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NKT.CO - Q3 2017 NKT A/S Earnings Call

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## PRESENTATION

**Michael Hedegaard Lyng** - *NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board*

Welcome to the webcast of -- by NKT here in connection with the announcement of the Q3 report this morning. My name is Michael Lyng, President and CEO for NKT, and I'm here today seconded by Basil Garabet, the CEO and President from NKT Photonics, and then I'm also today seconded by Roland Andersen, the CFO of NKT. So, it is the first time that we are reporting numbers only for NKT. As you know, we finalized the split of Nilfisk beginning of October. Nilfisk is still part of the numbers end of September, but in this presentation today we will only focus on NKT and NKT Photonics. I will cover some business related stuff and our overall performance, then I will hand it over to Roland to take you through some of the numbers, then we move into NKT Photonics and in the end we will jointly do a Q&A session.

On Slide #5, you can see here that after a good Capital Market Day back in September and an Extraordinary General Meeting in October, we finally delisted Nilfisk and had the first trading day the 12th of October and I think we can all be satisfied with the result of the split. It has or it was a tough process. A lot of detailed work needed to be executed, but now we are here in the new setting. And as you know also, Nilfisk are also communicating numbers for third quarter today; but moving into '18, we will somehow make sure that we do not report numbers at the same day. With that, let's move into group highlights for the third quarter '17. We saw an increased operational EBITDA margin in the year or in the quarter. We reported 14.4%, up from 10.4% third quarter 2016.

And with that number, we somehow also demonstrate the potential and also the robustness of the business because it actually reflects a quarter with the highest utilization both in Karlskrona and in Cologne although we are not fully satisfied with our underlying performance in the applications on in the Products business. We are reporting an organic growth of 24% and this is up from the acquisition effect of the ABB. And if you somehow look into the different segments, it is definitely the Projects business supporting 44% organic growth whereas we are more flattish in the Products business. We also are satisfied with the recently announced project wins. We got an order award for Borssele Beta and then we have also announced that we are preferred supplier on the Moray East and Triton Knoll projects and I will come back to that a little bit later in the presentation.

But it somehow underlines the robustness and also the strength in the offshore market that currently are seeing. With the numbers for third quarter, we are reconfirming our financial outlook for 2017 and that is unchanged. In the Photonics business, and Basil will also cover this in greater detail a little bit later in the presentation, we are somehow also satisfied. As normally in this business, we tend to see a very strong fourth quarter and that's really where we are seeing the growth in a year and that will also be the situation in this year and that's why being flattish in third quarter is actually occasion and more or less in line with expectations. We also reported that we have a slight adjustment for some historical LTI programs. It's kind of a one-off and it hits the number with almost EUR 2 million and that's why EBITDA is negative with almost EUR 1 million. And if you somehow adjusted for that, which is more representing the underlying business, then we are reporting close to EUR 1 million of EBITDA.

We finalized the Onefive acquisition back in September and caused by this LTI adjustment, we are revising the financial outlook for the year but it doesn't really impact the totality of NKT. Let's move into Slide #7 where we are comparing a lot of numbers here. If we start by looking at the revenue



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increase, we see it's up with EUR 139 million. Metal prices are supporting that journey with almost EUR 32 million. FX is not really impacting the numbers. Then we have some acquisition impact, but also some divestment impacts before we are then down to the underlying organic growth of EUR 58 million that entirely relates to NKT. On the operational EBITDA line, you can see that we are up with EUR 22.2 million from the EUR 20.8 million to the EUR 43 million operational EBITDA. And here EUR 23.3 million of that relates to NKT where we see an underlying EBITDA margin increase from 10.4% to 14.4%.

So really a strong development and this level of 14%, 15% is actually the level that we somehow want to realize full year and when we do that, we would somehow be able to meet our medium to long-term strategic ambitions. Then NKT as mentioned before down EUR 1.7 billion, but up EUR 1 billion if you adjust for the LTI program and then we have small impacts from others. We continue to do well on the integration of the former ABB business that we took over back in March and, as communicated earlier, there are of course also some integration costs related to that. And as you can see here in the lower part of the slide, we have spent EUR 5.3 million in integration cost and also have to announce that we are following that according to plan. I will not cover more of the numbers here because Roland will come back to that in greater detail a little bit later. We also see cash flow more or less in line with the same period last year.

We are reporting cash flows from operating activities of around EUR 46.7 million, more or less similar to last quarter. But as you can see here, this quarter we have less positive impact from changes in working capital and that's why you don't see a higher operational cash flow. Cash flow from investment of minus EUR 30.8 million, down from EUR 20 million. So, we continue to invest in the business. Of course also here impacted by the acquisition that Basil did in his business, you can see impacting here. And if you look at the full year for the first 3 quarters, of course you see the significant impact of acquisitions of ABB with just south of EUR 800 million number. If we move on to Slide #9, this is how we are somehow trending on our leverage ratio. We are at end of third quarter at 2.6x operational EBITDA. This is somehow for the totality of the business because Nilfisk are including -- are included in these numbers.

And we somehow also try to illustrate the split that we have after the date here after September announced and as you can see out of this, EUR 340 million goes to NKT and EUR 380 million goes to Nilfisk. But this is -- should be very much in line with what we have communicated earlier on. Then let's move into NKT with this nice picture of NKT Victoria. If we look at Slide #11, we can look at the performance in the different segments. And the Projects business, as already mentioned, 44% up in the quarter and that really just reflects the fact that we have been extremely busy in the sites both in Karlskrona and in Cologne and we have seen an execution on the different projects fully in line with expectations. The numbers that we are reporting here in third quarter for the former NKT business or for the Cologne activities are not yet impacted by any significant project closes.

That will happen here in fourth quarter due to the fact that some of our customers have been slightly delayed not caused by us, but caused by other issues. It's also third quarter where we see a full utilization of NKT Victoria. She's been very busy installing cables both in Danish Sea in Belgium and then also as communicated earlier up in Scotland. The AC onshore market remains to be a tough market, in particular in the markets where we typically are seen to be very strong. If I say in the German market, we continue to do whatever we can in order to offset the negative development. We know it's also extremely tough for competitors there; some of them closing sites, closing production lines, laying off a lot of people. That's not the situation for us. We somehow try to optimize and allocate resources to the offshore spectrum, but that doesn't change the fact that we are still hoping and also expecting to see that market somehow recover in the years ahead of us.

If we then look at the Products business, which is more stable here, we are reporting 1% organic growth. We see pretty good market conditions in the Nordic countries, in particular in Sweden also supported by U.K. So, check mark on that. Then in the former quarters, we have communicated a significant weaker Central Europe -- Eastern European market, in particular Poland disappointed us in the first couple of quarters and then -- and here we're happy to announce that we start to see a recovery of that market into fourth quarter although it's still a market that you somehow need to make sure that you somehow are sitting close to because it does still remain to be under pressure. The photo-year in Germany are still impacting the numbers in the medium-voltage segment slightly although it's almost behind us and we should start to see more positive numbers in the fourth quarter in the medium-voltage segment on a year-over-year basis.

With that, we are reporting a 9% organic growth for the totality of the 9 first months and we are fully in line with expectations. Then looking a little bit in the years ahead of us. We are happy to announce that we have seen continuing high activity levels in the tendering -- different tendering markets both when it comes to offshore wind, but also when it comes to interconnect either offshore or onshore. We are here mentioning 3 project



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wins that we announced the last month. The Borssele Beta, which was an auction where the customer could somehow trigger that and he did. It will impact the numbers with a topline of EUR 90 million and this will be fully occupying the offshore winds capacity that we have installed in Cologne as of today. Then we also are reporting a preferred supplier agreement both on the Triton Knoll project, but also the Moray East.

These 2 projects were 2 out of 3 projects mentioned under the recent announced Contracts for Difference award in U.K. and then we also here are illustrating the contract value. These are somehow contracts that are conditioned to financial close and we expect that to happen mid-'18 for both of them and then we are somehow ready to move ahead with the production. So, these productions or these products gives good visibility into '19 both partly in Karlskrona, but in particular in Cologne so good to see. We remain to be very positive and optimistic on the years ahead of us in '19 and '20 and we also are of course following the development on a number of onshore interconnect projects. Among others, the shipping projects in Germany that are progressing well; but also the Viking project, the project with the DC connection between Denmark and U.K., where we have noticed that on the Danish side there's a strong political willingness to support that project and it has also received the necessary approvals.

So, good progress there as well that somehow are supporting our underlying business assumptions. Also, as you know, when we move into '18 we will start to communicate more on the service business, Service and Accessories, and here we also have seen a good project win. Although it's smaller topline wise, but it's a good margin business and here we are currently executing repair work for Statnett in Norway. If we move on to Slide #13 and I already have touched on part of this, we see a strong and positive political climate that somehow are putting pressure on making the right decisions in the different segments that we are servicing. We have continued to be positive on the offshore wind segment in Europe. We of course have noticed the pressure that there are on some of the players in that market and what we do is that we work very closely with our customers to make sure that we have the right offering to the customer in order to be competitive.

We all have somehow a responsibility to make sure that we are driving down cost in the offshore wind segment and that is not new for us at all. And for us, it is really about standardizing the different solutions to the offshore wind segment in Europe. If we are able to do that, the customers would also be able to benefit strongly from that. So, that's what we are working with. Then of course we are also working in compliance -- moving it into more a turnkey business so we can really benefit from the NKT Victoria capabilities and provide the customers with turnkey solutions meaning production, installation with NKT Victoria. The project wins we already have talked about so I will not mention more on that. And then the U.K.-Denmark link mentioned here and I also touch on that very important project for NKT and it is one amongst several interconnect projects that somehow are being developed both in Europe, but also outside Europe focusing on the U.S.

Integration progressing as planned. Since beginning of September, we are fully working in a new organizational structure and so from that perspective, we are fully integrated. Of course there is a lot of optimization potential that we still are working on, but somehow pre-requisite for that is really to have 1 organization and we have that. We are in the process of qualifying the Cologne facility to be able to produce high-voltage DC cables. That is the following plan. It is a very, very important project because it somehow ties into the market potential in Germany and it also ties into the synergy potential because some of the synergies are somehow related to manufacturing where the fact that having two factories that can complement each other are closely tied into manufacturing synergies, but also to more commercial related synergies because it will give us more capacity to sell to the market. So, that requires a lot of focus and it is following the plan.

So with that, I would like to add to hand over to Roland to take us through some financial aspects of the performance before he can hand over to Basil. Please, Roland.

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**Roland M. Andersen** - NKT A/S - CFO of NKT Cables and EVP of NKT Cables

Thank you, Michael. So if we move on to Slide 15, the development in our order backlog. Our order backlog stands at bit more than EUR 800 million coming out of Q3, down from bit more than EUR 1 billion in Q2 and 25% of that is expected to be delivered for the remainder of '17 and 75% in '18 and onwards. And as for the balance sheet, as Michael went over, we have received the order on Borssele Beta and also us being awarded as preferred supplier on Moray East and on Triton Knoll and that adds up to potentially order value of EUR 335 million. If we look at the order backlog, it's still a good mix of both offshore wind but also interconnectors and 2 projects in the oil and gas sector. If we move on to Slide 16, it's basically reiterating what Michael touched upon. Our LTM EBITDA margin up to 12.7%. The quarter of Q3 of EUR 44 million is the best quarter we have had. It's of course driven by the acquired activities in the high-voltage business and it reiterates our potential if earnings sort of stay at this level.



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I think the broader Q3 reveals a strong quarter in the solutions business. Both the factory in Cologne and also the factory in Karlskrona was running close to full steam and also NKT Victoria has been deployed most of the third quarter. The margin itself for the quarter was 14.4%. If we move on to Slide 17, we're continuing to work with our working capital. As you notice, there's been tremendous work in the legacy NKT business on receivables and inventory over the past 2 or 3 years. We sold part of the long overdue outstandings by end of '16 and then the acquired high-voltage business has also added positively to working capital. Positive means that working capital becomes negative here and that means that our working capital as a percentage of revenue is now close to 0%. If we move to Slide 18, Michael touched upon some of these numbers. Organic growth of 24% and EBITDA margin of 14.4%.

EBITDA of 43.8% compares to 20.5% last year and majority of this of course from the acquired high-voltage business. Our RoCE is now up to 8.7% for Q3 and interesting to see is also that our free cash flow is now 16.6% for the quarter versus 5.5% in the same period last year. So, RoCE up and also positive free cash flow development. We will then on this basis reiterate our financial outlook for '17, revenue and standard metal prices of EUR 1.1 billion and operational EBITDA of around EUR 140 million. If we move to Slide 19, this is a little bit of a recap of what we presented on our Capital Markets Day in September. We are currently at an EBITDA for '17 of EUR 140 million and our mid-term target is to reach an EBITDA of EUR 200 million and EUR 225 million and that is given that we are not expanding capacity from where we are today.

If we reach that level, then our target would be return on capital employed above 13%. The way we think about this is that what's going to build us from the current EUR 140 million up to EUR 200 million and EUR 225 million is first of all the solutions including the vessel have a lot of operational improvements that they will work with over the next 2, 3, 4 years; efficiency in the front end, efficiency in the way they drive the business, also the solutions business will be included with 12 months and not only 10 months like in '17. Similarly in the applications business where we have a lot of initiatives on commercial excellence and the way we go to market, operational improvements and also the services and accessories business are expected to include a lot of efficiencies and get organized in the new segment structure here and also grow from where we are today.

Then in addition, we will deliver the synergies from the acquisition with the former ABB activities of EUR 30 million effective from '19 as previously stated. And our EXCELLENCE 2020 initiative will also add to this journey here under the turnaround of the railway business, potential turnaround of our AC onshore activities in Cologne. We will harvest quite some efficiency gains from our new target operating model installation of the global EXCELLENCE functions on the quality, lean, R&D, technology and also a more global organization of the support functions.

And I think with those comments, I'll give over to Basil of NKT Photonics. Go, Basil.

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### **Basil Garabet** - NKT A/S - CEO & President of NKT Photonics

Thanks, Roland. If we move onto Slide #21 going through the financial development in the third quarter. In the Imaging & Metrology sector, which is our largest sector, we had a very solid order intake for the quarter as expected and that will bode well for our fourth quarter. We also launched a new product platform the SuperK EVO and that's now available for general sale into the fourth quarter. And we will have several marketing campaigns to both of that into the New Year especially with our large shows and conferences starting in January and March. In the Sensing & Energy sector, we have a pretty solid demand coming in for our Koheras fiber laser line resulting in very solid order backlog, way ahead of last year and again that will bode well for our fourth quarter. In contrast, our LIOS sensing business is below expectations mainly to a delay in a number of projects.

Again that will probably go into the fourth quarter, but more likely into the first quarter of '18. In our third sector, which is 1 of our most promising. In Material Processing, we completed the acquisition of Onefive, which is 1 of the major ultrafast laser manufacturers based in Switzerland in Zurich. Completed that the 1st of September and in our results, we have about 1 month's revenue in Q3. Integration is going well and it's going to plan and is expected to complete in the first quarter of '18. If we move to Page 22, the NKT Photonics summary. You see the revenue of EUR 11.2 million is slightly ahead of the same quarter of last year in '16 and the first 3 quarters at EUR 29.9 million is ahead of the first 3 quarters of EUR 26.9 million. The difference you see in the EBITDA, as Michael mentioned earlier, is due to long-term incentive program for senior management and that's a one-off that's been put in.

The EBITDA has also been impacted with a new ERP system that we have been installing into the company, which will help with the integration. We have 4 sites. We have also moved to a new facility and that happened in September giving us much needed space for expansion, in fact gives



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us about 40% more. Finally, the outlook for the year. The organic growth we're still holding at 10%. The margin again due to the long-term incentive programs has been revised to 10% where it was previously at 15%. If we move to the next slide, again this is a recap of what we presented at the Capital Markets Day. There's no change in that. I'm not going to go through it in detail, but the main 4 drivers of what we do today is moving up the food chain. You saw that in the acquisition we made. We are focusing now on organic growth.

We are going to stabilize what we have, increase the growth in that and actively pursue other opportunities within these particular areas. We're also putting lean manufacturing throughout our operations and that will help in our strategic growth. And finally, like everything in our business, fast introduction of new products is absolutely needed and we have additional focus on that. And for my final slide, again just to reiterate what we said at the Capital Markets Day. We expect our annual organic growth to be upwards from 10%, expect our EBITDA margin in the medium term to be in the 25% region and our return on capital in 20%.

Thank you very much. I'll pass on to Michael.

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**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

Thank you, Basil. So, that somehow finalized our review of Q3 and also touched a little bit on long-term and mid-term targets in both businesses and we are ready now to move on to the Q&A part. So, operator, I will hand it over to you.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) First question comes from Kristian Johansen from Danske Bank.

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### Kristian Torn e Johansen

So, you have talked about this production gap at Karlskrona in 2018 before. Can you just sort of give us an update on that especially in terms of those few orders still available in the market, which could solve this issue? Are they still there and then how are they progressing?

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**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

Yes, we are still working on trying to create more visibility for '18. And bear in mind that it's not that we don't have any visibility, it's mainly a second half issue in Karlskrona and we have a number of different initiatives that we are working on. Of course we are trying to touch on the large projects in the markets where we have communicated on those before and they are still active, but unfortunately we have not been able to communicate any wins there. It's not that we have lost anything, but they are progressing with maybe a slight slower speed than we had somehow hoped for. And there are also a lot of other opportunities that we are working on. There are smaller projects that also will impact the numbers. There are also the fact that we are looking into making sure that we will have full utilization of NKT Victoria during 2018 and that means that we are also looking to charter her out in second half or to optimize everything around her. And then last, but not least, as we also are moving towards second half of '18, the '19 numbers are of course also becoming very important and there we are happy to announce that we have seen significant project wins there. And the more wins for '19 and the year ahead of that, the more flexibility we'll also have in moving some of that into second half of '18 and also to optimize their loads. So, that is very much the situation.

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### Kristian Torn e Johansen

Okay. That's quite clear. Then my other question was regarding the high-voltage onshore business. So, you sort of have said the same quite a number of quarters now that it's still tough and there's really no improvement. Can you just elaborate a bit more on what this means for earnings

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because I'm assuming that segment is loss making as it is right now? But is it loss making at a constant level or is there deterioration of the earnings as well or how should we think about that?

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

It's loss making at a pretty constant level and I think even I have communicated minus EUR 10 million EBIT number in the past and that's really where we are. We had -- the market is somehow the market and we cannot really impact that. We can of course impact the number of markets that we are addressing and also our go-to-market strategy and that's what we currently are looking into. We have strengthened our sales organization in the Projects business and we have hired a new head of sales and the name of that guy is Michael Hjorth. He used to be the CEO of NKT Flexibles that we divested some years back. He is having a lot of experience in the Projects business from a commercial perspective and he is now working on redefining go-to-market strategies in markets that we have not really addressed in the past. That's one thing. Another thing is that we currently also look at a number of important frame contracts in the market. Frame contracts are maybe not overly attractive from a margin perspective, but they are very important when you look at capacity planning because it gives you a base load in the factories. That's also important that we within the next quarters are coming back on track and get our fair share on significant frame contracts. So we do a lot of different initiatives, but that does not change the fact that where we're strong in particular in Germany onshore, the market is very challenging. The market will however improve. If we somehow -- if we are right in our forecast on the offshore -- sorry, onshore interconnect market shipping projects because that will in itself also impact the overall supply-demand balance in the industry and also thereby have a positive impact on the more traditional high-voltage onshore business.

**Operator**

Next question comes from Casper Blom from ABG.

**Casper Blom**

A couple of questions regarding the cable business from my side as well. First of all, Roland, you were very kind to explain how you get to your medium-term outlook. I suppose it's also an outlook that is based on fairly high utilization, which you're also seeing in this quarter. If I take the EUR 44 million that you provide in this quarter and multiply by 4 and add the EUR 30 million of synergies, I basically get to the lower end of your medium-term guidance range. However, you mentioned a whole lot of other things that should also drive things. Should we really expect all those things to add only around EUR 20 million to the calculation I just suggested or is there really an upside of all these things go through? That's my first question.

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

Casper, in the Products business, there is a market where you constantly need to work on a number of improvement taxes in order to maintain your profitability because it's a commoditized segment. It's not a bad segment, but that's just the underlying tax for that business. And what we work on, we decide it all and send it -- that ties into our EXCELLENCE 2020 journey. Part of that will reach the bottom line in order to close the gap between where we are today and where we want to be and then part of it we also somehow need to pass on to customers in order to maintain to be competitive in the markets where we have decided to play. And then -- so there of course is a lot of positive things, but we also just know that there will also be negative surprises that also somehow needs to be covered by the overall journey. And then the EUR 200 million to EUR 225 million part, the sum of all that.

**Casper Blom**

Okay. Fair enough. Then Michael, you touched a little bit upon this, but can you just confirm that you are not seeing any sort of unusual price pressure on your products? This of course being said in the light of what we are seeing the [inaudible] producers saying at the moment and you also being part of that supply chain?



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**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

Yes, I can definitely confirm that that I don't see any connection between what we see in that segment and our segment and I think you need to bear in mind there that the majority of the pressure you see in the wind segment is related to onshore projects and that's not really where we play when we talk about our Projects business. That doesn't change the fact that it is of common interest between us and our customers to make sure that we constantly work on being more or maintain our competitiveness. We do that, we also do that in strategic cooperation with our key customers and we want to maintain that. It also has something to do with how you go to market, what part of the value chain do you actually cover. Where we think we can be more competitive seeing from a customer perspective if we do combined supply, but also installation of the case then we can really optimize and also delist the overall projects that will of course have a positive impact on price. And then for us, it is really about standardize more offerings to the offshore segment. Customers have a tendency somehow to start from a blank piece of paper every time they start with a new offshore project and there is no reason to do that. Why don't they use what they know work from former projects instead of beginning from the time -- from every time because that of course also impacts the price level. So, a lot can be done in standardizing offerings to the market.

**Casper Blom**

Excellent. Then just a final follow-up. You provided the slide with the backlog, can you break that down into how much backlog you have for 2018 isolated? And secondly, sort of spilling over effect from the possible slightly lower activity in 2018, what should we expect on the ABB synergies next year, if you can give a little guidance on that as well? Thanks.

**Roland M. Andersen** - NKT A/S - CFO of NKT Cables and EVP of NKT Cables

I think majority of the 75% we talked about in the backlog, you can expect to be in '18 and then of course what's not in the backlog is the ongoing sales that we do month to month once when you build up your revenue base. So, that's one thing. The second thing is that all along we have said that we're taking out synergies slowly in '17 and accelerating a little bit in '18 and then full-year impact will be in '19. So, you should not expect a lot of the synergies to have full-year impact in '18.

**Operator**

Next question comes from David Vos from Barclays.

**David Anton Vos** - Barclays PLC, Research Division - Analyst

Just 1 on the backlog sort of as well. I noticed that the slides you put up at the Capital Markets Day, the one that shows the 2x EUR 5 billion worth of potential order intake in '18 and '19, was not in today's presentation. What do we read into that coupled with this sort of more cautiously sounding comments that you just issued? That will be question 1. Thanks.

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

You should absolutely not read anything into that. You can still find the slide on our home page and that slide still stays. And this is a quarterly somehow performance review and that's why we do not really touch on the long-term perspective so other than the comments that we provide. So, we have absolutely the same strong view on coming orders into the market. So, the 2x EUR 5 billion stands without question.



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**David Anton Vos** - Barclays PLC, Research Division - Analyst

Okay. And then the -- if we could look at the Borssele Beta contract as a good example of how a typical project might flow from order intake into revenue. Could you sort of sketch that picture for us? So you take the order in Q4, delivery is scheduled or installation is scheduled for late 2019. What is the revenue profile between now and then for that particular project?

**Roland M. Andersen** - NKT A/S - CFO of NKT Cables and EVP of NKT Cables

First of all, that depends a little bit on when we decide to produce it. But as we expect to produce it in Cologne and we have full visibility in Cologne for '18, we expect this is to be produced during '19 with the current production planning. So, that the revenues are taken in as and when we produce cost for cost basis. So we can produce it in '19, revenues will be taken in '19 and then installation in '19, beginning of '20.

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

And then maybe just to add, of course as I mentioned before, it ties into the overall capacity planning, right. So as we move into second half '18 and '19 and the years ahead of us and when we know exactly what is in the backlog, we will start to optimize and also use our internal storage facilities tying into really optimizing capacity planning.

**David Anton Vos** - Barclays PLC, Research Division - Analyst

That is very clear. The question is really around then what does that do to working capital? If I understand you correctly, optimization in this case would mean that you would start producing in 2018 rather than in '19. Does that then come hand-in-hand with a big working capital buildup or will the customer be so kind to take the stuff off your hands and sort of therefore not create a working capital issue?

**Roland M. Andersen** - NKT A/S - CFO of NKT Cables and EVP of NKT Cables

I think that's a commercial decision with the customer, right. So in some instances, we go there and our answer is that we put the production differently timing-wise than originally planned and then you will make that agreement directly with the customer. In other instances, we will decide that it's better for us to use the production capacity now fully on stock and then deliver later on. So, there's no straight answer to that one.

**David Anton Vos** - Barclays PLC, Research Division - Analyst

Okay. I mean the question goes hand-in-hand with the question of the former analyst who wants to know what the backlog is in 2018. I think the reason that you don't break it out at this moment is that because it's still a little bit up in the air or do you just not want to give us a number for another reason?

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

We always want to give numbers if we have transparency. So, we're not holding back information. But when it comes to capacity planning, it's difficult to forecast how that will be for '18 and '19 before we exactly know what we can do. That is a daily and a quarterly planning exercise. And what you are somehow referring to is if we are having an opportunity for filling in more capacity into Karlskrona in second half of '18 even with a negative working capital impact, we would of course do that because that is a commercial sound decision to do, but that's how we do it every day.

**David Anton Vos** - Barclays PLC, Research Division - Analyst

And the view on the guidance for 2018, when can we expect that because that presumably would incorporate a sort of more accurate split between then 2018 the current-year and '19 and onwards?



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**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

We will guide for '18 when we are announcing the numbers for full-year '17 in our annual report. So, that's basically following our way of guiding.

**Operator**

(Operator Instructions) Next question comes from Claus Almer from Nordea.

**Claus Almer Nielsen** - Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT

Michael, could you give an update on the situation in the U.S.? That will be the first 1.

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

Yes, I can you give an update. We are continuing to have high focus on U.S. and also continuing to build up in particular front-end sales capabilities and resources. The projects that are currently there are progressing well. It's all about receiving the right incentive packages. And there -- some of the orders that we are targeting have been shortlisted in that process so it is a positive development, but we not yet have or we somehow can announce any wins so to say, but only positive development.

**Claus Almer Nielsen** - Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT

Okay. That's good to hear. Also a question regarding pricing, we talked lot about the Sub-C segment or the high-voltage segment. Could you also give an update on the other segments mainly within the product segments?

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

I think in the Nordic market; in Denmark, Sweden, and also counting in U.K.; we see pretty strong markets that somehow impact the overall supply-demand balance and we're not the only 1 being a little bit tight on capacity in those segments. And so -- and that of course impacted price environment that we definitely don't see any negative consequences of that. Then when we move into Central Europe and Eastern Europe, it's a little bit more tough of course caused by [inaudible] and last year the [medium market] in Germany are significant down from a volume perspective and that also impacted prices unchanged compared to what we said before. And I have to say that actually the margin in the market is at a slightly higher level than expected. Moving into Eastern Europe, Poland where we have very -- a strong market position and also tying related to the fact that we have lower production has been very strong, the first couple quarters being impacted also by Germany. But there we start to see a recovery of that market and we are also -- moving into fourth quarter, we are increasing the price level in that segment.

**Claus Almer Nielsen** - Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT

Okay. With this situation in Poland, which is a important market for you in Eastern Europe, would that have a meaningful impact on 2018 earnings for instance if things continue as it is today?

**Michael Hedegaard Lyng** - NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board

For the application business, yes, meaningful. For the totality of the business, including Projects business, less visible.



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**Claus Almer Nielsen** - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

Okay. And then just my final question goes through to Q4. There has been or to expect any special events in Q4? That will be the question. And not to talk about this afternoon. Just would Q4 be a more traditional normal quarter or is there any weather related issues or something like that we should take into account?

**Michael Hedegaard Lyng** - *NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board*

No, there are not any particular. We still expect Christmas to happen on the 24th. So, more or less in line with a normal quarter so the say.

**Claus Almer Nielsen** - *Nordea Markets, Research Division - Senior Analyst of Capital Goods and IT*

Okay. The only reason why I'm asking is that after 9 months, the Q4 guidance looks a bit on the conservative side. That's just why I'm asking.

**Michael Hedegaard Lyng** - *NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board*

But you also know that Q4 is a tricky quarter in the applications -- in Products business. It can easily be impacted by weather conditions et cetera and partly that can also impact the Projects business. So yes, that's what we are guiding and you should not expect much more than our guidance for fourth quarter.

**Operator**

There is no further questions at this moment.

**Michael Hedegaard Lyng** - *NKT A/S - Group Exec. Director & Member of the Exec. Mgmt Board*

Okay. So, then we can somehow close to call. So, thank you for dialing in and for questions. And as illustrated here on the last slide, the financial calendar for upcoming events. We also this morning announced the full financial calendar for 2018. But for now until further, we will be back on the 27th of February with our fourth quarter announcement including Annual Report and also our guidance for '18. Thank you and goodbye.

**Operator**

This concludes today's call. Ladies and gentlemen, thank you for your participation. You may now all disconnect.

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