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NKT.CO - Q1 2026 Nkt A/S Earnings Call

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## PRESENTATION

**Operator**

Welcome to NKT financial presentation for the first quarter of 2026. (Operator Instructions)

I will now hand the call to your speaker, President and CEO, Claes Westerlind; and CFO, Michael Yong. Please begin.

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

Good morning, and welcome to this conference call following the release of our interim report for the first quarter of 2026. I'm Claes Westerlind, the CEO. And for today's call, I'm happy to be joined by our new CFO, Michael Yong.

As usual, I will begin by taking you through the key developments in the quarter, focusing on the main messages, the operational performance, commercial highlights, and the market dynamics. I will then hand over to Michael for a deeper look into the financials. We will conclude with the outlook and open the line for questions.

As you are aware, Q1 2026 is the first quarter where we present and comment on the business in our new business line structure, Transmission, Grid Solutions and Accessories, and Distribution, which became effective from January 1 this year to support our Charging Forward strategy.

With that, please turn to slide 3. Before we begin, I'd like to highlight that today's presentation and related comments, including forward-looking statements. These statements are subject to risks and uncertainties, many of which are beyond NKT's control, and actual results may therefore differ from expectations. I will ask all of you to read this disclaimer carefully.

Now let's move to the key messages for the quarter on slide 4. Q1 2026 was a solid start to the year with a combination of record order backlog, a record first quarter result, continued progress on our investments, and disciplined operational execution. Our new business line structure is now live and operational, supporting the Charging Forward strategy. This is an important step because it reflects how we engage with customers, execute projects, and build scalable capabilities in the organization.

From a commercial perspective, we had a historically strong quarter. During Q1, we secured order intake exceeding EUR4.2 billion, driven by the Eastern Green Link 3 project and the two SSE projects in Scotland. This resulted in a record-high transmission order backlog of EUR13.5 billion at the end of the quarter. This provides extended visibility for the coming years and supports our execution planning and long-term value creation.

We also continue to progress on our major capacity expansion projects, all of them according to plan. The high-voltage capacity expansion in transmission remains on track to become operational from 2027, and the additional medium voltage capacity in distribution is coming online during 2026.

Financially, we delivered organic growth of minus 4% and operational EBITDA of EUR97 million in Q1. The negative growth was as expected and linked to a specific product ramp down in transmission, but profitability improved.

And finally, we maintain our financial outlook for 2026 with revenue at standard metal prices expected to be EUR2.63 billion to EUR2.78 billion and operational EBITDA expected to be between EUR360 million and EUR410 million.

Let's turn to slide 6 for a look at the overall financial performance in the quarter. The development in Q1 was largely as expected. Revenue at standard metal prices declined from EUR630 million to EUR610 million, corresponding to organic growth of minus 4%. This was driven by the ramp down of the Champlain Hudson Power Express project, including subcontracted work compared with a relatively high level in Q1 last year.

Despite the revenue decline, operational EBITDA increased from EUR81 million to EUR97 million, and the margin improved from 12.9% to 16%. This reflects improved profitability across all three business lines and satisfactory operational execution.

The Transmission business line was the driver behind the negative organic growth for the quarter. But excluding the effect from Champlain project, the activity level remained high, and we continue to execute on our high-voltage order backlog with several projects being active during the quarter.

Grid Solutions and Accessories delivered organic growth of 2% and slightly improved operational EBITDA compared to the same quarter last year. This was supported by high activity levels and satisfactory execution and mainly driven by accessories. The positive development was maintained in distribution, driven by continued robust demand in the Power Distribution Grid segment. The business line reported 3% organic growth and an improved operational EBITDA.

Let's turn to the next slide for a deeper look at each of the business lines, starting with Transmission.

Transmission delivered a quarter with high activity levels and satisfactory execution, but with lower revenue compared to last year, exactly in line with expectations, as the Champlain project is ramping down. Revenue at standard metal prices was EUR331 million, down from EUR360 million in Q1 2025, corresponding to an organic growth of minus 8%. The decline was driven by the mentioned ramp down, including a lower level of subcontracted revenue compared to the relatively high levels in Q1 2025.

Operational EBITDA was EUR50 million, slightly lower than the EUR52 million reported last year, but margin improved to 15.1%, up from 14.4%, demonstrating improved profitability despite the lower revenue base.

From an execution perspective, we continue to progress a broad portfolio of high-voltage projects throughout varying stages of execution, including Biscay Gulf, Hornsea 3, SuedLink, SuedOstLink, and Champlain Hudson Power Express. As always in the product business, quarterly phasings can influence both revenue and margins, and we remain focused on disciplined project and risk management across the portfolio.

In parallel, our transmission investment programs progressed according to plan with additional high-voltage capacity still expected to be operational from 2027. In Karlskrona, we saw the expected progress with installation of machinery and selected commissioning tests ongoing.

Let's move to slide 8 for an update on the market and our backlog. Q1 was a strong commercial quarter for NKT. Market activity remained high, and we saw historically strong order intake for the company within a single quarter. NKT estimates that the value of projects awarded in our addressable transmission power cable market was around EUR7 billion in Q1, with the majority based on DC technology, reinforcing the structural shift towards large-scale HVDC projects where our capabilities are strong.

In the quarter, our transmission order backlog increased to EUR13.5 billion, supported by two significant announcements: the conversion of booking commitments into firm orders with SSE, adding around EUR2 billion to the backlog.

And the firm order for Eastern Green Link 3 valued at more than EUR2.2 billion, representing the largest contract for a single cable project in our history. From a backlog composition perspective, more than 95% is with European TSOs and on application, roughly 70% is interconnectors and around 30% offshore wind.

Looking forward, we continue to anticipate that our average addressable transmission market will exceed EUR10 billion per year between '24 and 2030. Naturally, there can be short-term volatility driven by geopolitical and economical conditions, but we expect the supply-demand balance to remain healthy throughout the decade, gradually moving towards a more balanced market in the 2030s.

With the record backlog, our commercial focus remains disciplined, prioritizing the right projects to optimize the mix of production and installation, balance risk, and long-term earnings quality.

Let's move to slide 9 for Grid Solutions and Accessories. The new business line, Grid Solutions and Accessories, delivered a solid quarter with positive organic growth and increased profitability, supported by high activity levels and satisfactory execution. Revenue at standard metal prices amounted to EUR113 million, up from EUR109 million in Q1 2025, corresponding to organic growth of 2%. The development was mainly driven by the accessories business area with growth across both high- and medium-voltage accessories.

Operational EBITDA was EUR19 million, up from EUR18 million last year, and the margin improved to 16.8%, reflecting improved profitability and solid execution. Activity levels were high across the business line. In Grid Solutions, we executed repair and installation work, including offshore repair projects, while Accessories benefited from continued strong demand and good operational performance. Overall, this is a good illustration of how the combination of services, onshore projects, and accessories support stable profitability and resilience in the group, and it's a key reason behind the creation of this business line.

Let's turn to the next slide and Distribution. Distribution continued to perform well with growth driven by the Power Distribution Grid segment and improved earnings. Revenue at standard metal price was EUR212 million compared to EUR203 million last year, corresponding to organic growth of 3%. The increase was driven by continued robust demand in the Power Distribution Grid segment, and we also noticed a gradual improvement in the Construction segment.

Operational EBITDA increased to EUR22 million from EUR18 million last year, and the margin improved to 10.5% from 8.9%, reflecting the higher revenue level and improved profitability.

On investments, we continue to progress the planned capacity expansions. The additional capacity in Denmark is ramping up here during the first half of the year and the capacity expansion in Portugal remains expected to become operational at the end of 2026.

Let's move to slide 11 for an update on our major capacity investment projects. Let me provide a brief update on our major investment projects across the group. As highlighted earlier, our capacity expansion projects progressed as planned in Q1.

In transmission, the high-voltage capacity expansion remains on track with a key asset expected to become operational for commercial perspective from 2027.

The slide highlights the key sites and projects. The construction of our second cable lay vessel NKT Eleonora progressed during the quarter, and she has now been launched into water in Romania, as you can see in the picture. She is a beauty. Isn't she?

During the coming months, she will be transported to Norway for final installation and technical equipment -- of technical equipment and commissioning activities. In Karlskrona, the installation of machinery continued during the quarter as planned and the expansion of the harbor showed visible progress.

Our medium voltage expansions in Denmark and Portugal progressed in line with plan and time lines are unchanged. In Denmark, we are currently ramping up production, while we are entering the final construction stages in Portugal. Our investments remain central enablers for our growth journey. They expand capacity and strengthen capabilities, allowing us to execute on the growing backlog and capture attractive long-term demand.

With that, I've concluded my part of the presentation. Please turn to slide 13 as we transition to the financials. And I will hand over the word to our new CFO, Michael. Welcome, Michael, and please go ahead.

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**Michael Yong** - *Nkt A/S - Chief Financial Officer*

Thank you, Claes, and good morning from me as well. We'll now take a closer look at the financial development in the first quarter of 2026. I will start out with the income statement.

Q1 2026 showed an improvement in profitability, despite a slightly lower revenue level. Revenue was EUR864 million reported and EUR610 million at standard metal prices, reflecting organic growth of minus 4%. As Claes described, this negative organic growth was driven by the ramp down of the Champlain Hudson Power Express project in transmission.

Operational EBITDA increased by EUR16 million versus Q1 2025 to EUR97 million, and the group EBITDA margin improved to 16%, up from 12.9%. This improvement reflects increased margins across all three business lines.

Financial items were an income of EUR15 million compared to EUR25 million last year, mainly driven by foreign exchange gains relating to the strengthening of the Swedish krona and interest income on the net cash position. The average number of employees increased by 650 compared to Q1 last year, reflecting the continued high activity levels and ongoing investments. NKT is now more than 6,500 colleagues strong.

Overall, the income statement underlines improved earnings quality and margin development, which is important, as we continue to execute on backlog and investments.

Let's turn to cash flow on slide 14. Free cash flow was negative EUR92 million, reflecting that EBITDA was more than offset by continued high investment level during the quarter. Cash flow from operating activities for the quarter amounted to EUR52 million (sic - see slide 14, "EUR54 million"), an improvement compared to minus EUR141 million in Q1 2025. Changes in working capital were an outflow of EUR17 million, impacted by normal phasing of milestone payments and project execution in transmission. This is in line with the typical movements we see in the project-based business.

In the quarter, we had tax payments of EUR45 million, reflecting the increased earning level.

Cash outflow from investing activities was EUR144 million (sic - see slide 14, "EUR146 million") compared to EUR160 million (sic - see slide 14, "EUR167 million") last year. The investments were driven by our ongoing programs to increase capacity and capabilities in Transmission and Distribution. We expect the investment level to remain high throughout the year.

So overall, the cash flow profile is what we expect at this stage based on continued high investments and normal working capital phasing.

Let's turn to the balance sheet on slide 15. The working capital position stood at EUR1.5 billion at the end of the quarter, stable compared to the end of 2025, reflecting milestone payment phasing and transmission execution. Capital employed increased during the quarter, driven primarily by the continued investment program. This had a slight negative effect on return on capital employed, which was 22%, down from 24% at the end of Q4.

Looking ahead, return on capital employed will continue to fluctuate between quarters, influenced by operational earnings, customer payment timing, and the growing asset base from our investment programs, which will ramp up over the coming years. Our net cash position was reduced by EUR121 million to EUR842 million as a result of the negative free cash flow in Q1.

We continue to maintain strong liquidity. Available liquidity reserves were EUR1.5 billion, comprising EUR1.1 billion in cash and cash equivalents and EUR400 million in undrawn credit facilities. Finally, during the quarter, the green hybrid security of EUR150 million was successfully refinanced at favorable rates, supporting our overall capital structure and financial flexibility.

Let's turn to slide 16 and the outlook for 2026. On the back of the development here in the first quarter and our expectations for the rest of the year, we maintain our financial outlook for 2026. Revenue at standard metal prices is still expected to be in the range of EUR2.63 billion to EUR2.78 billion and operational EBITDA expected between EUR360 million and EUR410 million.

Transmission. Unchanged, we expect slightly lower revenue level in transmission with an expected mid-single-digit percentage organic decline. Production and installation capacity available in 2026 is unchanged from 2025. And thereby, the negative development is driven by a combination of a lower level of subcontracted revenue compared to 2025 and an expected normal level of variation orders.

The development throughout the year depends on execution and timing of specific operations in different projects. In 2026, we will continue to execute on our backlog, mainly on projects awarded in the 2020 to 2022 period. The expected margin dilution of around 2 percentage points from increased costs to support the ongoing investment and production ramp-up is also unchanged.

Grid Solutions 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.

Distribution. Distribution is still 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 with up to 10% growth to the business line.

As usual, the outlook is based on several assumptions as outlined on the slide. Please note that we have updated the assumption for supply chain to reflect the development seen in the Middle East.

In Q1, we saw no material adverse financial effect. But depending on the duration and evolution of the conflict, cost increases are expected in the coming quarters. We have solid processes in place with long-standing relations with both suppliers and customers. We are working to minimize the financial impact, and we confirm our outlook for the year.

Please turn to slide number 17. Before we conclude, let me briefly recap the key messages from the first quarter. Q1 2026 represents a solid start of the year, both operationally and commercially. We delivered a record high order intake, driven by major project awards, which increased our transmission order backlog to EUR13.5 billion. This enhances our visibility and provides a solid foundation for execution in the coming years.

At the same time, we continue to execute at a high level across the business. Although revenue declined in Transmission, the development was fully expected as the Champlain project ramped down. Importantly, the underlying activity level remained high, and we delivered record-high operational EBITDA for our first quarter with improved margins across all three business lines.

We also maintained discipline in executing our investment programs with capacity expansion projects progressing according to plan. These investments are essential enablers for capturing the strong structural demand we see in the market and for supporting our growth trajectory towards 2027 and beyond.

Finally, the Charging Forward strategy is now fully operational, supported by the new business line structure, which strengthens our ability to execute on the backlog, optimize our operations, and continue to deliver value for our customers and shareholders.

Please turn to the next slide. As you are probably aware, we will host an Investor Day on September 29, 2026, in Karlskrona, Sweden. On the day, we will present the Charging Forward strategy in greater detail, including views from the business lines.

Just as important, you will also get the opportunity to see the production site in Karlskrona, both the existing areas and areas we are currently expanding. We invite you to sign up for the day at our investor website, if you would like to attend.

With this, we have concluded the presentation, and I will now hand over the word to the operator for the Q&A session. Operator, if you would kindly take over.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Lars Topholm, DNB Carnegie.

**Lars Topholm** - *Dnb Markets - Analyst*

Thank you very much, and Michael, first of all, welcome on board to you. Looking forward to that.

A couple of questions from me. The first one goes to what you just commented on and what you also wrote in the report that you expect some cost increases in the coming quarters. So that triggers two questions. A, how significant increases do you expect? And B, since your guidance is unchanged, does that mean the other moving parts that have gone better than expected, or are you seeing yourself move down, but within the guidance range, so to speak?

Then a second question is to the ramp-up costs for Karlskrona. And of course, I know what it is on full year. But on the quarter, can you comment on the ramp-up drag to the transmission margin, both in Q1 this year and in Q1 last year? Thank you.

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

Thank you, Lars. Good morning, and thank you for the questions. Let me start to provide some answers to them and you repeat if something is unclear. So if we start with the significance of the increases, as I'm sure you're aware, there is a lot of volatility, a lot of uncertainty. So we did not see a material impact in Q1. As Michael was explaining there, we do expect to see increases, and we already see increases going forward. These increases are primarily related to the distribution business line. That's where we can expect to see them materialize.

And -- but it is also on that note that we are reiterating the guidance for the full year. But of course, again, everything is with the perspective that we have today. The increases as such, if I was to call out one material or one component in our cost base, it would be around plastics. So I think I will stop there with that comment.

Then on the financial outlook, what you said there, as I said, it is on this basis and what we see today in terms of cost increases to date, also assuming that the supply chains are not interrupted to the extent so we cannot secure material that we are reiterating the guidance. So then it should be entailed within that guidance. And our performance in Q1 also further gives confidence for the guidance that we are maintaining.

On the ramp-up drag for Q1, there, I will be, to your disappointment, a little bit vague. I would just say that we did say about a year ago that we had roughly 1 percentage point of OpEx situation. I think that's what you can use as an approximate for the first quarter of 2025. And this year, we have said that we will move from that 1% up to 2% during the year. So at least if I was to use any proxy for the first quarter, I would use slightly more than 1 percentage point then.

**Lars Topholm** - *Dnb Markets - Analyst*

And this is on group level, correct?

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

That's correct, Lars, yes.

**Lars Topholm** - *Dnb Markets - Analyst*

Yes. Then I have one final question just because you made the comment that the projects you're executing on in Transmission were mainly projects won in 2020 to 2022, i.e., before prices improved. Can you be more specific on which proportion of Transmission revenue is from those projects?

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

I don't think we can be so much more specific. But as Michael said, I mean, the majority of the projects relate to that time period. But it is also clear, and as we have said, it's not only a constant pricing '20 to '22 and then a totally different pricing from '23 and onwards. It is a gradual change also over time.

And as I think you have heard us say, there is also a gradual improvement in the product mix. It goes a little bit quarter to quarter. But overall, seen over a couple of quarters, we continue to see that improvement, and that's also what we expect for this year.

**Lars Topholm** - *Dnb Markets - Analyst*

And then one final question, if I may, and that's more on the revenue effect from the ramp down of Champlain's, if that ramp-down effect is going to be the same in the coming quarters as in Q1 or if it will sort of gradually disappear over the coming quarters?

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

I think we can see it to a certain extent also in the period to come because both Q2 and Q3 will for the Transmission business line, have a tough comparison period. And by that, I think, we will see exactly what you're out there for a little bit. But following that, then -- of course, then it has phased out. So the year-on-year comparison will then be excluding the Champlain project.

**Lars Topholm** - *Dnb Markets - Analyst*

That's super clear. Thanks. Thank you very much for taking my questions.

**Operator**

Lucas Ferhani, Jefferies.

**Lucas Ferhani** - *Jefferies LLC - Analyst*

Good morning, and thanks for taking the time. I have a first question on Transmission. Obviously, it's a very good order intake and backlog level. If we look at the win, I mean, EGL3 or what your Italian competitor won, some of these projects were expected last year and moved to this year. So really the pipeline and the tenders for maybe 2026 haven't really materialized yet. So how do you see the pipeline there? And do you -- could we see the backlog growing further from here? Thank you.

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

And a relevant question, Lucas. We have said -- if I start on the top level on the market side, we continue to estimate that the addressable transmission market from our perspective will be in excess but an average of EUR10 billion for that time period of '24 to 2030.

We could see a market last year that was weaker than what that average number was. We have seen now we are closing the books on Q1 with an estimate from our side that the addressable market has been EUR7 billion, which evidences a very strong and high activity level in the first quarter.

Also, I think that leads us together with the outlook for the year to believe that this -- I mean, evidently will be a much stronger year than last year, but can also be a year that hits the EUR10 billion or even above that mark.

The particular projects and markets, we will decline to do too much of detailed comments also with the uncertainty that always is connected to these big projects. But if I was point to a couple of regions and countries, I will point to Germany, Netherlands potentially, UK, and also the Med region. Those would be the regions that we expect some activity from this year. Some for award potentially, but also some at least for initiation of activities.

If you look at NKT more specifically, we had a historic quarter in Q1. And of course, with that, also earnings visibility that is basically loading is also very high now. And of course, that in itself translates to struggles at times to bid on all projects and deliver them on time. So I would also be modest in our ability to entertain projects, which has a short delivery time period.

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**Lucas Ferhani** - *Jefferies LLC - Analyst*

Perfect, thank you. And then just a word on the press release regarding the expansion in the US. I think it was related to cable joints specifically. So can you talk a little bit about how do you approach this market, your ability to kind of reach clients there and how sizable could that business be in a few years? Thank you.

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

That's a very relevant question, also considering the Charging Forward strategy where we -- if I am to summarize and just in essence, what the strategy mean, it's about reinforcing our strong and leading position in Europe but also to reach for opportunities beyond. And of course, US is a good example of that and the IEEE qualification of the accessories that you mentioned in that press release is also one stepping stone for that.

So we -- as you know, we have been active in the US also back in time, latest with the Champlain project. We are -- we have a small activity in the US from a distribution perspective.

With the qualification of these accessories, we also take a careful step in from an accessory perspective. And then when you sum it all, I think you should read an interest from NKT side for the North American market and also a strong belief that the value we bring to the European grid development is a value that may benefit also the North American market. And exactly in what way and how we will do this, this is something we will have to come back with and potentially also can reflect on more during the Investor Day.

**Lucas Ferhani** - *Jefferies LLC - Analyst*

Great. Thank you.

**Operator**

Akash Gupta, JPMorgan.

**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

Yeah, hi. Morning, everyone. Thanks for your time. I got a few as well. The first one is coming back on growth opportunities in Americas and particularly data centers. I mean, we saw one of your European competitor acquired a business in the US, which could serve them as a platform to cross-sell to data centers. The question is that what tools do you have at your disposal to address this opportunity given you have both low- and medium-voltage portfolio. Can you do it organically, or is this something where you made a partner?

And maybe when we look at partnership, you had a partnership in Taiwan for subsea cables. So could this model be replicated in the US to address the opportunity? So the question is, is data center growth, which is quite exponential for time being? And what are you working on at the moment to address that? That's the first one.

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

Thank you, Akash. Good morning. Thanks for the question, a relevant one. Well, if I just reflect on data centers to start with, I think I and also we agree on the potential of data centers that shows the potential globally also in the US.

I will just emphasize the fact that we are a power cable solutions provider. So of course, we are not in the communications part of it. And we are also less in specialty cables, so meaning perhaps inside data centers when it comes to the low-voltage aspect or shielded cables, et cetera. So therefore, from the current standpoint, it will be more from a power grid connection to data centers perspective.

This is a small part of NKT's current operations and our current market. But obviously, it's something that we are looking closely at and also reflecting about how can we also be part of serving this growing segment going forward. That is in Europe, but it also includes US as a potential end market.

And then to your second question then how would we do it? I think this is something which we will have to come back on a little bit how we think about the US, how and if we would enter the US market. And if so, in what segments and in what ways.

But I will say, in general, that we don't exclude anything from that opportunity palette, neither do we exclude partnerships, do we exclude organic growth or even inorganic growth. So we will be open to good opportunities when we look at other growth areas than Europe.

**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

Thank you. And then a question on transmission. Can you say where you are in installing machinery in the new production line in Karlskrona? And have you started already the test production for cable, which you needed for certification purposes before starting serial production? Or how far are you from starting production for testing and certification?

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

Thank you, Akash. I can also -- for sure, I can speak a little bit around it, and we are very much looking forward to showing it also in the Investor Day. So I just want to emphasize what Michael said before, and it lies very close to my heart. And having been in Karlskrona just two weeks ago and seeing it there, it is massively impressive to see the progress we are doing. We are not in all places, but in absolute majority of the places of this product, we are above ground.

I commented on the harbor, which is one aspect, which is still where we're doing some piling work on the quayside. But for the rest of the project, with some exclusions, we are in deep into the construction of the buildings, the ancillary systems and for many of the machines, they are installed either in part or in full. And for quite a few of them, we are also in commissioning mode of these machines.

I will not go in exactly to whether we have produced test cables and to what extent and what part of the testing cycles we are in. But I can say that we are trailing well aligned with the time schedule and the plan that we have.

And this -- for now, you will hear me speak about it, you will hear Michael speak about it. Occasionally, you will see a picture from us in the road shows, but we will show it live in September, how this stands is.

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**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

Thank you. The next one I have is on Grid Solutions and Accessories segment. So on similar revenues that you had in Q1, in Q4, you had single-digit margin. And then in Q1 of last year, you had equally strong 16%-plus EBITDA margin. So maybe if you can talk about if there is any particular seasonality in the business or maybe any mix impact? I mean, normally, historically, your margins were high when you had a big repair job, but it doesn't look like that was the case in Q1. So any color on how shall we think about the margin for the rest of the year in Grid Solutions and Accessories segment?

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

Yeah. If I look at the margins for the first quarter in this year, it's -- like you said, Akash, it's very similar to what we saw in Q1 in 2025. I would say that -- and I think we have also written it in the report that the Accessories business line is a big contributor to the performance that we can see in Q1 this year from a revenue perspective and also profitability perspective, but I will also say that we have had some repair activity also in Q1 for this year. So by that, if you take away that, let's say, less structural aspect, then we should have that in mind when we look forward into Q2 and Q3.

And as far as seasonality goes, I think leaving the offshore repairs to the side, obviously, this business line will also not perhaps so much in the Accessory side, but indeed in the Grid Solutions side of it, show some seasonality tendencies as well because of just installation of projects, winter periods, et cetera.

So I think I would leave the comment there.

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**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

Lastly, a housekeeping question on non-allocated cost. I think it moved up quite a lot versus last year. So you had like plus EUR6 million versus minus EUR7 million in last year. So any color on what is driving that? And how should we expect non-allocated cost for the remainder of the year?

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**Michael Yong** - *Nkt A/S - Chief Financial Officer*

Let me jump in on that one. Good morning, Akash. Indeed, we see a EUR13 million swing due to the negative EUR7 million of the first quarter of 2025 and a positive EUR6 million in this quarter. And it's mainly attributed to foreign exchange hedges, eliminations in the business.

And what we've seen in the past quarters, we generally look at this as a potential swing of plus or minus EUR5 million in a quarter. And I would actually make reference, if you look at the last two years, the last eight quarters, you actually have half of those quarters that have a positive swing and half of those quarters that have a negative swing. So of course, we're pleased that it contributes to the good start to the year result of the company, but this is also not something that we're necessarily counting on quarter over quarter. So I think you have to look at it over the cycle.

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**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

Thank you, Mike. Just to clarify, so you are basically treating these FX hedge elimination as an operating line and not like kind of one-off because these -- some of the numbers will always be there. So just to understand correctly that you are treating these as an operational line and not one-off below the line item?

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**Michael Yong** - *Nkt A/S - Chief Financial Officer*

They're not one-off. That's correct. They're not one-off. They're operational in nature. They're part of the hedge accounting. It goes also into inventory revaluations and this sort of thing. So I won't get into the detail of it. But in fact, it is operational.

So what you could also say another way of repositioning my answer is if we look at the business without this effect, you're looking at a year-over-year comparison where in 2025, the business delivered EUR88 million of EBITDA in the quarter. And this year, we're EUR3 million ahead with the EUR91 million EBITDA quarter. So just to reemphasize the strong quarter, the satisfactory quarter remarks that Claes has made.

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**Akash Gupta** - *JPMorgan Chase & Co - Analyst*

Thank you.

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**Operator**

(Operator Instructions) Chris Leonard, UBS. Please go ahead.

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**Christopher Leonard** - *UBS AG - Analyst*

Yeah, hi guys. Maybe I've got two or three questions from my end. So to start with, can you just speak on the competitive landscape you're seeing at the moment in transmission? Obviously, you spoke about the potential for new orders this year across some different regions in Europe. But how are you seeing those new entrants on the supply side scaling up this year? And have you seen any sort of change in dynamics on pricing conditions in the market? I'll start there. Thanks.

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

Thank you, Chris. Yeah, well, if I start with the market dynamics, I wouldn't be able to say based on the sample size that we have that we have seen a difference in the market sentiment or in the climate for the moment. It continues to be a healthy dialogue between suppliers and customers. So I think that's the simple answer on the second part of the question.

On the first part, I wouldn't have also any evidence to say that we have seen a dramatic change from a competitive perspective now in the beginning of the year. I think the players we have seen that are present and want to compete are basically consistent with what we saw last year and also the players that are able to compete, which is not necessarily the same, I think also remains constant, if I just compare to last year.

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**Christopher Leonard** - *UBS AG - Analyst*

Okay. That's really helpful. Thanks. And the second question on sort of transmission contracts or the down payments. I'm just trying to understand that the free cash flow burn in Q1, particularly when you book such a high level of orders. Is it the case that you're looking now to secure sort of lower percentage of down payments on contracts to then help -- potentially help out year margins on the projects? Just any color there would be helpful. Thanks.

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**Michael Yong** - *Nkt A/S - Chief Financial Officer*

Let me take that one, Chris. Good morning. I would be very hesitant to read anything into the down payments into the first quarter. We have a record quarter, of course, from an order intake and backlog point of view. But the EUR2 billion of the two cables that were secured under the Scottish Southern contract were conversions of the pre-bookings that we had. So there's no prepayment effect that one can consider from those.

And for the EGL3 project, while I won't comment into the details of prepayments, they are within, let's say, a customary range that we would see.

We also won't comment on what approaches we may take in terms of next awards and prepayment positioning and this sort of thing. But it is one of the levers we have in terms of managing a stable cash flow for the company.

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**Christopher Leonard** - *UBS AG - Analyst*

Sure. Thanks, Mike. Super helpful. And the last one for me is just thinking about the outlook for profitability in transmission this year, given you're kind of sitting flat on margins between Q4 of last year and Q1 this year. And you sort of alluded to maybe further ramp-up costs coming through the year, as you go towards a 2 percentage point headwind versus just above 1 percentage point at the moment.

And can you talk to us in terms of what could push you to deliver higher margins maybe in Q1 or Q4 last year by the end of '26, if legacy contracts still staying in that sort of 2020 to 2022 year range? Thanks.

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

Thank you, Chris. With the risk of disappointing a little bit with the answer here, as you are well aware, we are not guiding on the business line, neither do we do it year on year nor quarter on quarter.

But with that, I can say that, of course, the trend that we have seen and are seeing, we expect to continue. And this is that the project mix will change from legacy projects to more recently won projects. This is a transition that is ongoing. This is being held back to a certain extent by the OpEx drag or the OpEx increase in preparations for taking the new investments into operation. But the latter is not outweighing the former. So then, of course, things can shift quarter-to-quarter a little bit as well from a profitability perspective. But measured over a couple of quarters, we should also see the margins continue to increase.

But I will say also that I would also -- as you have heard us say many times, just not being too focused on the margin as such, but the nominal earnings when it comes to Transmission. That is what we are focusing on. That's also how we are guiding on group level. That's also how we are guiding for '28 and also 2030.

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**Christopher Leonard** - *UBS AG - Analyst*

Brilliant. Thank you for the color there.

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**Operator**

This concludes the Q&A. And I will now hand it back to Claes Westerlind for concluding remarks.

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

Yes. Thank you for calling in today and for joining us to close the book on this, in our opinion, successful quarter. And I will just reiterate again the extra welcome to Michael Yong as the new CFO of the company and also to what he said about the Investor Day in September.

We are super proud and super humble for what we are carrying out in Karlskrona and very, very keen to show you all the status and progress of that.

And with those words, I wish you a good week and a good weekend when it comes. Thank you.

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