THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NKT.CO - Q1 2018 NKT A/S Earnings Call

EVENT DATE/TIME: MAY 15, 2018 / 8:00AM GMT

CORPORATE PARTICIPANTS

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

Michael Hedegaard Lyng *NKT A/S - President, CEO & Member of Executive Management Board*

Michael Nass Nielsen *NKT A/S - Head of IR*

Roland M. Andersen *NKT A/S - CFO*

CONFERENCE CALL PARTICIPANTS

Akash Gupta *JP Morgan Chase & Co, Research Division - Research Analyst*

Casper Blom *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

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

Dennis Klaus Dinkelmeyer *Goldman Sachs Group Inc., Research Division - Research Analyst*

Kristian Tornøe Johansen *Danske Bank Markets Equity Research - Senior Analyst*

PRESENTATION

Operator

Good day, and welcome to the NKT Interim Report for Q1 2018. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr. Michael Hedegaard Lyng. Please go ahead, Sir.

Michael Hedegaard Lyng *- NKT A/S - President, CEO & Member of Executive Management Board*

Thank you, operator, and good morning. My name is a Michael Lyng, President and CEO of NKT. And welcome to the webcast covering the first quarter results '18 for NKT.

With me today, I have Roland Andersen, CFO of NKT and also Basil Garabet, President and CEO for NKT Photonics. And jointly we will go through the Q1 announcement that we released this morning. First, I will cover the highlights for NKT, then Basil will take over and do the same for Photonics, and we'll end with the financial highlights. And then we jointly will move into the Q&A session.

So turning to Slide #5. Key highlights for NKT in Q1. We increased the revenue and earnings over Q1 '17, and we've realized an organic growth of 7%. And with that, we are maintaining our financial outlook for 2018, and we will come back to that a little bit later.

If we zoom in to -- on the Solutions business, we had a good execution on a number of high-voltage projects, so basically according to plan, which is good to notice. If we move into the Applications business, we actually saw a nice organic growth despite the fact that we saw a very challenging market in the Scandinavian region and particular in Sweden, where we did not had the activity level as forecasted, mainly due to some tough weather conditions in Sweden. But this is also -- I have to say that it's mainly a timing issue between Q1 and Q2, Q3.

And then the Service & Accessories business had a pretty strong performance and thereby we demonstrates the future potential for that business segment. We did a number of cable repairs in the market and also saw an (inaudible) development in the underlying accessory business.

Looking at the high-voltage order intake, we, of course, have booked smaller orders here and there. But we have not been able to close any significant orders that could give future visibility during Q1. And that should not come as a surprise because in case we were able to do that, we will, of course, announce it to the markets.

So the high order -- high-voltage order backlog decreased as a result of that, and the end of Q1 did now accounts for EUR 0.6 billion. We tried to do whatever we can in order to compensate for the shortfall in the order intake. And thereby, we have also concluded to initiate a cost program to speed up some synergies related to the ABB acquisition, and also speed up some result from the excellence journey. It all amounts to EUR 10 million, that will have positive impacts on '19 and minimum impact for '18.

We mainly targeting a reduction of white-collar workers in Karlskrona and in Cologne. And of course, mainly targeting that in the back end of the value chain.

Then in the end, some key numbers, as you can see, revenue EUR 254.5 million, up with EUR 69.3 million. Operational EBITDA of EUR 20.4 million, which is slightly up over '17. And then we had significant working capital buildup in first quarter, and Roland will come back to this in his presentation.

If we turn to Slide 6, then looking at the operational EBITDA development, the numbers are already mentioned. So based on that, we are reporting of operational EBITDA margin of 8% in Q1 over 9.6%, same period '17. And that is the reason why you see that the LTM incur is declining from 13.1% to 12.5%. And this is mainly as a result of lower performance in the Applications business, which is mainly a timing issue.

If we then look at the first business line, and by the way this is the first time that we now are reporting based on the new structure that we announced back in the annual report in March, where we look at the business -- in 3 business lines, one being Solutions, where we do the sophisticated high-voltage AC/DC on/off-shore cables. The Applications business, where we do the medium voltage and construction-related stuff. And then the new business line service and accessories.

But looking at Slide 7, we -- as mentioned before, had expected performance in the underlying execution of projects. We did a lot on the first part of Hornsea 1, where it delivered the cables and also installed them. Johan Sverdrup is another one that we have finalized and the NKT Victoria have been pretty busy in the quarter despite being in a first quarter where weather conditions are pretty tough.

We continue to see a high-voltage onshore market, which is the market below 220 kilovolts. That continues to be pretty challenging with -- there are orders towards to get but it's of course impacted by the overall supply/demand situation in that segments.

On the DC qualification side, we continue to work on Cologne. We also have taken the first step into investing into selected machines that are needed to qualify DC in Cologne. And thereby, be able to supply DC cables to the corridor projects that we expect in the German market in the years to come.

Turning to Slide #8. Looking at the high-voltage order backlog. This is more or less a copycat from the presentation we had a couple of months back after the full year '17 results. Big order backlog had been reduced slightly because of execution in first quarter. And you can see the different projects that we currently have in our pipeline and we currently have under execution.

We still have the Moray East and Triton Knoll projects as preferred supplier agreements, we don't foreseen any kind of risk here on those. And that we expect them to move into the firm order backlog pretty soon.

If we then look at the development in the high-voltage market, it's probably fair to conclude that it has been impacted by some delays in projects, but we still see the long-term potential to be attractive in this business. It's a segment where visibility to you guys in the market in general is pretty high. Everybody is aware of the fact that the Viking Link project, which is the DC interconnect between Denmark and U.K., unfortunately got delayed up to 9 months that was communicated approximately months back. And I have to admit that (inaudible) is surprised to NKT and probably also to our competitors.

Another projects that we currently have is within the offshore wind market that remains more stable and is still a very attractive market. We expect here that the Hornsea 2 project will be awarded within the next couple of months. And we also expect to maintain our overall market share in that segment.

So important to mention here is that our long-term perspective of the market in general remains attractive. And that is also still backed by huge -- a large number of ongoing tenders in the market. But of course, the timing is not within our control and we expose to this.

If we then move into the Applications business, we are in -- we are reporting EUR 92 million top line with 4% organic growth. Unfortunately, we are not able to do a lot of EBITDA and debts. And looking at the comparison from the first quarter 2017, we should note that, that it's still included, the Automotive business that we've divested.

We should also note that the Q1 is seasonally a low quarter. Good thing here is that we have hedged an underlying very strong execution in the back end of the business within production, where we have seen significant better output volumes are up with 15% to 20% year-over-year. So we can conclude that we start to see the positive impact from the excellence journey and the result of having all the different production sites now obviously operated under one COO.

Of course there is (inaudible) it also requires that we can then sell it to the market with good and decent margins. We have the timing impact that I mentioned before in Sweden that is not a cancellation of orders (inaudible) market, we have 2 to 3 year very large frame contracts and they are in the segment where you have above-average margins. Those frame contracts and the call-up from those frame contracts have been delayed from first quarter into second quarter and third quarter. And we can now see in the months of April and May and June that we have a pickup in demands because the underlying need remains the same and the contractors that are doing the work is now starting to call off the cable. So we are fully in line where we need to be in these (inaudible) market.

Last year, we had a very challenging Polish market. And we can now report that we see improvements there, which is positive. And then we have also been able to start executing on the large medium-voltage train contract that we saw with EDF in France. We gave that last year that is also now started up in the last months of -- or first quarter in March. But we also expected it to positive impact in third -- second and third quarter.

If we move on to the Service & Accessories business. We are reporting a top line of EUR 30 million over EUR 14 million last year and underlying organic growth of 26% and then EBITDA of almost EUR 6 million, which is significant up over last year.

And bear in mind that this business line here is a business line that used to in the past, be included in both applications and solutions -- the service part in Solutions and the accessory parts in Applications, but that is more detail explained in the Q1 report.

The reason for why we have carved out this business line is we aim to demonstrate the potential and to make sure that we from an internal management perspective have sufficient focus on this. It is a high margin business when you are able do these repairs. And then it's a market that are in development journey, where you start to see different kind of service contract offerings to customers, in particular, customers being offshore it goes to reliable cable systems.

We will continue to develop this business, of course, we will from quarter-to-quarter be exposed to the number of realized repairs, so the organic growth will in this business line, at least in the beginning, be pretty volatile.

We also have the railway business as part of this business line. And as we have discussed during our earlier calls, we are in a process of evaluating different strategic options for that business including potential divestments.

Turning to Slide 12. The cost reduction program, we have launched that internally a few days back. We aim to take out white-collar workers in the back end of the value chain in particular in Karlskrona and Cologne, that will have a positive contribution of EUR 10 million per year, impacts from '19. There is an attached one-off expense to this of EUR 5 million and the impact in '18 will be positive but limited.

We are currently in negotiation with the Works Councils in Cologne and in Germany and Sweden. And over the coming months or so, we will have a better idea on the precise timing.

So that -- there are number of different reasons to do this. One reason is for you to adjust the cost base to procure level and future activity level in particularly into the project execution part. But it's also a question about accelerating the synergy potential in the business case we announced when we acquired ABB a year back. And also, a result of the journey that we are on driving excellence in the -- into the different functions.

We do this in order to adjust. And we have also early on communicated that we don't believe that a tough cost-reduction program is needed. Because we, as I mentioned before, still see an attractive model -- market in the years to come. If that were not the case, we would, of course, do it differently.

Then on the operational excellence journey with (inaudible) part of the strategy program. We were well aware of the fact it's now led by one COO, who joined a little bit more than a year back. And we are in the process of implementing uniform operating system across the different production factories that we have. And that should secure that we have a better potential of optimizing capacity across production sites.

We can better manage quality, and in the end, get more out of our installed capacity. This is a journey that we will be on in the coming years, so I am -- we will also be focused on this to you guys.

We are mentioning also in the report that actually smaller one-off costs that are also part of the Application business relates to this journey in the first quarter.

Another initiative that we work on is to focus on moving all back-ends functions into a shared service center. And that is now up and running in Lithuania. And we will start up with moving all the different activities that we will take over from the former ABB of organization, so bookkeeping and salary payout, et cetera, and move that from Sweden to the shared service center. And then gradually, we will then move other functions from the existing NKT organization into this office. So very positive development within this area, the last 3 months.

Integration of the ABB business is on track. And we are now realizing the potential synergies of around EUR 10 million that relates to procurement or optimization of back-end services, et cetera, et cetera. But unfortunately, we are not able really to move forward with the approximately EUR 20 million potential that relates to more volume-related activities. There we are depending on getting in more orders before we can move on executing on the remaining EUR 20 million. But the potential of realizing in total EUR 30 million remains unchanged.

So with that, I finalize the NKT part and I would like to hand over to Basil to take us through NKT Photonics. Please.

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

Thank you, Michael. Good morning. For NKT Photonics, we had a good and positive start to the year. And in the first quarter compared to Q1 of '17, our revenue increased by EUR 4.9 million, which is a 65% year-on-year increase to EUR 12.4 million. In that the organic growth was 18%. The other growth was from our acquisition of the Onefive facility in Zürich.

The performance was broad-based and it was right across all our business sectors. The business conditions in the Photonics industry remained positive and the outlooks look very good for the rest of the year.

With regards to EBITDA, the EBITDA increased by EUR 0.6 million versus the same quarter in '17. The actual underlying improvement was better than that because we had EUR 0.7 million of provisions for the long-term center program and we had additional EUR 0.8 million provisions for one-time effects.

The continued allocation of costs in getting the growth potential is also very good. We're getting more employees online, and we are rolling out a new ERP system, which should be finish with the end of this year in Q4. The quarter also saw improved conditions with regards to order intake and the order intake is 45% above the same quarter in '17. The order intake continues being active and we see that as a good indicator for the rest of the year.

And finally, on that page. The integration of our acquisition in Switzerland continues doing very well and that division is improving steadily and according to plan. We move to the next page, outline the business areas that we're in.

In Imaging & Metrology, which is our largest business sector, is 56% of our revenue. The growth came mainly from semiconductors and in life sciences market. Our large customers continued placing orders with us. And the shipments for the quarter and the rest of the year looked really good in those sectors.

In Sensing & Energy, the growth there is being driven by our fire detection equipment and in power cable monitoring. We also in the quarter won a prestigious 2018 Prism Award -- it's like the Oscars in our industry -- for LIOS EN. SURE power cable monitoring system. It's a great prestigious award that will help us with sales and revenue.

Material Processing, which is the smallest part of our revenue, which is 13% at this stage, is also -- has the largest potential. And we've seen significant growth there, specially on our ultrafast lasers and in medical applications and components for micromachining, things like cell phones and tablets, et cetera.

We move to final page, which is really the strategic priorities for NKT Photonics in 2018. These things that we've been keeping too quite religiously for the last 2, 3 years. The main one is moving up in value chain. We're doing that, that was one of a strategic reasons for acquiring the Onefive facility in Zürich, which is doing well.

The focus on organic growth, which is what we have at the moment, having acquired a couple of companies in the last 2 years, is very acute with us. We're building a base and we're seeing -- we're reaping the rewards of that organic growth. And that should continue throughout the year.

To enable that, we've worked hard on enabling our lean operations. We, as you all know, hired a new COO at the end of last year. He is moving quite well within the different divisions that we have. He is building an organization that can meet the demands, especially on delivery and capacity. And at the moment, we have setup for the rest of the year to do that.

And the final thing with fast introduction of new products. We continue doing that in our industry, that's our lifeblood. We need new products all the time. And we've released a number of new products for the year, which should ease again the revenue and the bottom line.

And with that, I pass on to Roland.

Roland M. Andersen - *NKT A/S - CFO*

Thank you, Basil. And let's just have a quick glance at the company's income statement, as already reviewed here. Organic growth in top line of 7% and 18% respectively in the 2 companies. And also the NKT stand-alone had positive organic growth in all 3 business lines. It's important to note here that the Automotive business was included. It was about EUR 11 million in the same period last year.

And in NKT, the EBITDA was driven by first of all additional 2 months of revenue from the acquired activities, and also a good performance in the service business. The EBITDA margin decrease is driven by our Applications business for Q1.

We had a few one-offs here related through integration of the former ABB HV Cables and also through implementing of the operating system in NKT. The reduction in FTEs on Google areas is primarily to sale of our Automotive business last year.

If we move through the next slide, condensed balance sheet. And what's moving the needle here is the increase in working capital from the end of December '17 to end of Q1 '18. And we'll look at that on the next slide, and that's pushing up capital employed. And also our net interest-bearing debt increases to EUR 433 million from EUR 293 million by the end of last year.

So next slide, if we look a little bit on the working capital. So working capital increased EUR 135 million from end of '17 to the end of '18. And first of all, the level by end of '17 was extraordinary low, as we also described in the annual reports. And if we have a little bit of look on our segment reporting now in the Q1 report, we can now see the development in working capital by business line. And out of the EUR 135 million, about EUR 100 million is coming from the Solutions business, and EUR 25 million from the Applications business.

And the volatility in the Solutions business is driven by a number of things. But first of all, new projects coming in, which is normally negative for working capital, but positive for us driving a negative level.

Project execution is normally reducing our working capital level or increasing it in numerical terms as we deliver or push deliver on the projects. And also a little bit of timing of the milestone payments.

And all this combines gave the fluctuation of EUR 100 million in Q1. We look at the level in solutions alone, it's about minus EUR 30 million by end of Q1 and it was about a minus EUR 113 million by end of Q4. I think the -- what we also said about the Solutions business before, normally, the Solutions business will have negative working capital, but it could fluctuate a lot between 0 and down to minus 50, minus 60. Of these projects we have, the model will convert afterwards to 0.

Now the Applications business is more -- a little bit more straightforward, we had a low sales quarter in Q1, and it's building up inventory like we also do seasonally. So that combination meant that we were building up some EUR 25 million extra in inventory that we expect to runoff in Q2 and Q3.

Yes. So let's go to the next slide that's the cash flow that was also driven by the increase in working capital. For Q1, we had a relatively low level of CapEx, no particular reason for that.

And cash flow is thereby -- net cash flow is minus EUR 14.8 million for Q1. If you go to Slide 22 and look a little bit on our net interest-bearing debt that ended at EUR 433 million by end of Q1 versus EUR 293 million by end of '17. This is also driven by the increase in working capital. We will end the quarter with a leverage ratio of 3.0 versus 1.9 by end of 2017.

And one will recall that when we split from Nilfisk, we had a pro forma debt of 340 and the leverage ratio of about 2.2x. So volatility around that number is continuously expected.

As stated in the annual report '17, the process of refinancing part of our bank debt is in process. And our medium-term target on leverage remains at about 1.5x, as we move forward.

As we jump through the next slide, as Michael already mentioned, we're reiterating our guidance for '18. And a few of the orders in Solutions needs to come in for us to deliver that. And also Photonics reiterating their guidance.

And with that, I think I'll give it over to the operator for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We can now move to our first question. It comes from Claus Almer of Nordea.

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

Yes, I have a couple of questions. The first question goes to the tendering activity within the submarine segment. In past report, a wording like, intense tendering activities have been included. As I can see that has not been repeated in this report, should we put anything into that? That will be the first question.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

No, you should not put anything into that. The tendering activity level -- the amount of tenders and then the (inaudible) that we put into that remains (inaudible). And on top of that a number of also very large new projects are assumed to answer the tendering phase, in particular in the offshore wind segment, but also in the onshore interconnect market.

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

I think, Michael, you have previously said that during the summer months, we should probably expect 2 or 3 awards should be announced, excluding the Viking Link. Is that still the case?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

I don't think it wants to exclude the Viking Link. Viking Link was the projects -- that we expected to be able, not we, but that we expected to be awarded to either us or competitors or mixed, during most likely second quarter. But you're still right that there's still a number of other projects where we expect awards in second quarter or third quarter. But the weather in summer as you mentioned, and that remains to (inaudible).

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

Okay, I just excluding Viking Link as we know that has been postponed. Okay, and then a second question, working capital, as Roland also went through, that's been a major movement in the first quarter. How should we think about working capital on a full year perspective?

Roland M. Andersen - *NKT A/S - CFO*

I think that if you look a little bit on the trends, as you can see them in our new segment reporting. Thinking about Applications, trying not between 5% and 10% of revenue in working capital, is about the volatility level, if you think about it and currently they are in the high end and plan to runoff over the next Qs. Then the Solutions business also has new orders come in, it will generate a negative working capital, i.e., positive for the company. And the Solutions business will remain in the level between 0 and down to, I don't know, minus 50, minus 60 million in working capital. So those are also the -- about the trend levels that you can deduct from the business lines.

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

Okay, something like EUR 110 million plus/minus, should we expect to reverse in the coming quarters, is that a fair assumption?

Roland M. Andersen - *NKT A/S - CFO*

It'll be between zero and minus EUR 60 million and then applications business of plus EUR 20 million to EUR 30 million. Volatile around those levels.

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

Sure. Okay, and then just a link to this your refinancing of debts. Obviously, the stock market didn't like very much the Q1 report and that could be linked to this fear of covenants on your debt. Maybe it would be interesting or it will be very interesting if you could update us on where are you when it comes to covenants? And the current 3x net debt-to-EBITDA ratio?

Roland M. Andersen - *NKT A/S - CFO*

Yes. We're not disclosing the covenants levels. And we are in the process of refinancing part of our debt with the bank group. And that's moving forward and in process. I think that's what there is to say about that. And we are not in covenant breach. If that's the question.

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

But would it be fair to assume like we've seen in the past that the amount of covenants on your debt, as we have seen in the past, is 0 or very limited...

Roland M. Andersen - *NKT A/S - CFO*

I think it will be fair to assume that certain covenants will apply to the new refinancing, once we get that in place. That's an expectation, I guess.

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

Maybe -- well, you're not trying to asking another way, but I know you have at least 3x EBITDA. Hopefully, that will go down during the year. But If you do the math on the current debt and the full year guidance, so to speak, then you are something between 3.5x or 4x EBITDA. Would that still be in line with your agreements with the banks?

Roland M. Andersen - *NKT A/S - CFO*

Yes, we don't expect to be in covenant breach.

Operator

We can now move along to our next question, it comes from Dennis Dinkelmeyer of Goldman Sachs.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

I'd like to ask a question about your and full year guidance for the NKT Cables business. You're guiding for on one -- just over EUR 1 billion in sales since standard prices this year. And your backlog now stands to roughly EUR 600 million and you're expecting half of this to be deliver this year. So simply it means that you're sort of guiding for EUR 700 million in sales from new orders this year, i.e., in for out orders this year. Given the delay of the Viking Link, we were wondering if you could provide some clarity and reassurance and where you expect these orders to come from which projects you'd expect to execute against EUR 700 million in cash flow in sales this year?

Roland M. Andersen - *NKT A/S - CFO*

Yes. Thank you for that question. Now that will be the assumption or the underlying assumption for the guidance is that we will bring in another 2 to 3 projects during this year, with 2018 impact.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Could you provide some details on which projects this may be?

Roland M. Andersen - *NKT A/S - CFO*

No, that we're not doing.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Of course not, we cannot comment on what we expect to win.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. It's just difficult to get confidence on this guidance for this year. And the associated profitability guidance for -- but I understand the business decision.

Michael Nass Nielsen - *NKT A/S - Head of IR*

If I could just add to your issue to look at the underlying Applications business, right, where the first quarter is always a very low quarter due to seasonality. And there is significant pick up in volume there in second and third quarter. So that you also need to add in to your numbers to get it right.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

This is the question regarding your guidance in the Solutions business. So that NKT business is such as the guidance of EUR 1 billion to EUR 1.1 billion. And I understand that the Viking Link is delayed but you've issued this guidance before the announcement of the delay of the Viking Link. I'm not sure if your previous assumption had in place that you were executing some of Viking Link, but potentially there's a bit of delay should cause a revisiting of the guidance? Or maybe (inaudible) about that?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

I think, internally, we're assuming to win 2 to 3 projects over the next months that will have some major impacts in order to meet the guidance. So that's true. But it's hard for us to name them, right? We can't really do that. I think...

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay, no problem. They maybe moving to a different topic. Then maybe moving to a different topic. You've previously discussed and obviously in long term and that you might sell the Photonics business, and clearly the business is performing very well. I wonder, do you had seen a pickup in the M&A demand for this particular business?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

I think we -- it's probably a question that I'm always to revoke here. But it's not currently in the making to divest Photonics. We strongly believe that, that business will develop very positively in the years to come. And then we take it from there.

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

Okay. And then the final question, as discussed previously, regarding your refinancing of your debt. In your annual report, it said roughly 580 -- EUR 590 million of your liability is that maturity with 1 year, so this year. And you've discussed your net debt level of EUR 413 million. I was wondering if you could provide any details on -- with financing. So how much are you planning to refinances here? And how much of this -- of that debt maturity are you trying to meet with your -- with the cash flow from the underlying business?

Roland M. Andersen - *NKT A/S - CFO*

I think that's a misunderstanding. We don't have EUR 600 million expiring this year, at all actually. But you know the intention is to -- sorry?

Dennis Klaus Dinkelmeyer - *Goldman Sachs Group Inc., Research Division - Research Analyst*

And in the annual report on Page 108, there's -- the maturity of your group liabilities and it says EUR 588 million, with liability of this year. And it -- this compromising of financial liabilities of EUR 560 million.

Roland M. Andersen - *NKT A/S - CFO*

But these are the provisions and liabilities and accruals -- cost accruals included. So this is not only bank debt. So that's how -- a liability note. So that's something else. But anyway, let me just add some flavor to the question. So what we're trying to do, ideally, we would like a new -- full new debt structure, as we move forward. But it's only a smaller part of our debt that falls due and needs to be refinanced. So that's what we're working on. And that's been including good focus.

Operator

We can now move along to our next question. It comes from Kristian Johansen of Danske Bank.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Just going back to the tender pipeline. Now you mention, you expect to include 2 to 3 projects within the next several months, can you just -- I don't understand, you cannot name specific projects, but can you just quantify, how many tenders of high-voltage projects do you expect to be awarded in Q2 and Q3?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

That's -- Kristian, it's extremely difficult because what you're looking for is the large projects that we -- that we typically announce to the market. And there, we historically have used a threshold of EUR 50 million to about EUR 50 million we announced them and below we do not. And there are hopefully a large number of smaller orders from EUR 10 million to EUR 20 million to EUR 30 million that will also be awarded. And those projects will also help us in the second half to meet the guidance. We also expect some significant larger projects to be awarded, for example, the offshore wind project -- wind business. That will also have a positive contribution in '18 but, of course, a more meaningful impact in '19. So you need to be aware of that. When we announced -- from announcement on -- of a project until it hits production, there is a times lag of typically 3 to 4 months' time. So here we are to a larger degree, depending on getting smaller projects. But of course, a big one where we can start production fast can also do it. And the summer projects, as we look at in our tendering pipeline whether that is small or large projects, gives us comfort with today's knowledge that we can meet our guidance.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Okay, but then just getting back through to Roland's comment on 2 to 3 projects, that includes a smaller projects, i.e., below EUR 50 million?

Roland M. Andersen - *NKT A/S - CFO*

Yes, it does.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Then if you only look at projects above EUR 50 million, can you quantify how many of those you expect to order this year.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Yes, you ask me to guess right because I strongly believe that...

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

I know there's some uncertainty but as everything...

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Yes, but with the knowledge we have to today, probably a handful of projects will be awarded this year. But I can not guarantee you that some will not slip into the next slide. It's out of my control. So what we hope that we can demonstrate is that we -- with announcement in the coming months, can indicate that the market shares we have in the different segments among others, the offshore wind will maintain where they have to be.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Okay, so roughly 5 larger projects, where obviously I assume Hornsea 2 is one of these 5 projects, that's how to see it?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

That's also in my assumption.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Good. Then sort of the along this line, obviously we saw a (inaudible) offshore wind, a fairly substantial allocation for projects. Can you just -- and in some of these projects already needs to be installed in 2 years by 2020. Can you just update us on the development on the cable side here? And when you expect the tenders to come in? And potentially whether you're already in dialogue on conditional order agreement for any of these projects?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

I pretty subscribe to the fact that when -- what you are -- some of our winning to that the Italian markets, they looks very promising in the years to come. It will not fix tomorrow, if its '19, right, it's probably impacting '20 and the years beyond that. The way we look at the market is that currently, we don't have any permanent establishment in (inaudible). We will most likely get that pretty soon. The reason for I will not have it today is because we do not limit to be strong and necessary in order to get orders. We -- the first offshore wind projects that we expect that will be executed out there, will be with the existing well-known customers, either out of Denmark or Germany. With whom, we, of course, have very close dialogue on these projects. And the understanding we have, we as an industry that the critical ailments of these projects among other the export (inaudible) will be sourced from Europe. And that is why it's, of course, a very important and relevant market for us to address, until we do whatever is necessary to assist our customers and sit close to customers on that market.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Okay, but then just for my understanding, if you're billing a win project offshore in projects in (inaudible), which is going to be completed in 2021, when will you need to start production, if you get the order?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Without having a detailed calculation behind that, but then -- and depending on when in '18 -- in '21, then we would probably need to have the order within the next 12 to 18 months or something like that. 12 months probably.

Kristian Tornøe Johansen - *Danske Bank Markets Equity Research - Senior Analyst*

Good, that's very good. And then just my last question. Looking into 2019 and the compares to utilization, despite this delay in the Viking Link project, do you still feel that there are enough order potentials so that you can reach a stage of close to full utilization of both Karlskrona and Cologne in '19?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

The Cologne is not the biggest issue here. Because as you know, we have pretty good visibility also for '19 in Cologne with the queue and order backlog. So the issue is more related to Karlskrona, as we all know. There we are working every day you have to secure orders. I think it's important here to mention that it's not because of losing orders, right? We have not lost any thing, any significant orders in the last many quarters. It's simply because of a pretty dried-up market turnkey. So we welcome getting visibility on '19. What you need to bear in mind and what is we also are somehow highlighting in our communication today is that, this is not only about the capacity utilization in Karlskrona. We basically are realizing revenue and thereby, earnings from a number of different streams. One is the throughput in the factories with the production and capacity utilization in the factory. Another one, which is also important is the installation parts. And the third one is when we do installation with Victoria. So -- and of course, if we do not have a lot to do in the second half of '18 or beginning of '19 or whatever it is in Karlskrona, then first ever is to get visibility and capacity utilization to Karlskrona. And we do feel comfortable that we are moving in that direction. But that, of course, there is a still time lag for them being able to install something, right? And hopefully also do it with Victoria. And you need to understand that the totality of the picture including to your model. And that is what we somehow are highlighting in the report today. But it all starts with getting in more orders, which is what we are working heavily on.

Operator

We can now move along to our next question, it comes from Casper Blom of ABG.

Casper Blom - *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

I would like to start by just following up a little bit on where Kristian left off. I understand there's a lot of uncertainty and things may change. But when looking into 2019 now, maybe if you could give some sort of perspective of where we may end up. As I recall, did you talk about 2017 previously as being a quite a good year with high utilization across the board pretty much. Is there a chance that 2019 could be better than '17? Or is that being too optimistic at sort of -- as things look right now? That's my first question.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

But that's what I -- that's what we just talked about, right? We will not -- we will not be able to do, with the (inaudible) we have today, we'll not be able to beat '17 and '19, fine? Simply because we do not play on the entire engine. Hopefully, we are where we need to be on the capacity utilization in Karlskrona. But the next step of the value chain, doing installation either with or without Victoria will then be the challenging part, right? And that we need to produce stock before we can install it. But, of course, we also work on different aspects because Victoria can also do installation of cables produced from competitors, right? So -- and such projects are also in the market right now. So we try to optimize '19 as much as we can. But you need to take this into account when you do your numbers.

Casper Blom - *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

Understood, very clear, Michael. And then just a follow-up on the whole balance sheet issue. When you tender with customers, how much focus do they have on your balance sheet? I mean, is it in any way a restriction for you in terms of secure new orders that you have a fairly high debt at the moment? And would you potentially consider doing, for example, write issue to fix that in a quick way?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

That I can say no to. We do not plan to do that to fix the issue you just mentioned. We don't see any issues with getting orders because of our balance sheet. And the reason for that is, of course, that we are using different instruments to give the customers this comfort, among others, of course, bank guarantees. And (inaudible) that is definitely sufficient for the customers to place orders. And then I would just like to repeat what I mentioned also before that we are not losing orders or market share in the segments that we play in. It's a result of a pretty dried-up market. And we need -- we as an industry need more orders to be placed in order to improve.

Casper Blom - *ABG Sundal Collier Holding ASA, Research Division - Lead Analyst*

Yes, understood. But I was thinking maybe, did you have to give sort of an additional discount or something like that to make customers feel comfortable? And talking about that what...

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

That is not the situation.

Operator

(Operator Instructions) We can move along to our next question, it comes from Akash Gupta of JP Morgan.

Akash Gupta - *JP Morgan Chase & Co, Research Division - Research Analyst*

I have three questions, please. My first question is on submarine business. I'm trying to understand how quickly can you start organizing revenues from new potential orders. So basically, if you can talk about delay in our late times between orders and deliveries or how quickly can you start recognizing revenues? Whether the GAAP would be 1 quarter or 2 quarter or it will be more? That's the question number one.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

And so of course, when you have a typical submarine order and I would like to use the offshore wind, as an example because that's probably where you have to show orders, the lead time. Then you are looking at a process that typically have been ongoing for a number of quarters, if not year, right? Where you have discussed a lot of issues with customers, technical specification, et cetera, et cetera, et cetera. So there are examples in the market also currently being tipper, where they need time from getting an order to start of production or engineering production is relatively short and we are hoping maybe a month or 2 months. If that answer your question. When you are either interconnect market, it's a little bit different there. You talk about slightly longer lead time. Of course, you can start up your engineering work very fast that will create a small revenue. But typical there you also have different kind of qualification tests that you need to do before you can start real production.

Akash Gupta - *JP Morgan Chase & Co, Research Division - Research Analyst*

Yes, that's very clear. And my second question is on Applications business. For this business last year, you were guiding for 7% to 9% margin. And in Q1, we had a roughly break even. So maybe if you can tell us what margin you have baked in your full year guidance for this segment, because you're saying that you're expecting to reverse some of the losses into second quarter or maybe in Q3? (inaudible)

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Yes. The applications business is the one that are being currently significantly impacted by the number of structures and initiatives that we do particular in the back end of the business where we really try to change the way we operate. And that is not a straight line, a positive development. There are small ups and downs. The first quarter result is not -- we're not satisfied with that. But it's not representing the full year guidance. And you will see a significant pickup in the coming quarters. I will not give you a precise number for what is the underlying earnings assumption. But it is a significantly better than what we did in first quarter, that's clear.

Akash Gupta - *JP Morgan Chase & Co, Research Division - Research Analyst*

But can we say you can grow margins in this business in this year? Or that's unlikely after the Q1 performance?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Year-over-year? Yes, we should be able to grow margins. Yes, we should be grow margins year-over-year.

Akash Gupta - *JP Morgan Chase & Co, Research Division - Research Analyst*

And my final question is on Sudlink, if you can provide any update on where this -- what's the latest from Germany on that?

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Yes, the -- my understanding is, from talking with the 4 different customers with whom I have frequent contract, of course, these are the projects -- developing as planned. And it is also my understanding that we should see the first probably 2 tenders out of fall. You know there are 2 -- there are 4 projects. We expect that 2 of them in tender format will hit the market pretty soon.

Operator

Thank you. We have no further questions. So at this point, I would like to hand the call back to the speakers for any additional or concluding remarks. Thank you.

Michael Hedegaard Lyng - *NKT A/S - President, CEO & Member of Executive Management Board*

Good. But then we can end this call. And with the last slide, the financial calendar conclude that we will be back in this format, discussing the Q2 report and hope you'll some order intake when we meet here the 15 of August. Thank you for dialing in.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
