in Cologne?

0.45.24
Michael Hedegaard Lyng
We have started up working on DC as you know. We have also succeeded in producing the first system being cables plus accessories but a system that we mainly will use in testing of developing this further so it is in the lower end of the voltage range so that is one thing we do and we also have other initiatives planned so we see the expected development there and you know when it comes to expansion of Cologne DC is too early to take into account there so that should more be driven by offshore if we do it soon but also here don't expect a lot to happen the rest of 2016. Also here, we probably look into 2017.

0.46.23
Claus Almer
Okay, thank you so much

0.46.26
Operator
Our next question comes from the line of Patrik Setterberg from Nordea. Please go ahead. Your line is open.

0.46.33
Patrik Setterberg
Hello gentlemen, a couple of questions from my side as well. Just following up on the previous discussion about when these cost savings are going to kick in, could you give some kind of guidance when these 35 million will start to be visible in the numbers? Will it be back-end loaded

or will we already see a significant amount of cost savings kick in already by 2017? That is my first question.

0.46.57
Jonas Persson
There will be of course more and more over the years up to 2019 and we will see the full effect in 2019 but I am happy to come back a little bit more to details in the quarter three announcement.

0.47.13
Patrik Setterberg
Okay and then my second question related to this ACCELERATE programme in Nilfisk, do you see one-off costs you are flagging for are they all having a cash flow effect?

0.47.27
Michael Hedegaard Lyng
Yes, they will all have a cash flow effect, you know, majority.

0.47.34
Patrik Setterberg
So is it all – is it a majority?

Michael Hedegaard Lyng
Sorry?

Patrik Setterberg
Is it all of the costs or just the majority?

0.47.41
Michael Hedegaard Lyng
It is a majority.

0.47.42
Patrik Setterberg
Okay. And then a last question regarding the performance in Nilfisk. The gross margin is taking a step down compared to the reported numbers in the first quarter. Could you explain or help me out what is – have you not been able to defend the price increases you were able to secure in the first quarter or is it just normal seasonality which is impacting the gross margin here in the second quarter compared to the first quarter?

0.48.17
Jonas Persson
It is typically what is happening between the first and second where we have much more DIY in the second quarter so it is a product mix effect. But we are improving the gross margin compared with last year in the same period as you see.

0.48.31
Patrik Setterberg
Yes. Okay. And then my last question regarding this framework agreement you have signed in NKT Photonics. Could you be, what kind of volumes and revenue impact are we talking about from such framework contracts?

0.48.49
Basil Garabet
The framework contract is mainly a development contract at the stage for the first 18 months followed then by a number of deliveries that we cannot disclose at the moment but they will be significant. Within the 18 months the numbers should be in the 1 million to 2 million Euro range.

0.49.16
Patrik Setterberg
Okay, thank you for that. That was all from my side.

0.49.22
Operator
Our next question comes from the line of Jon Hyltner from Handelsbanken. Please go ahead. Your line is open.

0.49.28
Jon Hyltner
Thank you. My line was disconnected a bit so sorry if I ask a question that has already been asked but my question is on Nilfisk and it is obvious that you are not happy with how the ACCELERATE programme has developed and I just wonder on the sales strategy that you launched in this new ACCELERATE programme could you maybe give us an example of what has gone wrong and to better understand what did not really work out there?

0.50.02
Jonas Persson
I have to say, I am partly not satisfied because there are of course markets that we have a very good performance but the difference when we do this is that we take down the span of control. We have huge complexity for the sales companies which have a lot of customers and the focus of course will be less then so in order to drive up more focus and be more customer-oriented in also how we organise ourselves we will be able to execute in a better way with the sales and that is the main thing here and we have of course seen some countries where we already have organised like this that we have a much better performance also when it comes to commercial excellence.

0.50.37
Jon Hyltner
Sure but something is not developing as you want that you are implementing a new organisation now so I am kind of wondering what that was?

0.50.50
Jonas Persson
The reason why we do this organisation is actually to segment our .. organise our sales company in a segment way so we get closer to the customer's need and also be able to focus on the specific customer segment's needs and that is the big change we do when it comes to the front-end and also to be able to execute the growth. And then of course on top of that there are several parts when it comes to improving the margins in the back-end as well.

0.51.20
Jon Hyltner
Okay, so this is not really an overhaul of the old strategy it is just a way of really implementing that fully this new organisational change – is that ...

0.51.34
Jonas Persson
The Accelerate strategy remains very much – is very much what we will continue to drive. This organisational change is just to make sure that we enable the organisation actually to achieve what we believe we will be able to.

0.51.47
Jon Hyltner
Okay and could you maybe mention a bit of how – if you have lost a lot of senior sales people? And if there is a lot of new sales people in the organisation right now?

0.52.00
Jonas Persson
No, I cannot. We have of course spots in countries where we see this but overall that is minimal. Now we have a stabilised sales force in the organisation today.

0.52.11
Jon Hyltner
Okay. Do you have a lot of new sales people that typically are new on the job – they are to have maybe one to two years before they become fully efficient, more than normal and ..

0.52.23
Jonas Persson
As I said we have in some countries that, but when it comes to the big markets we have now stabilised this so they have the experience they should have.

0.52.30
Jon Hyltner
Okay. Thank you for those answers. That is all from me.

0.52.38
Operator
There are no further questions at this time. Please go ahead speakers.

0.52.42
Michael Hedegaard Lyng
Thank you, but then we can finalise the session for today and as indicated here on the financial calendar we will be back on 11 November with reporting the third quarter performance so thank you for listening in all participants here. Goodbye.