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NKT.CO - Q2 2026 Nkt A/S Earnings Call

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PRESENTATION

Operator

Welcome to NKT Interim Report for the First Half of 2026 conference call. (Operator Instructions) Today's call is being recorded.

I'll now hand it over to the speakers, CEO, Claes Westerlind; and CFO, Michael Yong. Please begin.

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

Good morning, everyone, and welcome to the presentation of NKT's Interim Report for the first half of 2026. My name is Claes Westerlind, the CEO; and here in the room together with me, I also have our CFO, Michael Yong. As usual, I will take you through the key developments, business highlights and performance for the second quarter and first half of the year. Then I will hand over to Michael, who will walk you through the financials, and we will conclude the call by looking at the updated outlook for the year and open up for Q&A.

Please turn to slide number 3. Before we begin, please take a moment to study this disclaimer concerning that the presentation and our related comments contain forward-looking statements, and actual development and results may differ from expectations due to uncertainties and risks, including factors which are beyond our control.

Now let's move on to the key messages for the quarter on slide 4. Let me start with the key messages for the second quarter of 2026. Overall, Q2 was another quarter with solid financial and operational execution. Activity remained high across the business, and we continued the diligent execution of our strategic priorities under our new strategy, Charging Forward. This includes both execution of the product portfolio and the ongoing investment projects to expand capacity and capabilities.

As expected, organic growth was negative, driven by the Transmission business line. This was due to the lower revenue on the Champlain Hudson Power Express project, where we, in the second quarter last year, had a high activity level on the product, including subcontracted work. Despite this revenue development, operational EBITDA level was maintained at EUR104 million, and the operational EBITDA margin improved to 15.7%.

A major milestone in the quarter was that the Champlain Hudson Power Express product reached commercial operation. This is an important achievement for NKT and for the energy transition in New York City. The cable system enables the transmission of hydropower from Canada to New York City, and can supply electricity equivalent to approximately 1 million households.

We also maintained a high transmission order backlog, which stood at EUR13 billion at the end of Q2, only slightly down from the record high level at the end of Q1, driven by product execution during the quarter. In parallel, the high-voltage expansions in Transmission remained on track to become operational in 2027, while the additional medium voltage capacity in Denmark was completed towards the end of the quarter.

Based on the performance so far in 2026 and our expectations for the remainder of the year, we have updated the financial outlook. Revenue at standard metal prices is now expected to be in the range of EUR2.65 billion to EUR2.75 billion and operational EBITDA is expected to be between EUR400 million and EUR430 million. We are narrowing the ranges for both revenue and operational EBITDA and we are also lifting the EBITDA range.

Let's turn to slide number 6 for a look at the overall financial performance in the quarter. Revenue at standard metal prices declined to EUR657 million from EUR723 million in the same quarter last year, corresponding to an organic growth of minus 9%. This negative development was expected and driven by Transmission, where revenues declined due to lower revenue from the Champlain Hudson Power Express project as it reached commercial operation during the quarter.

Operational EBITDA was stable at EUR104 million compared to EUR105 million in Q2 2025. This was a solid performance considering the lower revenue level, and the operational EBITDA margin improved to 15.7%, up from 14.5% in Q2 2025, supported by solid execution and a favorable product mix in Transmission and Grid Solutions & Accessories.

In Transmission, organic growth was minus 20%, while operational EBITDA increased to EUR67 million. Grid Solutions & Accessories delivered strong organic growth of 15% and operational EBITDA of EUR20 million, driven by high activity levels and satisfactory execution. Distribution delivered organic growth of 1% and operational EBITDA of EUR27 million, supported by continued robust demand in the power distribution grid segment, although profitability was affected by higher material costs and ramp-up costs related to the capacity expansion in Denmark.

Now, I will take a deeper look at each of the business lines, starting with Transmission on slide number 7. Looking at Transmission. The business line maintained a high activity level and had solid execution in Q2. As in Q1, revenue was lower relative to last year, where we had a high activity level in the Champlain project. Revenue at standard metal prices amounted to EUR334 million, down from EUR419 million in Q2 2025.

This corresponds to an organic growth of negative 20%. As mentioned, the decline was driven by lower revenue in Champlain, including a lower level of subcontracted work compared to the relatively high level in Q2 last year, fully in line with our expectations.

Operational EBITDA increased to EUR67 million from EUR64 million Q2 2025, corresponding to an operational EBITDA margin of 20.2%, which is an historical high margin for the business line. The margin improvement was driven by solid execution across the portfolio, a slightly improved product mix and good utilization of our assets, including NKT Victoria. I'd like to remind that in the product business like Transmission, quarterly profitability will vary depending on the products and execution. And in this quarter, we benefited positively from this.

During the quarter, we continue to progress and execute on several large projects, including Biscay Golf, Hornsea 3, IJmuiden Ver, Spittal to Peterhead, SuedLink and SuedOstLink. In addition, Champlain Hudson Power Express reached commercial operation, marking a significant milestone after extensive engineering, manufacturing and installation work across both onshore and offshore environments.

Please go to the next slide and the Transmission market and order backlog. Market activity in Transmission remained at a high level during the first half of 2026. We estimate that around EUR10 billion of projects were awarded in our addressable transmission power cable market during H1, with the majority based on DC technology. This underlines the continued strong demand for high-voltage production and installation capacity, where NKT remains well positioned.

At the end of Q2, the Transmission order backlog amounted to EUR13 billion to be compared to EUR13.5 billion reported at the end of Q1, driven by product execution during the quarter. The backlog remains at a high level, notably above the level from previous years, and continues to provide strong visibility for the business in the coming years.

From a customer perspective, more than 95% of the backlog relates to European transmission system operators, while the remaining shares relate to other types of customers. From an application perspective, the backlog remains balanced across the long-term priorities in the market, with around 70% related to interconnectors and around 30% offshore wind projects.

Looking ahead, we continue to anticipate that our average addressable Transmission market will exceed EUR10 billion per year between '24 and 2030. We still expect short-term variations given the volatile geopolitical and macroeconomic environment, but the overall supply and demand balance is expected to remain healthy throughout the decade. As the market approaches the 2030s, we, everything else equal, expect the high-voltage market to be more balanced.

Please turn to slide 9 for Grid Solutions & Accessories. Turning to Grid Solutions & Accessories. The business line delivered a good quarter with growth in revenue and improved profitability. Revenue at standard metal prices amounted to EUR129 million, an increase from EUR112 million in Q2 2025, corresponding to an organic growth of 15%. The growth was driven by higher revenue in both Grid Solutions & Accessories.

In Grid Solutions, the activity level remained high and was supported by offshore repair projects, installation work and delivery of high-voltage AC onshore cable projects. In Accessories, revenue increased in both high- and medium-voltage accessories, supported by satisfactory order execution and continued ramp-up in additional production capacity.

Operational EBITDA increased to EUR20 million compared to EUR16 million in Q2 2025, and the operational EBITDA margin improved from 15.6% from to 15.6% from 15.0% last year. This reflects higher activity levels, satisfactory execution as profitability improved in both parts of the business line. Also worth highlighting is that the power cable accessory site in Nordenham became our first zero carbon factory during the quarter. This is an important milestone for our sustainability agenda and supports our target of reaching zero emission operations across our sites.

Let's go to slide number 10 and Distribution. Moving on to Distribution. The business line continued to benefit from robust demand in the power distribution grid segment. Revenue at standard metal prices reached EUR239 million in Q2 2026 compared to EUR234 million in Q2 2025, corresponding to an organic growth of 1%. The development was mainly driven by continued robust demand for medium voltage cables in the power distribution grid segment, where volumes and revenues increased relative to the same quarter last year.

Revenue growth in the quarter was, however, limited by capacity constraints. In the construction exposed segment, the development varied between segments and local markets, and it led to revenue being marginally down from Q2 2025. Operational EBITDA amounted to EUR27 million relative to EUR31 million in the strong Q2 last year. The decline was mainly due to increased cost of materials, which was only partly offset in the quarter, as well as costs related to the ramp-up of the additional capacity in Denmark. Despite these effects, the business line sustained a double-digit operational EBITDA margin of 11%, a sequential improvement compared to Q1.

The construction of the additional medium voltage capacity in Denmark was completed towards the end of the second quarter. This includes a new production hole, production machines and test facilities and improvements to the overall production flow. These assets will continue ramping up into Q3 and will contribute to organic growth in the coming quarters. The capacity expansion in Portugal also progressed according to plan and is still expected to become operational at the end of 2026. Please turn to the next slide.

Across the major capacity investment projects, execution continued according to plan during Q2. In Transmission, the new high voltage capacity in Karlskrona remains on track to become operational in 2027. During the quarter, installation and testing of machinery intensified in both the new extrusion tower and surrounding buildings.

NKT Eleonora also reached an important milestone during the quarter as the vessel was launched into the water in Romania. And during July, she started the journey to Norway, which was actually completed yesterday, where the final equipment, technical installation and onshore commissioning will be done. The vessel will strengthen our installation capabilities and is also expected to become operational in 2027.

In Cologne, the investment in additional high-voltage capacity and capabilities also progressed according to plan, with installation and testing of production machinery and test equipment continuing during the quarter.

In Distribution, the medium voltage expansion in Denmark was completed towards the end of Q2, as said, while the expansion in Portugal remains on track to become operational at the end of 2026.

Overall, we are satisfied with the continued execution of our major investment projects, which, as you know, are essential to support future growth and strengthen NKT's position in the market.

This concludes my part of the presentation, and I will now hand over the word to Michael, and he will walk you through the financials. Operators, please turn to slide 12, and please go ahead, Michael.

Michael Yong - Nkt A/S - Chief Financial Officer

Thank you, Claes, and good morning from me as well. On the next couple of slides, we'll take a closer look at the financial development in the quarter.

Let's start on slide 13 with the income statement. In the quarter, profitability improved despite the expected lower revenue. Revenue at standard metal prices amounted to EUR657 million in Q2 2026 compared to EUR723 million in Q2 2025. This corresponds to a negative organic growth of minus 9%. As Claes described, this development was as expected and driven by the Champlain Hudson Power Express project reaching commercial operation compared to a high activity level in the comparison quarter.

Operational EBITDA of EUR104 million was stable from Q2 2025. Despite the expected decline in revenue, the operational EBITDA margin improved to 15.7% from 14.5% in Q2 last year. The margin improvement was mainly driven by Transmission and Grid Solutions & Accessories, supported by solid execution and a slightly more favorable mix of projects and activities. Depreciation and amortization were basically flat relative to last year, and thereby, EBIT amounted to EUR69 million compared to EUR71 million in Q2 2025. Net financial items amounted to a cost of EUR3 million, mainly driven by noncash exchange rate fluctuations.

And thereby, the net result was EUR52 million compared to EUR54 million last year, with tax also slightly lower than last year. The average number of employees increased by more than 650 since Q2 2025 average, driven by high activity levels and the ongoing investments across the business.

Please turn to slide 14 and the cash flow development. Cash flow from operating activities amounted to minus EUR145 million in Q2 2026 compared to minus EUR1 million in Q2 2025. The positive EBITDA contribution was more than offset by an outflow from changes in working capital, which amounted to minus EUR225 million in the quarter.

The working capital development was driven by phasing between milestone payments and project execution and transmission, but also an increase in inventories and trade receivables. Inventories rose slightly due to the strategic stock buildup of materials in response to the conflict in the Middle East, and trade receivables rose as a consequence of increased activity level.

As we have mentioned previously, working capital will vary from quarter-to-quarter depending on the timing of customer payments and project execution across the high-voltage portfolio.

Cash flow from investing activities was minus EUR104 million in Q2 2026 relative to minus EUR174 million in the same quarter last year. Investments were driven by the ongoing investments to increase capacity and capabilities in Transmission and Distribution. Activity level across the investment programs remained high and continue to progress according to plan. The actual spend in the quarter was slightly lower than preceding quarters, but this was a result of timing of payments. As a result, free cash flow was minus EUR249 million in Q2 2026 compared to minus EUR175 million in Q2 2025.

This reflects both the continued high investment level and the working capital development during the quarter.

Please go to the next slide where we will look at the balance sheet. Moving to the balance sheet. NKT maintained a robust financial position at the end of Q2 2026. Working capital remained negative at EUR1.2 billion at the end of the quarter. This was lower than the three months ago, mainly driven by the phasing between milestone payments and project execution and transmission, but better than the working capital balance one year ago.

Capital employed increased to almost EUR1.7 billion at the end of Q2 2026, up from EUR1.4 billion at the end of Q1. This was driven by the working capital development and continued investments in capacity and capabilities. Return on capital employed was 20% at the end of Q2, down from 22% at the end of Q1.

The net cash position was reduced by EUR251 million during the quarter, mainly reflecting the negative free cash flow development. At the end of Q2, the net cash position amounted to EUR591 million compared to EUR842 million at the end of Q1. Financial leverage was minus 1.5 times operational EBITDA on a last 12-month basis.

Available liquidity reserves was more than EUR1.3 billion at the end of the quarter. This provides NKT with a strong financial foundation as we continue to execute on our growth journey and deploy capital into the announced investment programs over the coming quarters.

Let's turn to slide 16 and the updated outlook for 2026. Based on the solid financial performance so far in 2026 and the expectation for the remainder of the year, we have updated the outlook for the full year. Revenue at standard metal prices is now expected to be approximately EUR2.65 billion to EUR2.75 billion compared to previously EUR2.63 billion to EUR2.78 billion. And operational EBITDA is now expected to be approximately EUR400 million to EUR430 million from previously EUR360 million to EUR410 million.

With the update, we are narrowing the ranges from both revenue and operational EBITDA. The revenue range is now around the previous midpoint, while we are lifting the EBITDA range with the new top end being EUR20 million above the previous range. The update is driven by the solid project execution as we have seen and expected to see in the remainder of the year. This is the case across the business lines, with the main contribution coming from Transmission and Grid Solutions & Accessories.

The underlying revenue expectations are unchanged. In Transmission, we still expect slightly lower revenue with an expected mid-single-digit percentage organic decline. This is due to a combination of a lower level of subcontracted revenue compared to 2025 and then an expected normal level of variation orders as production and installation capacity available in 2026 is unchanged from 2025.

Grid Solutions & Accessories is still expected to benefit 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 the second half of the year, Distribution is expected to benefit from the additional capacity coming online, mainly in Denmark, but also in Portugal towards the end of the year. In total, they are still expected to contribute with up to 10% growth to the business side, and unchanged, Distribution is expected also to contribute positively to the EBITDA development in 2026. The expected margin dilution of up to 2-percentage-points from increased costs to support the ongoing investments and production ramp-up remains unchanged. The outlook continues to be based on several important assumptions, and they are listed on the right-hand side of the slide.

Please turn to slide number 17 now. Before we conclude the call, I will just briefly recap the key messages of the quarter. Q2 2026 was characterized by solid financial performance and continued diligent execution of our strategic priorities. Organic growth was negative, as expected, driven by the lower revenue in Transmission, following the commercial operation of Champlain Hudson Power Express, while our operational EBITDA remained stable at EUR104 million. The Transmission order backlog remained at a high level at EUR13 billion at the end of Q2, providing strong long-term visibility.

Market activity also remained high during the first half of the year, and we continue to see a healthy demand environment for high-voltage power cable solutions.

In Transmission, the Champlain Hudson Power Express project reaching commercial operation was a major milestone for NKT and for the energy transition. The project demonstrates the role NKT plays in enabling renewable energy to be transported across regions and into major consumption centers such as New York City.

Our major capacity expansion projects continue to progress according to plan. The high-voltage expansions in transmission remain on track to become operational in 2027, and NKT Eleonora is now arriving in Norway for final installation. The medium voltage expansion in Denmark was completed towards the end of Q2, and the expansion in Portugal remains on track for completion at the end of this year.

Finally, we have updated the outlook for the year, as I just described. We are narrowing the ranges both for revenue and operational EBITDA. The outlook for revenue is narrowed around the previous middle point, while we are lifting the EBITDA range.

Let's go to the next slide. Before we move to Q&A, I would like to briefly remind you of our upcoming Investor Day, which will take place on 29 September in Karlskrona, Sweden. At the event, we will present our charging forward strategy in more detail, provide additional insights into the new business line structure that became effective on January 1, 2026.

And you will also have the opportunity to meet the group leadership team of NKT. The day will also include a visit to our production facilities in Karlskrona, where participants will have the opportunity to see the progress on our high-voltage subsea cable expansion and gain a deeper understanding of the capabilities we are building for the future.

If you're interested and have not yet registered for the day, further information is available on our Investor Relations website.

This concludes today's presentation. And I will now hand over the word to the operator, who will guide us through the Q&A session. Operator, please?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kristian Tornøe, SEB.

Kristian Tornøe - SEB - Analyst

Yeah, thank you. I have three questions. I'll just do them one by one. So first one goes to the Transmission margin in the quarter, which was above 20%. I understand that this can vary between quarters, but obviously, with your guidance upgrade, this was also better than you expected. So maybe if you can elaborate a bit on what more exactly went better than you had expected and whether the guidance upgrade for the Transmission part is predominantly a reflection of what happened in Q2 or whether it's also what you see into the second half of the year?

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

Kristian, Claes here. Thank you for your question. Not unexpected, of course. Well, I think you were pointing to part of the explanation for it. It was a solid execution and performance in Transmission in the second quarter.

And I'll remind us all that the profitability in the Transmission business line is driven by a couple of factors. One thing is, of course, the absorption of our assets and our people. One aspect is the margin mix which has had in the incumbent quarter. A third component is the

way we execute, meaning the way we manage both risk and opportunities. And temporarily for the moment, we have a fourth component, which is also the OpEx drag with the ramp-up that Michael talked earlier about.

And if we leave aside the last component, it is a good combination where all the 3 aforementioned components contributed positively to the margin in the given quarter. And that gives us then the overperformance versus our expectation, which also further then gives us some confidence and then upgrading the guidance. And but it's also the reason for why we are saying that the profitability will vary and we'd like more to talk about nominal earnings than the margin in itself. But it was a strong quarter indeed.

Kristian Tornoe - *SEB - Analyst*

Understood. Second question is on the Champlain Hudson project. So you highlighted several times that it has reached commercial operation, but that doesn't necessarily mean it's fully completed from your side. So just some comments on the exposure you still have to the project, whether you still have provisions for this project and when sort of full completion on your side should be expected?

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

Yeah. I we have physically completed, of course, obviously, most of the works to the extent that the product could go into commercial operation. Why we make the distinction is, of course, that there is also, let's say, a formal closure of all our projects. There can be some physical works remaining between COD and actual closer project.

And of course, there can also be certain things to be worked out between ourselves, our subcontractors, but also ourselves and the customer. And that typically takes some time after the product has reached COD. As to how much or whether we have provisions left, et cetera, I think I'm unable to comment on a specific project, which I'm sure you understand.

Kristian Tornoe - *SEB - Analyst*

Fair enough. But on the timing, I mean, when should we expect it to be fully closed?

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

I don't dare to give you an exact time line, but we are talking months instead of -- and not years.

Kristian Tornoe - *SEB - Analyst*

That's clear. Excellent. Third and last question here is just on the EUR2.5 billion in commitments, whether there is any update to when you expect that converted into firm orders?

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

Thank you. No fundamental major updates since last quarter. There has been plans, as you're well aware, when we booked this back in 2023. We have said previously that some of these projects have been slipping in time, also from that the boundary conditions are not available, that there are also ongoing discussions in Germany as to when, what will be built. But -- so we don't have any major update to give.

We have said that part of that may be converted this year and may also slide into next year. So no big news since last quarter.

Operator

Claus Almer from Nordea.

Claus Almer - Nordea Markets - Senior Analyst

The first -- a few questions from my side as well. The first question goes to the Transmission division. This 20% EBITDA margin you saw in Q2, how does that compare to the projects in the backlog you are going to deliver in the coming quarters? That will be the first one.

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

Thank you, Claus, and good morning. We have earlier said that over a couple of years and quarters, we will see a gradually improved project mix. And we will -- that is still the anticipation. That is what we saw. I think we also put that in writing in the report.

That is what we saw from a couple of quarters ago now coming into Q2, and we can expect that journey to continue. But then you have to see it over a couple of quarters. So it's more difficult to promise anything from quarter-to-quarter because things can also vary in and out of the incumbent execution. So -- but seen over many quarters, the mix has improved since a couple of quarters ago, and will continue to improve a couple of quarters from now. And when we look at the more radical change in mix, we remain with our order communication that this will happen during 2027.

Claus Almer - Nordea Markets - Senior Analyst

Sure. I just noticed that some of the projects you are working on in the quarter is some of the first ones in Germany, which, as I understand, didn't come with the most impressive margins. So that must have a very good read for the coming quarters when the mix is improving.

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

I think on the one side, of course, I understand the comment and the implied question. On the other side, also keep in mind that we don't give the, let's say, the size of exactly those mentioned projects in relation to the full mix executed. And also, I give reference to what I said earlier about what drives the profitability of the full business line. It is about cost absorption. It is about the margin mix.

And the third component is not unimportant, also how well do we execute. And of course, there is something to be expected from execution. And then expectations can, of course, go below that or outcome can go below, but it can also come above. And I think we had a combination of 3 strong performance or strong outset in all of these 3 buckets in the second quarter, but also especially the last one.

Claus Almer - Nordea Markets - Senior Analyst

That's fair. And then with the Karlskrona factory soon to be ready, does that mean you're more confident about your capacity rest of the decade? In other words, maybe your appetite for adding more projects is a little bit higher than it was maybe 1 year ago. Is that a fair way to look at it?

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

I think in general, confidence grows as we progress towards the completion of the project. I think this is the right way to look at it. Of course, we use, let's say, deterministic planning. So either we have the capacity or we don't. And then it is a matter of risk taking in some cases.

But we would not do, let's say, an overbooking, feeling comfortable that we will be able to resolve that as we go. But if we see that we have the capacity, and we don't include, of course, float in that, then we acquire a project. If we don't, we don't capture it. The closer we come, I think, to your point, obviously, when we have also finally made up our mind for when these assets will go into operation, then we will have to calibrate the available capacity at that point in time.

Claus Almer - *Nordea Markets - Senior Analyst*

Okay. That makes a lot of sense. And then my final question is as to the guidance upgrade. Once again, that's a very impressive long tail of guidance or upgrades. Looking at the second half of this year, have you still included some -- being conservative as to things that are not building as hoped for.

So if you do a smooth execution like you did in the first half, there could be additional upside to 2026.

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

Let me try to tackle that question, Claus, and good morning to you. This is Michael. Yes, I think it's -- what you should read it in our guidance is obviously the confidence that we have based on how the year has progressed and how the operational performance and high activity level in both Transmission and Grid Solutions is expected to develop. But we will remain with the same perspective of caution, of diligence and managing our risks and opportunities, and that is part of the guidance.

Claus Almer - *Nordea Markets - Senior Analyst*

So just to be sure, so that is you are doing your guidance as you always do. So if a smooth execution, it could be better than even the high end of the range, right? That's how I should understand your reply?

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

Yes. I think also, let me just confirm what Michael said there. I think there is, of course, always room for variability of performance also within the guidance. There is an expectancy from our side how we will end, and that is clearly within the guidance. But there can also be variance in that performance, both up and down.

And still, we end up within the guidance, so to speak.

And then it's a question about magnitude. Can we rule out that we could perform even so much better, so we could come out the guidance, I don't think we can say that we -- that there is no chance for that. But with the best visibility we have of our performance and of the outlook for the remainder of the year, we estimate that from an EBITDA perspective, it is EUR400 million to EUR430 million that we believe will be the range where NKT ends up.

Operator

Daniela Costa from Goldman Sachs.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

I have a couple of questions, but I'll ask them one at a time. The first one is just to follow up on some of these topics about clarifying the guidance. I'm just asking you about it. I think last quarter, you've mentioned that Transmission for the year, you saw it down mid-single digits, if I'm not mistaken. And obviously, you declined a bit more now.

But I just wanted to clarify, within your revenue guidance, that expectation is still mid-single-digit decline in Transmission and so a stronger pickup in the second half. And is that what then drives your higher confidence on margin? Or should we ascribe a higher confidence on margin to the other divisions as well?

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

Daniela, let me tackle this question. I think you are leaning into the answer. It is -- there's no change in the revenue profile for the Transmission business. So that mid-single-digit year-over-year decline remains constant. So it's also to indicate there has been no material change of mix of the projects that were planned and part of the execution profile of the year.

I think what you need to read into it is that with now 7 months behind us, the activity level and the execution level is at a very high level that gives us looking towards the end of the year and lower risk and contingency profile for the projects that were -- if you compare what you view at the beginning of the year. As you progress through the projects, you reach certain milestones, you reach a certain amount of completion that then, that risk is behind you. I think this is how you have to read our indication here.

Daniela Costa - *Goldman Sachs Group Inc - Analyst*

That's very clear. And then I wanted to ask you a little bit about how do you see -- it's kind of a 2-part question, but do you think backlog is -- will grow in '26 and '27? How are you seeing the tendering pipeline right now? Some of your competitors talk about the restart of like another wave of contracts in '27 on the HVDC side. And from another side, we saw yesterday another player, which is not 1 of the normal 3, gaining a large HVDC contract.

Is the competitive environment, if we have these extra ways, different than it was perhaps before? How are you viewing this changing in environment?

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

Thank you, Daniela. Claus here. We continue to see high market activity. And I think the first half is also a testament to that in accordance with what I said earlier, with around about EUR10 billion in awarded orders. The tender activity also remains on a satisfactory level, and we can see that there are good prospects also for the coming years.

I would not maybe go as far as to say that there is another round or another big activity level. And I do so not out of disbelief, but just out of caution from timing effects. And this is also one of the reasons where we started to talk about average market volumes instead of talking about individual years. But we have a strong expectation on the market also going forward and remain, in essence, with the statements and opinions that we came out also from the first quarter, with some short-term volatility also being imposed in some markets, some positive and also some -- maybe a little bit more constructive discussions.

To your point about the award yesterday also, we, of course, note the same, and then I think this is nothing that has surprised us, if we put it like that. And the market has grown significantly over the years, measuring over a 10-year period. The established players have added capacity. And also, we have had some established players on the AC now with the announcement yesterday also taking a step into the DC territory. And that is well in line with the expectations, and it does not materially change our view on the supply/demand and situation of the market.

Operator

Lars Topholm from DNB Carnegie.

Lars Topholm - Dnb Markets - Analyst

Yes. And also from me, congrats with the spectacular quarter. First, a household question on Slide 9 for Grid Solutions & Accessories. You mentioned that you had a 15.0% margin in Q2 last year. If I take EUR16 million on a EUR112 million revenue, I get 14.3%.

So I wonder how you derive 15%? And a related question, of course, is if my math is correct and you have 130 bp margin expansion despite startup cost, then -- okay, that's, of course, not here, but 130 bps margin expansion, is that sustainable or just a quarterly blip?

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

Lars, I had not done the math like you did just for the moment, looking to my CFO, who is, I think, also looking at that for the moment. But what I will say is that Grid Solutions & Accessories did have a strong quarter. We had a strong quarter with high activity levels across, let's say, what you would -- the running business, so to speak, so the expected business, both in HVAC onshore projects and the delivery of the same in the planned maintenance engagements that we have, but also in the Accessories business, both across HVDC, HVAC and also the medium voltage plant in Nordenham. But also what added the group progression, what's the mix of repairs that we were able to attain during the quarter, and that put some uplift on the profitability. So I think that is what you need to keep in mind, this last component as we reflect about the profitability in coming quarters.

That is something which is not a given one every quarter.

Lars Topholm - Dnb Markets - Analyst

Then a follow-up from the previous question about the contract won by Hellenic Cables yesterday. They also got a certification for 525 kV HVDC a couple of weeks ago. Why is it that you don't see that changing the competitive landscape? Is it because you anticipated it? Or is it because you are convinced the CSOs that are your core customers will still focus on track record and then still select you themselves and makes sense?

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

Very relevant and good question, Lars. I think it's twofold, the answer. Number one, I think you can read into it that it's not unexpected. So that's the first part of the answer. And number two, you should read in to our confidence about our own abilities to secure orders and our own ability to compete effectively.

So I think these 2 things, both in combination, makes us comfortable that this will not, to a major extent, change the supply-demand balance as far as NKT is concerned.

Lars Topholm - Dnb Markets - Analyst

That's really clear, Claes. Then a question on the change in project mix. So if I look from Q1 to Q2, I think the notable thing is that Spittal Peterhead comes in as a project you execute on. And if I look at what you say, the contract value relative to the cable length, this has, by far, the highest value of any project you won. How much of the margin expansion is a function of that specific project coming in?

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

It's a relevant question, and I think I could guess that you also would guess how much detailed answer you will get here. So I think it's difficult for us to give the exact component of an individual project. But I -- what I can say is 2 things. Number one, as you start a project, you can expect that the revenues are not large in the beginning. Often, when you start something -- you're talking about engineering efforts in the beginning and hours spent by people and less so manufacturing or installation or other aspects.

I would also like just to comment on the value, let's say, per kilometer and then draw your attention to -- and as you well know, Lars, a lot depends, of course, what conductor material you use, but also the level of installation complexities, landfalls, burial types, et cetera. So we should not reduce the pricing, so to speak, is the only metric that makes the value change from project to project. But I know you know, but I just want to mention it anyway.

Lars Topholm - Dnb Markets - Analyst

That's fair enough. One final question from me is on the current tender activity and the likelihood of major projects being awarded next year. So are you aware or can you confirm that tenders are ongoing for [EGL] 6 and 7 and LionLink?

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

I don't think I can confirm actually because the tenders we partake in, a lot of it is also under NDA. But I don't think it's a secret that there are products like LionLink and EGL 5 and 6. But I would avoid to confirm whether active or nonactive, et cetera.

Lars Topholm - Dnb Markets - Analyst

But in view -- your view, Claes, is it realistic these projects become contracts to you or someone else in 2027?

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

I think it's realistic with a high market activity culminating in large orders in 2027, yes.

Operator

Chris Leonard from UBS.

Christopher Leonard - UBS AG - Analyst

Hopefully you can hear me. Can I just follow up on the Transmission segment and maybe trying to speak through Q2 in terms of the negative impacts that you spoke to, to Champlain Hudson in the quarter? And then whether or not there was any sort of further negative impact from variation orders because I think there was a harder comp coming in from last year. And if not, should we expect variation orders to be more of a headwind into the second half of the year? So that's the first question.

And then the second question would just be to elaborate on the ramp-up costs that you experienced for the Karlskrona expansion, whether or not those are visible and material in Q2 at sort of the average you've spoken to of 200 basis points for the year? Or should we expect actually that those accelerate into the second half?

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

Thank you. Let me at least try, and then will also allow, of course, the CFO, to comment further. If we start with the Transmission revenue, just to give you a couple of the moving components and I mean you are also having the answer basically yourself. The second quarter, when you look at the comparison period last year, then we had significant volume on top of, let's say, the steady state normal volume coming from the Champlain project which we did not have in the second quarter of this year.

On top of that, we will all remember that we were also speaking about extraordinary variation orders during the first half, if my memory is correct, last year, that also added to that comparison period. For the second quarter, you can note on our revenue guidance that's being narrowed, but not lifted. Also implying a more normalized level of variation orders and that we are basically executing from a revenue perspective as planned. So I think these are the 2 components when it comes to how revenue is shifting and also how the organic growth has taken place in the second quarter for Transmission.

To your second question about ramp-up costs, last year, we talked about roughly 1 percentage point of OpEx drag on group level. And we have said for this year that this will further continue to ramp up during the year to culminate around 2 percentage points for the full year. And here, we have not given components -- discrete components, how much in what quarter, and also not exactly how much per business line, but I think it's known by all of you where we are conducting the expansions. The primary part of the expansions is in Transmission, and then there is a smaller part of expansion being carried out in Distribution. And we left last year with 1 percentage point drag.

We will end this year with around 2 percentage point drag. So I think based on these data points, you should be able to estimate a little bit or make reasonable estimates for your analysis.

Michael Yong - Nkt A/S - Chief Financial Officer

Yes, I would just add. We're in that journey, it's between the 1 and the 2. And also, I think it remains a relevant data point, considering that the revenue guidance is narrowed but on the same middle point. So the frame of reference is still the same.

Christopher Leonard - UBS AG - Analyst

Actually, if I can just ask an additional question on Distribution. Second half of the year with Portugal coming online, should we be expecting that, that is helpful into the margins? Or you see that as you saw in Q2, you've got to absorb some of these ramp-up costs? But equally, hopefully, you will also have some of the raw material inflation sort of being passed on. So can you speak to the drivers of what you're seeing in the distribution segment for the second half of this year, at least.

That will be super helpful.

Michael Yong - Nkt A/S - Chief Financial Officer

Sure. I'll take that question, Chris. If you look at the growth that will happen in the second half for the Distribution segment, it is going to come primarily out of the Asnaes capacity that of which the project has just been completed in the second quarter. So while the Esposende project will complete and come online towards the end of the year, obviously, from a volume point of view, it's going to be a lot less meaningful to the total picture than the one coming online right now.

In terms of the ramp-up costs associated with both of these projects, they are overlapping. We are -- we have been ramping this up in Denmark, and we are also ramping them up now. So we are more or less at a peak point of that combination of ramp-up costs. But as the volume comes online, then obviously the contribution from these volumes will start improving the margin.

That said, I think it also qualify that at the moment, there is a bit of extra cost in the Distribution segment from some of the Middle East supply chain costs that we've had to absorb, that will be mitigated to a certain extent -- to a large extent in the second half of the year through also pushing this down also towards the customers. But I would caution in taking specific margin of the quarter and doing an extrapolation for that because it will be recovering and absorbing the costs. So I think with those data points, that's how I would color the evolution of Distribution in the second half of the year.

Operator

Lucas Ferhani from Jefferies.

Lucas Ferhani - Jefferies LLC - Analyst

I have a few as well, if you can take them one at a time. The first one is just on free cash flow. The Transmission part, I just wanted to confirm, did you get downpayments for kind of EGL MLCC orders this year? And do they come without downpayment and so kind of targets to solve that you have an improvement in performance? And just on working capital, more generally, where do you see that setting towards year-end?

Michael Yong - Nkt A/S - Chief Financial Officer

Lucas, yes, good question on the prepayments, and I think we had also a question last quarter, particularly about the awards that we got in the first quarter. We can confirm that we have received a prepayment on EGL 3. Of course, I won't comment as we won't ever comment on any specific amounts for contracts. So there is a prepayment that's come into the planned flow of the working capital development for the transmission line in the second quarter.

That said, it was within plan and the evolution of the working capital is also as expected. And so it's more what's driving the negative working capital or the -- yes, the negative evolution of the working capital in the quarter is -- has to do with the phasing of -- it's a timing topic, the phasing of milestones, of costs and of incoming cash on receivables. So I would say nominal.

If your question is also asking for an indication towards the end of the year, I think where we're ending the first half of the quarter, we are on our operational plan. So I would expect that we will land at a similar level towards the end of the year. So that would be the indication we give today. And that is also an indication, not just for the transmission line, but in general for the company.

Lucas Ferhani - Jefferies LLC - Analyst

Similar level to Q2?

Michael Yong - Nkt A/S - Chief Financial Officer

Similar level to Q2? Similar balance than Q2.

Lucas Ferhani - Jefferies LLC - Analyst

Yes. Okay, perfect. And then the second one was just on Distribution. I just wanted to confirm if there was a change of language or not. I think now it was up to 10% growth in Distribution.

I think before, had something more around, I mean, it's minor. But just -- the point is, was this very kind of H2-weighted ramp-up expected or maybe a bit more slightly delayed in seeing the volumes coming through?

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

Yes. Thank you, Lucas. I think the -- I don't know if you perceive the different tonality then it's not intentional from our side. We remain with our earlier opinion, and it's more that things are, of course, always approximate as you look into a potential revenue growth for a year. And also with that, of course, also when we look at in operation taking of a plan and of an asset that has been invested in, there is also a lot of moving parts that there will always be a natural variance.

Of course, looking at a plant like Asnaes, machinery installation plays into it, capabilities build up, product qualification, output optimization, planning of the commercial volumes into the factory, et cetera. So there is some variability there. And while we could have maybe expected even more volumes in Q2, from a full year perspective, we remain with the expectation that the organic growth in the business line will be 10% or up to 10% depending on the uncertainties, of course, that always exists.

Lucas Ferhani - *Jefferies LLC - Analyst*

Perfect. Can you -- sorry, the last one was just on coming back on cables and potential changes in the competitive environment. And the first question I had was one, if you do a project with 320 or 400 kV, let's say, XLPE HVDC versus going to 525 kV, in your opinion, is there a kind of meaningful step-up in complexity or changes in the way you approach the project that kind of would brand issue for a player to kind of move up the valuation? And also maybe how do you think about owning the vessel? How does that brands -- and so doing more scope in now installation and at sea, how does that kind of bring an advantage or not for you versus a player that maybe doesn't have those capabilities in source?

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

Thank you. The highly relevant, both observation and question. So if you look at the technology initially, and if I put it in the perspective of NKT's history, we invented the HVDC XLPE cables back in the '90s. Started at 80 kV, gradually increased. I remember the EWIC project between Ireland and U.K.

of 200 kV coming through the 320 kV projects in the German territorial waters. Now here we are somewhere around 2014 or so, and then launching the 525 kV in '14, commercializing it initially on land in 2020. So you can see it's a long period of stepwise technology improvements.

And I will say that we have learned a lot on that journey, where every step in voltage, every step in terms of conducting material, sizes, every specific product circumstance gives you learnings, caution and reflections for the future. And there is a significant step-up, both from 150 to 320 and also from 320 to 525, both from a dielectric perspective, from a material compatibility perspective, from a production cleanliness perspective and many, many other aspects.

And I think our hopes are and Michael was doing some commercial for our Investor Day is also to take you through that journey of a large factory in terms of QA/QC. The importance of that, the importance of having diligent and long history of doing these kind of things in order to be able to produce and deliver successfully these projects.

And a big part of the delivery of these projects is also the EPCI concept as -- in reference to your second part of the question. And here, I imagine it is -- it's different perspectives. And I think our journey that I just described, it goes even back to the 50s, if you include MI cables, it has taught us that the right way from both the value creation and a risk management perspective, is to have the EPCI breadth, including also full control over your vessels, both from, let's say, technical compatibility perspective, but also from an execution certainty perspective. And we remain with that opinion. But we also respect different views, of course, how this should be done.

But we will, we have our view and our setup for a good reason, and we will remain with that. I hope that was a little bit helpful, Lucas.

Operator

I'll now 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

Thank you, and thank you, everybody, for calling in and showing interest in the second quarter results. It's results that we are proud of, needless to say. And I think it is a result that is yet another testament to where we are as a company and also where we are heading, both next year, but primarily towards our guidance in '28 and also 2030. So with those words, I thank you for the attention, and I wish everybody a good weekend when you get there.

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