

# NKT Photonics A/S

Blokken 84  
3460 Birkerød

CVR no. 10 04 82 65

## Annual report 2019

The annual report was presented and approved at the  
Company's annual general meeting on

28 May 2020

  
Mark Skriver Nielsen

chairman

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## Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of NKT Photonics A/S for the financial year 1 January – 31 December 2019.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Birkerød, 18 May 2020  
Executive Board:



Basil Garabet  
Chief Executive Officer



Mads Bodenhoff  
Chief Financial Officer

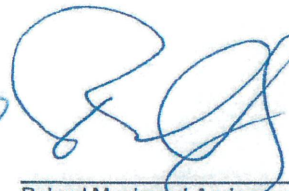
Board of Directors:



Jens Maaløe  
Chairman



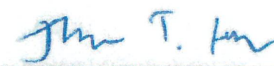
Mark Skriver Ostensen  
Nielsen



Roland Munkerød Andersen



Stig Nissen Knudsen



Thomas Torp Hansen

## Independent auditor's report

### To the shareholders of NKT Photonics A/S

#### Opinion

We have audited the financial statements of NKT Photonics A/S for the financial year 1 January – 31 December 2019 which comprise the income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's assets, liabilities and financial position at 31 December 2019 and of the results of the Company's operations for the financial year 1 January – 31 December 2019 in accordance with the Danish Financial Statements Act.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

#### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may

## Independent auditor's report

involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 18 May 2020

**Deloitte**

Statsautoriseret Revisionspartnerselskab  
CVR no. 33 96 35 56

Lars Siggaard Hansen  
State Authorised  
Public Accountant  
mne32208

Kåre Valtersdorf  
State Authorised  
Public Accountant  
mne34490

**NKT Photonics A/S**  
Annual report 2019  
CVR no. 10 04 82 65

## **Management's review**

### **Company details**

NKT Photonics A/S  
Blokken 84  
3460 Birkerød

CVR no.:	10 04 82 65
Established:	9 November 2000
Registered office:	Birkerød
Financial year:	1 January – 31 December

### **Board of Directors**

Jens Maaløe, Chairman  
Mark Skriver Ostersen Nielsen  
Roland Munkerod Andersen  
Stig Nissen Knudsen  
Thomas Torp Hansen

### **Executive Board**

Basil Garabet, Chief Executive Officer  
Mads Bodenhoff, Chief Financial Officer

### **Auditor**

Deloitte  
Statsautoriseret Revisionspartnerselskab  
Weidekampsgade 6  
2300 København S

## Management's review

### Financial highlights

DKKm	2019	2018	2017	2016	2015
<b>Key figures</b>					
Revenue	372	324	234	195	170
Gross profit	180	184	114	100	91
Operating profit/loss	88	33	-7	9	1
Loss from financial income and expenses	-1	-2	-3	-7	-4
Profit/loss before tax	87	31	-9	2	-3
Profit/loss for the year	76	24	-7	2	-2
<hr/>					
Total assets	919	759	666	416	142
Equity	102	26	1	1	0
Investment in property, plant and equipment	14	8	19	3	6
<hr/>					
<b>Ratios</b>					
Gross margin	48%	57%	49%	51%	53%
Solvency ratio	11%	3%	0%	0%	0%
<hr/>					
Average number of full-time employees	174	154	143	126	116

Financial ratios are calculated in accordance with the guidelines "Recommendations and Ratios" issued by the Danish Society of Financial Analysts. The financial ratios have been calculated as follows:

Gross margin 
$$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$$

Solvency ratio 
$$\frac{\text{Equity ex. non-controlling interests at year-end} \times 100}{\text{Total equity and liabilities at year-end}}$$

## Management's review

### Operating review

#### Principal activities

NKT Photonics' main products are light sources based on optical fibers for industrial applications and productions of fibers being part of several of the company's self-produced lasers but also sold to third parties. NKT Photonics' market focus is within medical & life science, industrial and aerospace & defense.

In Denmark, NKT Photonics manufacture fiber lasers with either a very high spectral purity or with a very wide color spectrum. Fiber lasers are used as a light sources for industrial products among others within security monitoring, seismology, spectroscopy, microscopy and light-based radar, also called LIDAR. Furthermore, the lasers are in demand in demand in research environments, e.g. for cooling atoms.

#### Development in activities and financial position

The revenue increased to DKK 371.8m from DKK 323.8m in 2018 (growth rate: 14.8%). NKT Photonics has experienced growth among existing customers, but also grown revenue through new customers. In February 2019, NKT Photonics provided an outlook of organic growth of approximately 15–20%, but fewer than anticipated larger projects towards the end of the year meant that revenue was not delivered as initially planned. In the same period the profit improved also to DKK 76.4m from DKK 24.4m in 2018, which was mainly driven by increase in revenue.

In 2019, we continued to execute our commercialization strategy that was initiated in 2017, including opening a US based production site in Boston supporting the growth in North America. As part of the continued growth of the Company a new global ERP system was launched during the summer 2019, including most production sites and sales companies in NKT Photonics. Further we ceased activities of our FIOPS activities in US without any material cost impact.

#### Intellectual capital resources

The Company's staff represent a very high level of specialized knowledge and a significant portion has been educated on a PhD level. The Company has a high technical profile and has not previously had trouble attracting employees with sufficient skills from Denmark or abroad nor do expect this to be a problem in the future. Further the combined company knowledge is anchored in procedures and business processes, which continuously are expanded and strengthened.

#### Environmental matters

NKT Photonics environmental footprint is insignificant in production terms. The principle environmental impact relates to the use of our products.

Many of our products find application in solutions aimed at improving either environmental conditions, supply of goods, personal safety or human living conditions. Examples include facilitating development of new and improved medicines and diagnosis of diseases and quality of food. Demands for greater environmental accountability, increased security and improved living conditions are thus important drivers in our business development.

#### Development activities

NKTP Photonics performs various research and development projects to improve current photonic portfolio, develop new photonic capabilities and customer specific photonic products. Further NKT Photonics also participate in various governmental supported projects.



## Management's review

### Operating review

#### Corporate social responsibility

We believe that our strong focus on sustainability and our adherence to the principles of the UN Global Compact will support our business opportunities and at the same time contribute to improved living conditions for future generations. Please read about our corporate social responsibility included in NKT Sustainability Report 2019.

<https://investors.nkt.com/static-files/e2c371b3-c46f-47e2-91c0-eb5af38973af>

#### Particular risks

##### *Interest rate risks*

As the Company is primarily financed with floating rate loans, the Company has an interest rate risk towards changes in interest rates.

##### *Currency risks*

Activities in foreign countries has an impact on earnings, cash flows and equity as these are affected by exchange rates and interest rates in a number of currencies. The Company's policy is to hedge major commercial foreign exchange risks, which is done group level by the parent company, NKT A/S.

##### *Liquidity risk including capital position:*

In 2019 the Company realized a profit of DKK 76.4m. Equity at 31 December 2019 is DKK 102.2m.

The Company's current liabilities and other provisions exceed current assets at 31 December 2019 with a total of DKK 213.5m. At 31 December 2019, the Company has a credit facility with NKT A/S in the form of long-term debt, which amounts to DKK 674m. The Company can draw up to DKK 746m on this facility. The facility is shared its subsidiaries. The maximum drawing right is based on the companies' activity plans and considered sufficient for the time being. NKT has issued a letter of support of NKT Photonics covering the next 12 months.

#### Events after the balance sheet date

The coronavirus outbreak has impacted NKT Photonics somewhat negative in Q1 2020, though first quarter is traditionally the quarter of the year with the lowest revenue, this development was still below expectations. The softening in performance compared to Q1 2019 was driven by the Industrial segment, where sales have been negatively impacted with a number of orders being postponed due to restrictions and uncertainty following the coronavirus outbreak. None of the impacted orders were cancelled.

#### Outlook

Due to the negative impact of the coronavirus outbreak to NKT Photonics in Q1 2020 and the continuation hereof into Q2 2020, particularly in the Industrial segment, it has been decided that the original outlook of organic revenue growth of approx. 5–15% and the EBITDA margin of approx. 15–18% has been withdrawn until better visibility in the markets can be established.

## Financial statements 1 January – 31 December

### Income statement

DKK'000	Note	2019	2018
<b>Revenue</b>	2	371,792	323,829
Cost for raw materials and consumables		-135,144	-118,510
Other operating income	3	6,736	48,165
Other external costs		-63,858	-69,916
<b>Gross profit</b>		179,526	183,568
Staff costs	4	-70,358	-130,683
Depreciation, amortisation and impairment losses		-21,439	-19,494
<b>Operating profit</b>		87,729	33,391
Financial income		0	275
Financial expenses	5	-926	-2,466
<b>Profit before tax</b>		86,803	31,200
Tax on profit for the year		-10,434	-6,752
<b>Profit for the year</b>	6	76,369	24,448

## Financial statements 1 January – 31 December

### Balance sheet

DKK'000	Note	31/12 2019	31/12 2018
<b>ASSETS</b>			
<b>Fixed assets</b>			
<b>Intangible assets</b>	7		
Completed development projects		4,805	8,292
Patents, licenses, trademarks and software		77,652	46,863
Development projects in progress		<u>75,882</u>	<u>56,336</u>
		<u>158,339</u>	<u>111,491</u>
<b>Property, plant and equipment</b>	8		
Land and buildings		1,095	1,460
Plant and machinery		17,246	23,541
Property, plant and equipment in progress		<u>18,330</u>	<u>6,964</u>
		<u>36,671</u>	<u>31,965</u>
<b>Investments</b>			
Equity investments in group entities	9	403,310	404,343
Deposits		<u>1,001</u>	<u>1,469</u>
		<u>404,311</u>	<u>405,812</u>
<b>Total fixed assets</b>		<u>599,321</u>	<u>549,268</u>
<b>Current assets</b>			
<b>Inventories</b>			
Raw materials and consumables		59,323	35,130
Work in progress		12,317	5,203
Finished goods and goods for resale		<u>5,465</u>	<u>6,631</u>
		<u>77,105</u>	<u>46,964</u>
<b>Receivables</b>			
Trade receivables		82,669	63,251
Receivables from group entities		142,475	81,208
Construction contracts		2,675	9,192
Other receivables		11,579	3,614
Corporation tax		423	0
Prepayments	10	<u>1,808</u>	<u>5,237</u>
		<u>241,629</u>	<u>162,502</u>
<b>Cash at bank and in hand</b>		<u>554</u>	<u>16</u>
<b>Total current assets</b>		<u>319,288</u>	<u>209,482</u>
<b>TOTAL ASSETS</b>		<u><u>918,609</u></u>	<u><u>758,750</u></u>

## Financial statements 1 January – 31 December

### Balance sheet

DKK'000	Note	31/12 2019	31/12 2018
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Contributed capital		15,200	15,200
Reserve for development costs		76,766	49,744
Retained earnings		10,205	-39,142
<b>Total equity</b>		<u>102,171</u>	<u>25,802</u>
<b>Provisions</b>			
Deferred tax	11	15,666	4,808
Other provisions	12	6,841	3,059
<b>Total provisions</b>		<u>22,507</u>	<u>7,867</u>
<b>Liabilities other than provisions</b>			
<b>Non-current liabilities other than provisions</b>			
Payables to group entities	13	674,209	584,957
Other payables		18,993	14,326
Deferred income	14	1,817	1,837
		<u>695,019</u>	<u>601,120</u>
<b>Current liabilities other than provisions</b>			
Trade payables		28,736	25,342
Payables to group entities		27,355	10,987
Other payables		41,633	75,886
Deferred income	14	1,188	11,746
		<u>98,912</u>	<u>123,961</u>
<b>Total liabilities other than provisions</b>		<u>793,931</u>	<u>725,081</u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><u>918,609</u></u>	<u><u>758,750</u></u>

## Financial statements 1 January – 31 December

### Statement of changes in equity

DKK'000	Contributed capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2019	15,200	49,744	-39,142	25,802
Reserve for development projects	0	39,366	-39,366	0
Transfers, reserves	0	-3,487	3,487	0
Tax on other equity movements	0	-8,857	8,857	0
Transferred over the profit appropriation	0	0	76,369	76,369
<b>Equity at 31 December 2019</b>	<b>15,200</b>	<b>76,766</b>	<b>10,205</b>	<b>102,171</b>

## Financial statements 1 January – 31 December

### Notes

#### 1 Accounting policies

The annual report of NKT Photonics A/S for 2019 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

The transition compared to the previous financial year from the provisions applying to reporting class C medium entities under the Danish Financial Statements Act has not resulted in changes to recognition and measurement.

#### Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of NKT A/S.

#### Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements since the financial statements of NKT Photonics A/S and its subsidiaries is fully consolidated in the consolidated financial statements of NKT A/S.

#### Recognition and measurement in general

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

#### Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Differences arising between the rates of exchange on the transaction date and on the date of payment are recognised in the income statement as financial items.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled on the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

## Financial statements 1 January – 31 December

### Notes

#### 1 Accounting policies (continued)

##### Income statement

###### Revenue

Income from the sale of goods is recognised in revenue when delivery and transfer of risk to the buyer have taken place, and the income may be measured reliably and is expected to be received.

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

###### Cost for raw materials and consumables

Cost for raw materials and consumables comprise acquisitions and change in inventory of raw materials and consumables. This includes shrinkage, waste production and any writedowns for obsolescence.

###### Other operating income

Other operating income comprises items secondary to the activities of the entity, including income from grants to cover development costs.

###### Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, etc.

###### Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees.

###### Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

###### Tax on profit for the year

The Company is covered by the Danish regulations on compulsory joint taxation of the NKT Group's Danish companies.

The Parent Company, NKT A/S, is the administrative company for the joint taxation scheme and consequently, settles all payments of corporate income tax with the tax authorities.

## Financial statements 1 January – 31 December

### Notes

#### 1 Accounting policies (continued)

The current Danish income tax is shared between the jointly taxed companies in proportion to their taxable incomes. Companies with tax losses receive joint tax contributions from companies that have been able to use these losses to reduce their own taxable incomes.

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement where it relates to the profit/loss for the year, and directly in equity where it relates to items recognised directly in equity.

### Balance sheet

#### Intangible assets

##### *Development projects*

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses as well development costs. Other development costs are recognised in the income statement as incurred.

Development costs recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Upon completion of development work, development costs are amortised on a straight-line basis over the estimated useful lives. The amortisation period is usually 4-5 years, and do not exceed 20 years.

##### *Patents, licences, trademarks and software*

Patents, licences, trademarks and software are measured at cost less accumulated amortisation and impairment losses. Patents and trademarks are amortised on a straight-line basis over the remaining life of the patent and trademark, and licences and software are amortised over the contract period, however, not exceeding 5 years.

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal.

Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.



## Financial statements 1 January – 31 December

### Notes

#### 1 Accounting policies (continued)

##### Property, plant and equipment

Buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Buildings	10 years
Plant and machinery	4-8 years
Other fixtures and fittings	4-5 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Depreciation is based on cost less estimated scrap value at the end of useful life.

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

##### Equity investments in group entities

Equity investments in group entities are measured at cost and are written down to the lower of recoverable amount and carrying amount.

To the extent that distributed dividends exceed the accumulated earnings after the acquisition date, the dividend is recognised as a reduction of the investment cost.

##### Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

## Financial statements 1 January – 31 December

### Notes

#### 1 Accounting policies (continued)

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of its useful life.

#### Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries, the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

#### Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily based on the debtors' registered offices and credit rating in accordance with the Company's credit risk management policy. The objective indicators used in relation to portfolios are determined on the basis of historical loss experience.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

#### Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

#### Cash at bank and in hand

Cash and cash equivalents comprise cash.

## Financial statements 1 January – 31 December

### Notes

#### 1 Accounting policies (continued)

##### Other provisions

Provisions comprise anticipated costs of warranties. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at value in use.

Warranties comprise obligations to make good any defects within the warranty period of 1-2 years. Provisions are recognised based on the Company's experience with warranties. Provisions expected to be maintained for more than one year from the balance sheet date are discounted at a rate reflecting risk and the due date for payment.

##### Provisions for deferred tax

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

##### Liabilities other than provisions

Other liabilities are measured at net realisable value.

##### Deferred income

Deferred income comprises advance invoicing regarding income in subsequent years.

## Financial statements 1 January – 31 December

### Notes

DKK'000	2019	2018
<b>2 Revenue</b>		
Revenue domestic	1,457	1,923
Revenue abroad	<u>370,335</u>	<u>321,906</u>
Total revenue	<u><u>371,792</u></u>	<u><u>323,829</u></u>
<b>3 Other operating income</b>		
Grants, etc.	<u>6,736</u>	<u>48,165</u>
	<u><u>6,736</u></u>	<u><u>48,165</u></u>
<b>4 Staff costs</b>		
Wages and salaries	102,561	130,261
Pensions	11,221	10,608
Other social security costs	<u>2,971</u>	<u>1,074</u>
<b>Staff costs, gross total</b>	<b><u><u>116,753</u></u></b>	<b><u><u>141,943</u></u></b>
Capitalised development costs	<u>-46,395</u>	<u>-11,260</u>
	<u><u>70,358</u></u>	<u><u>130,683</u></u>
Average number of full-time employees	<u>174</u>	<u>154</u>
Staff costs include remuneration to the Executive Board of DKK 7,359 thousand (2018: DKK 3,945 thousand).		
<b>5 Financial expenses</b>		
Interest expense to group entities	48	968
Impairment losses on financial assets	84	137
Other financial costs	<u>794</u>	<u>1,361</u>
	<u><u>926</u></u>	<u><u>2,466</u></u>
<b>6 Proposed profit appropriation</b>		
Retained earnings	<u>76,369</u>	<u>24,448</u>
	<u><u>76,369</u></u>	<u><u>24,448</u></u>

## Financial statements 1 January – 31 December

### Notes

#### 7 Intangible assets

DKK'000	Completed development projects	Patents, licenses, trademarks and software	Development projects in progress
Cost at 1 January 2019	58,866	95,238	56,336
Additions for the year	0	39,736	39,366
Disposals for the year	0	0	-19,820
Cost at 31 December 2019	58,866	134,974	75,882
Amortisation and impairment losses at 1 January 2019	-50,574	-48,375	0
Amortisation for the year	-3,487	-8,947	0
Amortisation and impairment losses at 31 December 2019	-54,061	-57,322	0
<b>Carrying amount at 31 December 2019</b>	<b>4,805</b>	<b>77,652</b>	<b>75,882</b>

#### 8 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Property, plant and equipment in progress
Cost at 1 January 2019	3,375	122,190	6,964
Additions for the year	0	2,733	11,393
Disposals for the year	0	-388	-27
Cost at 31 December 2019	3,375	124,535	18,330
Depreciation and impairment losses at 1 January 2019	-1,915	-98,649	0
Depreciation for the year	-365	-8,852	0
Reversed depreciation and impairment losses on assets sold	0	212	0
Depreciation and impairment losses at 31 December 2019	-2,280	-107,289	0
<b>Carrying amount at 31 December 2019</b>	<b>1,095</b>	<b>17,246</b>	<b>18,330</b>

## Financial statements 1 January – 31 December

### Notes

#### 9 Equity investments in group entities

DKK'000	2019
Cost at 1 January	404,362
Additions for the year	0
Disposals for the year	-1,033
Cost at 31 December	403,329
Revaluations at 1 January 2019	-19
Revaluations 31 December 2019	-19
<b>Carrying amount at 31 December 2019</b>	<b>403,310</b>

Name	Domicile	Equity	Profit/loss for the year
		DKK'000	DKK'000
NKT Photonics Technology GmbH	Cologne, Germany	9,567	1,762
NKT Photonics Inc.	New Jersey, USA	3,398	1,647
NKT (Beijing) Photonics Technical Service Co. Ltd.	Beijing, China	0	16
Fianium Holdings Ltd.	Southampton , UK	95,885	-1,295
NKT Photonics GmbH	Cologne, Germany	42,403	1,357
OneFive GmbH	Zürich, Switzerland	44,526	2,124
NKT Photonics AB	Falun, Sweden	128	3
NKTP Shenzhen	Shenzhen, China	-220	-328
		<u>195,687</u>	<u>5,286</u>

#### 10 Prepayments

These prepayments consist primarily of incurred costs relating to subsequent financial years and accrued income from funded projects.

## Financial statements 1 January – 31 December

### Notes

#### 11 Deferred tax

DKK'000	31/12 2019	31/12 2018
Deferred tax at 1 January	-4,808	1,943
Deferred tax adjustment for the year in the income statement	-18,886	-6,676
Deferred tax adjustment regarding prior year	8,028	-75
	<u>-15,666</u>	<u>-4,808</u>

Deferred tax consists primarily of tax losses carried forward from previous years which are expected to be offset against taxable profits in the calculation of taxable income for NKT Group or the Company.

#### 12 Other provisions

NKT Photonics A/S typically provides 1-2 years warranty on certain products. The Group recognised a provision of DKK 6.841 thousand (2018: DKK 3,059 thousand).

#### 13 Non-current liabilities other than provisions

Non-current liabilities other than provisions do not include any liabilities beyond 5 years' maturity.

#### 14 Deferred income

Deferred income consists primarily of income from recognition in subsequent financial years, short-term development costs, deferred income from sold warranties and accrued income from funded projects.

#### 15 Contractual obligations, contingencies, etc.

##### Contingent liabilities

NKT Photonics A/S participates in a Danish joint taxation arrangement in which NKT A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc. for the companies included in the joint taxation and also for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

##### Operating lease obligations

Rental commitments under operating lease obligations amount to DKK 13,055 thousand (2018: DKK 13,409 thousand) of which DKK 2,799 thousand is due in 2020. Upon termination of the lease until 31 December 2024, the Company has an obligation of DKK 2,785 thousand by vacating.

## Financial statements 1 January – 31 December

### Notes

#### 16 Related party disclosures

NKT Photonics A/S' related parties comprise the following:

##### Control

NKT A/S, Brøndby (100%)  
Vibeholms Allé 20  
2605 Brøndby

The Company's financial statements are fully consolidated in the consolidated financial statements of NKT A/S, respectively the smallest and largest group. The consolidated financial statements may be obtained by contacting the company on the website [www.nkt.dk](http://www.nkt.dk).

##### Ownership

The following shareholders are registered as holding more than 5% of the voting share capital or more than 5% of the nominal value of the share capital:

NKT A/S, Brøndby (100%)  
Vibeholms Allé 20  
2605 Brøndby

##### Related party transactions

In accordance with section 98 c(7) of the Danish Financial Statements Act, the Company has not disclosed any related party transactions as they were conducted on an arm's length basis.