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NKT.CO - Q4 2025 Nkt A/S Earnings Call

EVENT DATE/TIME: FEBRUARY 25, 2026 / 9:00AM GMT

CORPORATE PARTICIPANTS

Claes Westerlind *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Line Fandrup *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Lucas Ferhani *Jefferies LLC - Analyst*

CONFERENCE CALL PARTICIPANTS

Christopher Leonard *UBS AG - Analyst*

Lars Topper *DnB Carnegie - Analyst*

Mithila Raman *Goldman Sachs - Analyst*

Casper Blom *Danske Markets Equities - Analyst*

PRESENTATION

Operator

Welcome to NKT's annual report 2025. (Operator Instructions) This call is being recorded. I will now hand it over to your speakers, President and CEO, Claes Westerlind, and CFO, Line Andrea Fandrup. Speakers, please begin.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Good morning and welcome to NKT's conference call following the release of our annual report for 2025. I'm Claes Westerlind, the CEO, and with me today is our CFO, Line Fandrup. As always, I will take you through the strategic, operational, and market developments that shaped 2025 before handing over to Line for the financial review. We will then conclude with the outlook and open the line for questions.

It's worth noting that we, from January 3 this year, have changed the scopes and names of our business lines. Solutions has become Transmission; Applications has become Distribution; and Service and Accessories, Grid Solutions and Accessories. Throughout this call, we will keep to the previous structure and business lines to match the communication in our annual report. Let's turn to slide number 3. Before we begin, I'd like to highlight that today's presentation includes forward-looking statements. Actual outcomes may differ from expectations, and I therefore ask you all to pay close attention to this disclaimer.

With that, let's move on to our key messages for the year. Please turn to slide number 4. 2025 was another defining year for NKT. It was a year where the work we initiated several years ago, strengthening capabilities, expanding capacity, and transforming the company began to consolidate into a stronger, more resilient NKT. It was a year of disciplined execution, financial strength, and important progress on our investments. And it was a year where we took decisive steps towards the next phase of our journey as we introduced our Charging Forward strategy.

From a financial perspective, it was another year of continued solid progress for NKT. We delivered record-high standard metal price revenue of EUR2.7 billion and operational EBITDA of EUR390 million in the upper end of the latest guided ranges as expected. Organic growth was 6%, reflecting healthy activity level across all business lines and continued solid execution according to plans. We maintained a high-voltage order backlog of EUR10.2 billion at the year end, supported by robust market dynamics and several significant awards. This backlog gives us visibility and predictability well into the coming years.

On top of the firm backlog at the end of last year, we added another EUR2 billion to the backlog during January 2026 by converting the booking commitments with SSEN to a firm order. In November, we launched our new corporate strategy, Charging Forward, leading our way towards 2030, complemented by new medium-term financial ambitions for the same year. It builds on the foundation created through

our transformation over recent years and shifts our focus to execution and value creation, reinforcing NKT's position as a leading pure-play power cable solutions provider.

An important enabler of the future value creation is the investments we are currently executing to expand capacity and they all progressed according to plan during 2025, including in the fourth quarter. Machinery installation and commissioning as well as expansion of the harbor in Karlskrona are ongoing. We advanced the capacity expansion in Cologne and the new medium voltage capacity in Denmark will ramp up during the first half of this year. And expansion in Portugal will become operational at the end of this year.

Now, let's have a look at the financial performance in the fourth quarter. Please turn to slide 6. In Q4 of 2025, the revenue development was negative, fully as expected, and organically it declined by 8%. This was explained by the development in Solutions, where the execution on the Champlain project in the US ramped down during the quarter, leading to lower revenue. For comparison, we had a relatively high activity level, including subcontracted work, in the same quarter last year.

Despite the negative revenue development, the operational EBITDA margin improved to 13.2% compared to 13% in Q4 2024. Excluding the effect of the Champlain product, the activity level in solutions remained at a high level, and we continued to execute on our high-voltage order backlog with several projects being active during the quarter. In Applications, the high activity level was maintained. and as in the previous quarters, it was driven by the Power Distribution Grid segment with continued robust demand. Supported by the additional capacity that came online at the beginning of the year, the business line continued to deliver solid organic growth rates and improved operational EBITDA.

The high-market activity levels also had a positive effect on the service and accessories business line as we have seen throughout the year. Here in Q4, it resulted in a more than 30% organic growth and an improvement in operation of EBITDA. This was driven by both segments of the business line. Let's turn to the next slide for a deeper look at each of the business lines starting with Solutions. In the fourth quarter of 2025, revenue and Solutions amounted to EUR409 million, a reduction compared to the EUR469 million reported in the same quarter of 2024.

This development was fully in line with expectations and driven by the ramp down of activities in the Champlain Hudson Power Express product in the US. Here, we are also comparing to a base in Q4 2024, where we had a high-execution level on the product, including subcontracted work. With the risk of repeating myself, excluding the Champlain project, we continued to see a high activity level and we progressed with the execution of high voltage order backlog with overall satisfactory product execution.

Again in this quarter, installation activities were at a high level and our cable lay vessel, NKT Victoria, was well utilized. Operational EBITDA came in at EUR61 million for the quarter and was therefore EUR6 million lower than the same quarter last year, driven by the development on the Champlain project as just described. The margin landed at 15.2% and thus improved by almost one percentage point compared to Q4 2024. This was the result of sustained high activity levels and a slightly improved mix among the orders in execution.

Overall, the quarter confirms the trajectory NKT is on towards 2030. But I would also like to remind all of you that in a product-based business like ours, quarterly margins may fluctuate depending on the facing and progress of individual projects. During the quarter, we saw progress across several projects at different stages of execution. Key contributors for the quarter included Champlain Hudson Power Express, Horn C3, Hertel, East Anglia THREE, Bay of Biscay, SuedLink, and SuedOstLink.

Our investment programs to expand capacity continued their consistent development during the quarter and progressed according to plan. This goes for the production sites in Karlskrona and Cologne, as well as our second cable-lay vessel, NKT Eleonora, all are on track to become operational from 2027. Please go to slide number eight for an update on the market and our backlog.

The activity level in the high-voltage market remained high. Firm awards in our addressable market amounted to an estimated EUR4 billion in 2025. This is obviously lower than what we have seen in previous years, but it's also an effect of timing. In January 2026, we converted booking commitments with SSEN in Scotland to firm orders with a value of around EUR2 billion. We also remain selected preferred supplier on Eastern Green Link 3, which we expect to convert into a firm order during Q1.

The produce are clearly increasing in size. This is affecting all processes involved, and they often depend on permits and political decisions. Therefore, the actual award can easily shift between quarters or even years. Our high-voltage order backlog stood at EUR10.2 billion at the end of 2025, a slight reduction compared to Q3, reflecting the execution in the quarter. If we add the SSEN order awarded here in January, the EGL3 preferred supplier agreement and our booking commitments, they in total provide strong visibility into the coming years and supports our medium-term financial ambitions.

It gives us the opportunity to focus on long-term development, and while we remain highly active in commercial activities, we can maintain a disciplined approach and focus on optimizing utilization, risk, and profitability. The composition of our backlog gives that around 95% of the backlog is with European TSOs. And from an application point of view, interconnectors make up more than 55%, while offshore wind accounts for around 40% of our orders.

While there are many moving parts in the general market development, there are no changes to our overall view, and for the period 2024 to 2030, we continue to expect awards in our addressable market to exceed EUR10 billion on average. We are, on an ongoing basis, evaluating the situation and are recognizing both positive and negative sentiments across our markets, which we follow closely. With this said, we remain confident in a healthy supply-demand balance throughout this decade, and when looking further into the 2030s, our expectation of a market moving into a more balanced territory is also unchanged.

Please turn to the next slide for a look at Applications. Applications maintained its positive development in the fourth quarter, where revenue amounted to EUR197 million, corresponding to 9% organic growth. Like in the previous quarters, growth was driven by continued robust demand in the Power Distribution grid Segment, supported by the additional capacity that came online in the Czech Republic and Sweden earlier in 2025.

In the Construction Exposed segment, the overall development remained subdued, but it varied between markets and sub-segments. Revenue in this segment saw an improvement sequentially compared to Q3, but it remained below the level from last year. Operational EBITDA increased to EUR18 million compared to EUR13 million in the same quarter last year, driven by higher demand and revenue in the Power Distribution Grid segment. The margin improved to 9.1% compared to 7.8% last year. During the fourth quarter, we were also able to conclude the integration of SolidAI, which we acquired in June 2024. The business in Portugal now operates as a fully integrated unit in NKT, and the business case is fully confirmed, all concluding work well done by the Applications and wider NKT team. We therefore also expect to harvest the full effect of the synergies of EUR7 million in 2026.

As mentioned, the demand for medium-voltage cables remains robust, driven by upgrades, enhancements, and strengthening of the European power distribution grids. In 2025, we have been able to meet this demand with our added capacity, and the additional capacity we are ramping up here in Denmark during the first half of the year is also expected to positively contribute to the organic growth development.

Please turn to slide 10 for an update on Service and Accessories. Service and Accessories continued its positive development in the fourth quarter. Revenue amounted to EUR79 million, EUR20 million higher than the same quarter last year, corresponding to 31% organic growth. The growth was driven by both business segments, as they experienced a high-activity level in their respective markets. In Service, we performed repair jobs, mainly onshore, as well as installation and maintenance work, while the high activity level in accessories was driven by demand for both high- and medium-voltage accessories.

Our Service business benefited from ongoing maintenance, repair, and installation work, and accessories continued to realize strong demand across both Medium and High Voltage segments. In addition, the high voltage projects currently in execution also contributed positively to the development. Across the business line, operational execution was satisfactory. Operational EBITDA increased to EUR10 million, up from EUR6 million in the same quarter last year. The margin for the quarter was 12.5% compared to 11.1% in Q4 2024, mainly driven by improved profitability in the Accessory segment.

Please turn to the next slide where I will provide a status update on our ongoing investments. We maintain the solid progress on our ongoing investment projects to expand capacity. And again, here in the fourth quarter, all projects developed in line with plans. We had a high activity level in Q4, and we confirm our expectation of accumulated CapEx of approximately EUR2 billion for the period '25 to '28.

In Karlskrona, machine installation continued across the new buildings, and during the same quarter, we initiated the first commissioning test of new machine lines. Simultaneously, we progressed on the construction of the remaining buildings, as well as the expansion of the harbor, further improving the infrastructure and layout of the site. All in all, the additional capacity is expected to be operational from 2027. The same goes for the expansion of the high voltage capacity in Cologne, also in progress.

The construction of our second cable-lay vessel, NKT Eleonora, also progressed as planned during the fourth quarter. The different sections of the hull are now joined together, as you can see from the picture on the slide. With solid progress on the different workstreams, NKT Eleonora continues to be expected to be operational from 2027.

In Assens, here in Denmark, we have completed the construction of the additional medium-voltage capacity as planned. It will ramp up during the first half of 2026 and contribute to the revenue development in applications. Construction at our site in Portugal is also progressing and the additional capacity is expected to come online towards the end of 2026.

Please turn to slide 12 where I will share some thoughts on NKT's contribution to net zero. Power cables and thereby NKT are key enablers of the energy transition and general electrification of societies, and our ambition is clear and at the same time twofold. We focus on maximizing our contribution to the decarbonization of societies by facilitating clean electricity and the grids through our cable solutions.

This is our handprint. Just as importantly, we are focusing on reducing our own emissions and achieving net zero across our value chain by 2050 at the latest. This is our footprint. We are constantly evolving on these topics, and despite our emissions going up as a consequence of our growth, it is mainly a function of the lifetime power losses from the cables until clean energy sources are utilized to a greater extent.

On the handprint, we have several tangible examples of progress. A very good case is the Champlain Hudson Power Express product in the US, which will make a substantial contribution to our handprint. When the transmission line is operational, it will supply up to 20% of the electricity needs in New York City with clean and reliable energy. When you look at the total produce we have installed from 2019 to 2025, they will facilitate or enable 27 terawatt hours of clean energy in 2030. This number is equal to more than twice the number of households in Denmark. It is calculated using a transparent and conservative methodology developed and vetted externally, and it is based on internationally recognized sources.

With this, I've concluded my part of the presentation, and I will now, sadly for the last time, hand over to Line, who will take us through the financials. slide 13, please.

Line Fandrup - Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team

Thank you, Claes, and good morning from me as well. I'll now walk you through the financial highlights for Q4 and the full-year 2025, and I'll start out with the income statement on slide 14. Revenue in the fourth quarter amounted to EUR643 million, EUR50 million lower than in the same quarter last year, equaling a negative organic development of minus 6%. This was fully as expected and was driven by the ramp down of activity on the Champlain-Hudson project in the US, leading to a lower revenue in solutions.

Excluding this specific project, the underlying activity level remained high and both applications and services and accessories continued to report solid positive growth rates. Operational EBITDA for the quarter was EUR85 million, which was 5 million lower compared to Q4 2024 due to the mentioned development in Solutions. The EBITDA margin improved slightly from 13% to 13.2%, with all business line contributing to the development. The margin reflects a temporary dilution by around 1 percentage point, which stems from a higher cost level for the capacity ramp-ups.

We thereby completed the full-year 2025 with revenues of EUR2.722 billion and an EBITDA of EUR390 million. Both numbers landed in the upper end of our latest financial outlook for the year. As seen in the last quarters, depreciation and amortization increased, reflecting the ongoing investments. For the full year, costs were EUR37 million compared to EUR30 million last year.

Financial items net were an income of EUR12 million. This was mainly driven by currency gains and interest income on our cash position. Tax for the quarter was an income of EUR37 million as we increased the capitalization of our German tax asset due to improved operational performance.

For the full-year, tax costs were EUR9 million corresponding to an effective tax rate of 6%. This leaves us with a net result on EUR97 million for the quarter, compared to EUR56 million in Q4 2024. For the full-year 2025, the net result amounted to EUR275 million. Our employee headcount continued to grow, reflecting our ongoing expansion and investments. On average, more than 6,300 people were employed at NKT during the fourth quarter of 2025. Let us now turn to the next slide to look at the cash flow development. From a cash flow perspective, we ended the year on a strong note with free cash flow in the fourth quarter of EUR341 million.

The positive cash flow was driven by a positive contribution from changes in working capital and EBITDA of EUR85 million. Despite the positive development in the fourth quarter, free cash flow for the full year was a negative EUR244 million, fully as expected, as we invested almost EUR750 million mainly in increased capacity.

Changes in working capital resulted in an inflow of EUR527 million in Q4 2025. This was a result of prepayment related to order awards achieved mainly in Q3 and the normal phasing between milestone Payments and Solutions. The working capital position at the end of the year also benefited positively from timing effects. Investments amounted to EUR232 million in the fourth quarter, reflecting the high-activity level across our investment programs.

Investments for the full year were EUR743 million. The level in the quarter was slightly higher than in previous quarters, mainly as a result of timing, but we expect the investments to remain elevated also in the coming quarters.

Net cash flow for the quarter was EUR337 million and was negative at EUR302 million for the full-year 2025. Let's turn to the next slide for a look at the balance sheet. We ended the year with a negative working capital position of EUR1.5 billion. This was an improvement of EUR441 million compared to the position at the end of Q3. As mentioned when I presented the cash flow development, this was driven by prepayments, timing of milestone payments, and supplemented by a favorable timing effect at the year end.

Capital employee amount to EUR1.2 billion at the end of the year and thereby decreased by EUR158 million during the fourth quarter. This was driven by the improvement of working capital more than offsetting the investments during the quarter. So ROCE declined to 24% from 27% at the end of Q3, as EBIT for the last 12 months declined slightly.

Looking ahead, ROCE will continue to fluctuate between quarters, influenced by operational earnings, customer payment timing, and a growing asset base from our investment programs, which will ramp up over the coming years. Our net cash position improved and was at approximately EUR1.2 billion at the end of the year. We thereby maintained a robust financial position. This strong position is essential for funding our investments and supporting NKT's continued growth journey in the years ahead. Please turn to the next slide for a look at the outlook for 2026.

For 2026, we expect revenue in standard metal prices in the range of EUR2.63 billion to EUR2.78 billion and operational EBITDA between EUR360 million and EUR410 million. The outlook for 2026 reflects an expectation of a slightly lower revenue level in Solutions. As we have discussed previously, production and installation capacity available in 2026 will be the same as in 2025. In combination with a lower level of subcontracted revenue compared to 2025 and an expected normal level of variation orders, revenue in Solutions could be slightly lower in 2026 with a mid-single-digit percentage organic decline. This is depending on execution and timing of specific operations in different projects.

We will in 2026 continue to execute on our backlog, mainly on projects awarded in 2020-2022. To support the ongoing investments, production ramp-up and value creation, we are currently operating with a higher cost base. This diluted group margin by around 1 percentage point in 2025. As the actual ramp-up is nearing, this temporary dilution is expected to increase in 2026 to around 2 percentage point. This is reflected in the EBITDA outlook.

Application is expected to contribute positively to the revenue and EBITDA development in 2026. The additional medium voltage capacity in Denmark will ramp up during the first half of the year and in Portugal by the end of the year. In total, these are expected to contribute up to 10% growth to the business line. Service and Accessories is expected to see positive effects from the general high-activity level in the market, but as always, the development is dependent on the amount of offshore repair jobs, which is difficult to predict.

In 2026, we will continue the execution of our investment programs and the investment level is expected to remain elevated during the year but lower than the spend of EUR743 million that we had in 2025. As always, the outlook rests on several assumptions. First of all, satisfactory execution of our higher voltage investments and projects along with satisfactory operational execution across business lines.

Market conditions for distribution, service and accessories businesses are expected to be stable, including normalized offshore power cable repair work activity. We assume limited supply chain disruptions with access to required labor, materials and services, and stable development in the global economy, foreign currency, and metal prices.

Let's turn to the next slide. With the financial and operational performance in 2025, we have further strengthened the foundation for the growth journey that lies ahead of us. The steady execution on our capacity expansion investments during the year is an important enabler of the future development. We are making clear progress towards our 2030 financial ambition, which we presented in November.

In 2030, we will have a significantly higher revenue base with more than 7% organic revenue growth cargo from 2024 to 2030 and an operational EBITDA of more than EUR900 million. And just as important, we expect to generate a ROCE of at least 22%, reflecting the improved earnings level and a solid return on our investments.

Let me recap the main highlights of 2025 on the next slide. Our financial performance improved during 2025, where we delivered 6% organic growth and a record-high EBITDA of EUR390 million. We made solid progress on our investments to expand capacity across both Solutions and Applications. In Solutions, the additional capacity is unchanged, expected to become operational in 2027, while the additional medium voltage capacity in Denmark will ramp up during the first half of 2026.

A high voltage order backlog amounted to EUR10.2 billion at the end of the year, and this position was supplemented by the EUR2 billion conversion of booking commitments with SSE in January. And last but not least, our new corporate strategy, Charging Forward, which was launched in Q4, is now operational. With this strategy, we also provided medium-term financial ambitions, which I just went through on the previous slide.

Let's turn to the next slide. Before opening up for the Q&A session, I'll ask you to save the day on the September 29, where we will invite you to an Investor Day in Karlskrona. On the day, we will in greater detail present the charging forward strategy, including views from the updated business lines. Just as important, you'll also get the opportunity to see the production site in Karlskrona, both the existing areas and the areas we are currently expanding.

From Q1, we will start to report on the new structure with the updated business lines. In due time, before the release of the Q1 report, we will provide restated historic financials for the new business lines. As this is my last call as CFO of NKT, I would like to use the opportunity to thank you all for the great discussions and interactions over the past six years. I look forward to meeting many of you on the upcoming roadshows.

And with that, we conclude the presentation. I'll now hand over to the operator to guide us through the Q&A session. Operator, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Klaus Elmer, Analyst.

Unidentified Participant

Thank you. Yes. Thank you, and first of all, congratulations with a strong Q4 and not least 2025 performance. The first question goes to the 2026 guidance. So we have seen a number of guidance upgrades over the last couple of years. The assumptions behind the guidance for next year, is that the same, or are you changing or being less conservative at your start? That would be the first one.

Line Fandrup - Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team

Good morning, Claus. Let me jump into that. I think I took you through a bit what is the assumption we actually put in there, but let me just go through to be very specific. For solutions, we did have a higher activity level, including higher than normal level of variation orders in 2025. We are not planning for 2026 on a similar level as it was above and beyond the normal. We also had the Champlain-Hudson project in the US with a high level of subcontracted work and this is also not an effect we will see in 2026. So this will be the headwinds of 2026 and then Executing throughout the year on the portfolio, we will see less of a probably improvement in the project mix than you could expect. It does take us time to come to the backlog as earlier communicated, and it is primarily the orders worn in 2020 to 2022 we have in execution.

I think you can, on solutions here, just answering your questions, whether you feel this is conservative or not, I will not comment on, but in reality, this is how the outlook is constructed when we look at the solutions division. When we look at the applications, we do expect robust development in power distribution grid to continue, and we do expect the construction exposed segment to be flat or positively minor improvements. What we do see, of course, is our medium voltage capacity coming online or ramping up fully in the first half of the year in Denmark. And then a bit on the timing, Portugal may come online also at the end of the year. I think this is also pretty, let's say, particular data points into how we have constructed outlook around applications.

And again, I think we have discussed before, the view on application, and we saw it also early in 2025, can change if sentiments change. And I think that's, of course, something we keep in mind here. And then on services and accessories, it was a good year. What we look at in 26 is, of course, how will the markets turn out, and you can predict as well as we can, or at least on offshore repair works, what is this eventually by the end of the year. That would be hard to say. So we work here with a normalized level. which is, let's say, maybe one, two repair jobs, but at a different level than you saw in 25. And I think, again, time will show if this in your book would be conservative or not, but that's at least the assumptions going into the outlook.

Unidentified Participant

Thank you for this in-depth explanation. I was more talking about the EBITDA level, which is more difficult from the outside to judge, so to speak. And normally, or in the past, you have put in a reservation for possible projects that is going, not maybe wrong, but not smooth execution at least. So that's just what I'm trying to understand, whether the assumptions behind the profitability is the same method as you did one year ago, two years ago.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team

Good morning, Klaus. Also from my side, Klaus here. Maybe I can comment on it. I think Line covered the big cornerstones of it. I think with respect to the expectation on the product portfolio, and there you're absolutely right, Klaus. I mean, we have the expected production cost and, of course, we have risk and contingency connected to discrete risks that is expected to mature during the year and also contingency, which in more general should support the various stages of the projects. I think the expectations on our portfolio with respect to using risk and contingency is similar to what we had also the last year. But I will also say that, of course, and as you are well aware, things can swing to the positive and then, of course, also in the opposite direction depending on how successful we are in managing and mitigating the risks that are due to mature during the year to come.

Unidentified Participant

Fair enough. I had to ask. And then the second question, and I know you don't give guidance on 2027, so I will start saying sorry about this question, but with the new factory coming online maybe later in 2026, and thereby somewhat fully operational in 2027 or part of 2027, should we think 2027 as something in between 2026 and 2028? That will be my final question.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team

Okay, I will start with the first part of that question. I can say that there is no, or I assess the opportunity as very limited to almost non-existing that the new factory will commence operations during this year. just to put that out there. The previous discussions we have had where we have also showed a positive spirit and sentiment remains. We remain with the same kind of feeling this time around for how that investment product is going and what that also potentially could mean for the in-operation taking, but it's not earlier to the extent that we could see revenues coming already in 2026. Then going to your second question, also here, Lina can complement, but I think it depends, and we cannot give you an absolute guiding answer on that.

Of course, the year of '26 and then compared to '28 and looking at '27, it lies in between and it is correct to the extent that solutions or transmissions in the future now will continue or start to grow from new capacity coming online in '27, but of course will continue to grow both in '28 and also in '29. So in that regard, it lies in between the two years. On the profitability aspect, we have also before said that '27 is an important juncture from two perspectives. One, it is the year where we, if we are to point to any given year, where we expect to see a more radical shift in the product mix in terms of profitability. That's number one. And number two is of course also that we are then taking new capacity online, so we start to generate revenues. and also contribution margin on solely non-legacy projects. But in addition to that, we also start to get cost absorption for, of course, the cost that we are carrying and are also finally ramping up this year towards next year. So also there from a profitability perspective, I don't think I'm overstating if I say that we expect more from 27 than what we see in 26.

Unidentified Participant

That makes a lot of sense. Thank you so much, Clay, for this clarification. And that was all to my side.

Operator

Chris Leonard, UBS.

Christopher Leonard - UBS AG - Analyst

Yeah. Hi, guys. Thanks. Just two questions from me to start with, please. working capital looking into 2026. I think the 25 picture was previously presented that you would maybe expect some working capital outflows through the year. That didn't happen. You obviously got a healthy inflow. And now, looking into 2026, you also guide to Q1, having the national grid contract close. I just wonder if there's any view that you could give us as to how we should think about working capital for the year of 2026. And the second question would be looking at the solutions, guidance, and just to be clear, the comments there were to see mid-single digital organic decline presumably mostly linked to the subcontracted work and variation orders. I wonder if you would be able to split how important both of those two drivers are. And equally, I wondered if you were able to give a guidance or view as to what the revenue growth would be without those two negative factors in 2026 for the solutions business.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Thanks. Good morning, Chris. Let me start here on the net working capital. And you are right that early 2025, we commented that we were expended to land, and we did come out a bit more positive than that, now in the negative space of EUR1.5 billion. That was due to the very favorable development in Q4 of 2025. So the bid, depending on timing of actual payments, also that we had some phasing of what we expected to be Q1 milestones in our project that came into Q4 2025. This year may turn out slightly different. Right now we're looking at a level that could be around . But as you know, a lot can change, and it's highly dependent also on possible awards and milestone shifts on the project we execute on.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

And then to your second question, thanks, Chris, and good morning. On the guidance, we don't guide on business lines, but on the directional comments from Line, we would decline to isolate out how big is the VOs and how big is the subcontracted part of what happened last year. If I then turn to the second part of that question, What would the growth be if we would have not had it? Well, I think the only help I could give you there is the fact that organically our revenue generation capacity, meaning the amount of machines and machine hours, has been constant '24, '25, and also '26. So with that said, if you look at just from all things as equals, mix equal, margins equal, then we would not have an organic growth.

Of course, I would maybe defer to comment exactly on the mix, but we have also been consistent in saying that we have a gradual or by maybe slower pace change in the mix going from legacy to non-legacy projects. But that, of course, also is there. So there, I think you could expect maybe a small organic growth driven by that mixed change. That goes from a revenue perspective. Keep in mind, again, from a profitability perspective, that profitability is being impacted by the OpEx drag, as Lina just said, that has grown from or is expected to grow from last year into this year.

Christopher Leonard - *UBS AG - Analyst*

That's really helpful. Thank you. And actually, just a clarification question, please. But I think during the prepared remarks, it was commented on applications that the new capacity coming online in Denmark and also in Portugal could contribute 10% of revenue growth. I assume that was – I caught that correctly, and that's just in reference to applications. That's not on a group level in terms of the revenue growth for 26. Thanks.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Confirmed that. Thank you.

Operator

Lars Topper, DnB Carnegie.

Lars Topper - *DnB Carnegie - Analyst*

Lina, I know you're going to miss us a lot, but it is what it is. I do have a couple of questions also. One is on the depreciation level, both in 2026 and beyond, if you can put some comments on how we should expect, A, the full year level, and B, also the progression over the quarters. Then a second question goes to the tax capitalization you had in Germany since you had not flagged this. Did anything happen in Germany that took you by pleasant surprise? I think I'll start with those two questions.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Thank you Lars, and for sure I will miss you. On the depreciation, I think I will refrain on the quotas, because as you can imagine, and just going back to Claes' answer on when the factory will actually come online, then that also will determine when the depreciation steps up. But I can share that when you look ahead in for 2026 at least, that we're going to be at a level that is more around the EUR150 million, so a step up obviously from the investments coming online this year. And then when we come into the further years, I think we have set a landing point around 28 with everything online. We're going to come closer to the 200 million, so there is a step up there.

On the tax part, I think it is very positive on the Q4. The way we have run the quarters, we have not been as positive on the German tax losses carried forward in Germany during the year. Of course, we do an extra assessment in Q4, and that was very positive, why you see this capitalization of the deferred tax asset carry forward, positively contributing. Yeah, I think that's what I would keep it at. I think for next year, you should expect a tax rate in the low 20s. That would be the effective tax rate expected, and that's including also any German effects related to this Q4 effect.

Operator

Mithila Raman, Goldman Sachs.

Mithila Raman - *Goldman Sachs - Analyst*

Hi, good morning. Thank you for taking my questions. I have two. The first one just wanted to ask you if you could round up when we think about free cash flow for 2026, given what you said sort of on profitability and on CapEx. Do you think it would be possible to break even or be positive in 2026, or this is more sort of something later on? And then the second question is regarding, you mentioned a better utilization on Carlos Corona in 2027, but can you guide us to like when you open a plant of this size, what type of utilization should we expect in year one and sort of in the subsequent years? Thank you.

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Daniela, let me take the first question on free cash flow. And for sure, as seen in 2025 also, a lot depends on milestones on the projects. But based on where we are now and how we look at 2026, we have the EBITDA guidance of EUR360 to EUR410 million. Then we have now put the year of the highest investment level behind us, with 2025, and that means the trajectory we earlier communicated on, that 2025 would be the highest, 2026 would come down, and then further down in 2027, investment levels will be at a lower level, expectedly. And then I shared a bit on the working capital, which you could hear was maybe not as favorable as we closed out 2025. So all in all, though we don't guide specifically when we add things up, we do still see a negative free cash flow in 2026. We will continue to have a substantial cash balance throughout 2026. But I think also the year has to kind of, we will also get wiser when we get halfway through the year, how everything pans out.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

And then, if you allow me, Daniela, to make a comment on your second question there, on the taking in the Cascrona plant into operation. I can just give a little bit of a qualitative reflection around it. It is basically two machine flows in that factory, and I think our comment has been that these will go into operation during 2027. I think the first comment is that there will be a couple of months in between them coming into operation and then of course when you take a machine flow into operation and we all I think are at least relatively familiar with the cable production process you start to feed the dragon with copper in one end being the conductor stranding and then it goes to extrusion, heat treatment, sheeting, armoring and then getting loaded out and tested on turntables where after it's going to be loaded onto the vessel Bessel sales, then of course you have the burial operations, the ancillary operations together with that, and then high voltage testing and completed.

And the process from starting to feed the dragon to when the cable is finally buried on the seabed, this will take time. So this is something depending on, of course, and I'm not speaking now specifically about the Castrona commissioning plan, but more in general terms, it's at least between one and two years. and then you need to do that two times for two separate flows and that will give you then at least a base feeling of what are the process to achieve full revenue generation from these assets because of course it's only when all of these steps are completely full that we will achieve full revenue generation.

Mithila Raman - *Goldman Sachs - Analyst*

Got it, thank you very much.

Operator

Casper Blom, Danske Bank.

Casper Blom - *Danske Markets Equities - Analyst*

Thanks a lot. Two questions from my side, please. Claes, over the last years or almost since you started as a CEO, there's been a discussion on the whole market outlook and electrification of especially Europe. and you guys have been talking about this expectation of market awards in your addressable market of EUR10 billion at least per year on average. Having gone through 2025 and the continued focus on grids and being self-sufficient in Europe, have you changed your sort of confidence in I know it's difficult to look 20 or 30 years ahead, but would you say, comparing now to 12 months ago, that you are more or less confident in the long-term outlook. And then a second question, a bit of a household one on applications. Given that we've now seen a couple of years with subdued activity within building wires, could you give an update to how much of the division is now made up for by mid-voltage and grid cables? Thank you.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Thank you, Kasper. If I start maybe with the second question that perhaps is the easiest, and there, if we just reflect on the fourth quarter, and that also goes very much in general, we have roughly a 20% dependency from a revenue perspective on the construction-related market, and this is The one KV copper cable and also the building wires. So that is, I think, the answer on that question. And of course, this will also be further reduced by us taking our investments gradually into operation, both for Denmark and also for Esposende, because the investments are solely made into the medium voltage and power distribution segment space. That's for the second question.

And for the first question, that is a more, maybe a longer answer one. But I think your question is, are we more or less confident on the long-term projections of this market? And there, my very simple answer would be that, at least I personally, I think also NKT, we are, if anything, more confident in the long-term outlook of this market. But with that, I will also say, looking at the short-term development of the market, I think that's where we see the larger variances. We can see developments where offshore wind auctions are unsuccessful and being reshaped and then being successful.

We can see, for example, the French state recently also announced a new energy plan reducing targets for renewable energy, taking offshore wind as an example, from 18 to 15 gigawatts. But we also have the examples of the opposite. We had the North Sea Summit, where the North Sea states came together, pledging towards the 300 gigawatt until 2050. We see also the 15 gigawatt per year up until 2040 being pledged. And we can see strong developments in the UK market, both within AR7, the highest ever awarded in terms of offshore wind amounts, and then large interconnectors, being contracted or being in the process of being contracted. So I think that introduces more short-term volatility or at least both positive and negative sentiments, as I said before. But why I say what I do for the long-term perspective also, if you look at the big picture where Europe's energy generation today, we are able to sustain by 40% of the domestic production. So 60% is imported into Europe today and with what you also insinuated there, security concerns and questions around that, how will Europe continue to increase that?

Currently, we have a debate around affordability versus the green or clean transition and the grid build-outs. And of course, the 60% that we are importing, you look at oil, almost 100% is imported. If you look at gas, around 90% is imported. Both these sources are being supplied by, for example, the US, but also very much from the Middle East, historically by Russia, less so today and maybe none in the future, and then some countries in Asia. And it's obvious that if we want to get more or strive towards energy sovereignty, we need to start to become independent and build out more energy generation sources here in Europe. And then the next question is, what's the cheapest way to build large-scale generation?

And especially do it in a fast pace. First is solar, secondly is onshore wind, thirdly is offshore wind, and of course there are other aspects as well like nuclear, which may also be part of the mix. I think solar, at least for the northern parts of Europe, as you well know, Kasper, maybe it's not the baseload alternative at least. So I think that shows that offshore wind and also grid connections in general to also handle the natural intermittency of these power sources is a necessity. And then what's logically right and what's politically decided is not always consistent. So I think also there, there needs to be a process maybe to come into that realization. But at least that narrative makes us and me confident, even more confident today than two years ago about the long-term prospects of this industry. Very long answer to your question.

Casper Blom - *Danske Markets Equities - Analyst*

Much appreciated, Claes. And if you may allow me to follow up, could you couple those reflections to your considerations concerning additional high-voltage capacity, i.e. a new Karlskrona-like project at some point, and when and what would it take for you to feel confident about such a decision?

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Also a very relevant question, and I think the answer will be very similar to what you have heard us say before. We have taken a stance where we want to be very disciplined on our expansions, and that means that we not only need to see the prospects of a strong market, but we need to have confirmed volumes and being convinced that that capacity can also be saturated in the long term. because as I also just mentioned, this short-term volatility also creates uncertainty, why I think the North Sea Summit served as a good calming element, so to speak.

But like I also said, view of the market in the least short to medium term remains and that is more than 10 billion euro in average up until 2030 and then into the 2030s it appears to move into a more balanced territory. So just by looking at that I think we will be hesitant to add more capacity organically. There could be exceptions to that, and one exception could be if there are very, very big projects that would be bookable or that would be ready to commit to capacity. And as you know, and I think we all on this call are aware, there are a couple of them out there that I think independently could warrant for a discussion to add capacity also on the short term. But with everything said, we are right now and we continue to be very occupied with the expansion both in Cologne and also in Cascrona. So any of those decisions, if made and when they will be made, will not be made so that they would come even close to compromising the process we are in towards '27 and also '28.

Casper Blom - *Danske Markets Equities - Analyst*

Thanks for your answers and reflections. Much appreciated.

Operator

Lucas Ferhani, Jefferies.

Lucas Ferhani - Jefferies LLC - Analyst

Thank you and good morning everyone. So I have a few, maybe we'll take them one by one. Just the first one is on the shape of 2026 H1 versus H2. Just wondering on solutions specifically, should you expect there should be more decline in the first half versus the second half, obviously with that Q4. And does that Q4 kind of minus 13 organic growth is kind of roughly what we should expect into the first half? So that'd be my first question.

Line Fandrup - Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team

I think maybe I start here and Claes can complement. I think we will not be very detailed on solution quarters here. I think, as you can also see from 25 execution, a lot of things can happen in terms of variation order, but really also we optimize the factory every day in the projects to get the best execution possible for NKT. And then with that said, of course, weather can actually have an impact, of course, on installation works. So winter could be lower than summer quarters. And then a little bit based on the portfolio, you could also see towards end year probably a larger share, though I will tone this down. Newer awarded projects at different margins than earlier. So you have these different mixed components in there that I would mention at least.

Lucas Ferhani - Jefferies LLC - Analyst

Perfect, thank you. And the second one is on application. Just in the Power Grid segment, obviously, we're seeing more and more frame agreements be announced, longer period, extension period on top of that. I'm just wondering what is happening in terms of price in those kind of new frame agreements and the 10% growth you mentioned in application for that division. I would assume that is kind of volume, and then you could have price on top of that. Is that fair to say? Thank you.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team

I think the 10% growth is what we talk about to try to guide you what the new assets will generate. for this year. So I think that covers the total revenue that we could expect for this year coming out of the two investments that we just mentioned. On the frame agreements and the more long-term and the situation in general in the power distribution segment, I can only confirm what you're implying that, of course, a higher demand, also a more robust demand picture into the future, so a longer term and higher visibility all contributes to that the pricing remains in a sustainable level.

There is competition out there, so I also want to add that, but as you can see from also the performance in applications, even in the subdued A construction environment, we are able to get sustainable pricing. But we are also continuously, of course, pushing ourselves as well on efficiencies to also be able to realize higher margins. So it all comes together.

Lucas Ferhani - Jefferies LLC - Analyst

Okay, thank you. And then the last one was just on the high-voltage kind of tender environment. Obviously, '25 was the where we're seeing these extended backlogs still. How are your maybe more recent discussion with customers? Could we have another '26 that is maybe kind of at lower levels than the average? And maybe as we get closer to those slots that are available, maybe there's a bit more pressure on customers to come in. So how would you see '26 versus '25 in terms of awards. Thank you.

Claes Westerlind - Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team

Thank you, Lukas. First, I want to just remind the reason that we are talking about these more than EUR10 billion euro in average over a period of years is to somehow try to get away from looking at just individual years because of the unpredictability and how difficult it is also with the price becoming larger and larger to actually predict will it be EUR6 billion, will it be EUR10 billion, or will it be EUR14 billion. So I just

want to put that out there in the first place and say that our comments are more directional across a couple of years. Now, with that said, there is also some products that I think we all were originally believing that would be awarded last year that now not unlikely will be awarded this year. So, of course, that could give 2026 a good start and could also put us at or even above the average number. But I think these are comments that are more just reflective comments and that we don't want to be held to because it is difficult to predict permits and governance and other topics.

Lucas Ferhani - *Jefferies LLC - Analyst*

Absolutely. Thank you.

Operator

And the next question is from the line of from JP Morgan. Please go ahead. Your line will now be unmuted.

Unidentified Participant

Yes. Hi. Good morning, everyone, and thanks for your time. I have a few as well. The first one is on offshore wind, especially in the Netherlands and Germany. So you have a couple of projects in each of these countries in your backlog, and if you look at the progress on these auctions, we have not seen anything in the last couple of years. and we are hearing in press that the German offshore auction might get pushed out to next year as they look forward to move to CFD type structure. So the question I have is that is there any risk to execution of these projects because your TSO customer might decide that they may need to adapt the timeline given that the projects are not coming in the timeline that was agreed before. And if that scenario materializes, do you have any contractual protection in terms of any compensation from customers that you might get in such scenario? So that's the first one.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Thank you, Akash, and good morning. Also, thanks for a relevant question. I would be ignorant if I say that there is no risk, also not knowing of course what decisions are taken around auctions and also what that could replicate into in terms of decisions by TSOs. What I can say is that we very rarely, if ever, see TSOs pushing or delaying on projects. Secondly, if we do, then, and I think this we have been relatively firm around in the past, we do not book and allocate manufacturing capacity with less than a strong commercial commitment in return from the customer. That goes if the customer wants to terminate or cancel, and it also, of course, goes if there is a significant shift in the delivery time and therefore also asset utilization. but exactly how those constructs look like that I'm sure you appreciate that we are unable to share.

Unidentified Participant

Thank you. My second one is a follow-up to Daniela's earlier question on '27, '28 utilization, and it is more focused on vessel because you will be getting new vessel next year, and I think it will take some time for you to produce the cable before you can utilize that vessel. So when it comes to utilization, is it fair to say that and new vessel utilization would be almost 100% in 2028, while that ratio may not be 100% for 2027, just theoretically.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Yeah, it's a good... I guess, theoretically, you're right, all the things equal, but I don't think we will give you exactly vessel utilization periods. But what I would draw your attention to is the fact that also, historically, we have produced cables which we have not installed with our own assets. If we take Champlain as an example. where we had capacity and we only had one vessel. Now we get one vessel more. So you could also just by those mechanics count that we could have utilization for Eleonora even though we don't have the cables fully produced

by the factory. Vessel utilization also, it goes up and it goes down. That's a natural variation and ultimately also us deciding to go for an in-house vessel or an external vessel depends on the suitability, but also the ability for NKT to compete effectively. So we cannot directly project the utilization of a single asset into the financial result of the business line or NKT. There are many underlying factors that could impact that.

Unidentified Participant

Thank you. And then I have a couple of housekeeping questions for Line. The first one is on intersegmental elimination in revenues. So when I look at 2025, you had a big step up of EUR143 million for the year versus EUR55 million for the year before. In my understanding, your businesses are quite independent, so I was wondering, can you talk about and give us more color on what is driving this? And when we look forward for 2026, what kind of figure should we assume for this intersegmental elimination revenue line?

Line Fandrup - Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team

You're fully right, it's a quite large step up and it says something of course about the internal sales between our business lines. Accessories and installations primarily with the solutions into the new transmission business line. There's a limited impact of also some sales between now our new distribution business line into what's going to become the grid segment also, so this will continue. And I don't think I'm going to comment on exactly the level. Again, it's really about which projects we execute on, but I think you should assume that this is a new level for the company as long as we have the large DC projects, which is closely related into the accessories and the new grid business lines also.

Unidentified Participant

Thank you. And the final one is on contract balances. So when I look at your net contract liability, it increased by over EUR200 million in 2025 while your backlog including frame agreement was largely stable or maybe down slightly. So maybe can you talk about what was the driver behind the favorable development in contract balances? And I think earlier you said there were some milestone-based payments in Q4. So were they originally expected in Q4 or was there any pull forward of those milestones from 26 to 25? Thank you. Yeah, so there were some pull-forwards of milestones from 2016 to 2025?

Thank you.

Line Fandrup - Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team

And now I'm just looking at our contract assets and contract liabilities and the assets are substantially lower than the liabilities. I think if you go even further back in 2025, you actually saw higher levels on these which was also a part of how we execute projects. We cannot kind of commit to that it's going to be a flat over the quarters. So the level doesn't always represent, let's say, a logic of what is the risk exposure. It's simply by the nature of the execution on the project. If you look at the end of Q4, and we also monitor, of course, and relative to revenue, I think you're going to find that it's a level comparable to when we entered the year, and then you should expect fluctuations between quarters.

Unidentified Participant

So there is no pull forward of milestone from, let's say, '26 to '25?

Line Fandrup - *Nkt A/S - Chief Financial Officer, Executive Vice President, Member of the Executive Management Team*

Yeah, there is some from '26 Q1 into '25.

Unidentified Participant

Okay. Thank you. Thank you, Lina.

Operator

As we are running very short on time, unfortunately, we won't be able to take any more questions, and I'll hand it back to the speakers for any closing remarks.

Claes Westerlind - *Nkt A/S - President, Chief Executive Officer, Member of the Executive Management Team*

Yeah, thank you from our side on behalf of NKT for listening in to both Q4, but also 2025 in general, and just want to iterate again what I said there, sad to see and so on. So with that, thanks to all of you and thanks to Lina.

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