

NKT Photonics A/S

Blokken 84
3460 Birkerød

CVR no. 10 04 82 65

Annual report 2020

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

21 May 2021

Morten Halskov
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 2020.

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

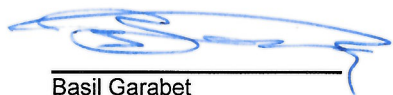
In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2020 and of the results of the Company's operations for the financial year 1 January – 31 December 2020.

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.

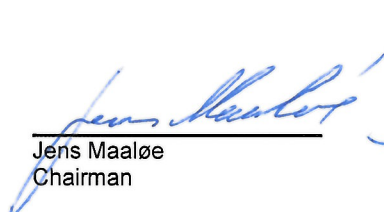
Birkerød, 21 May 2021

Executive Board:

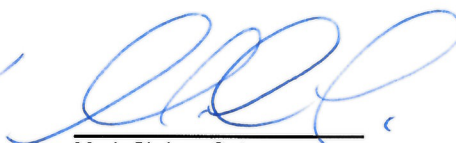


Basil Garabet
Chief Executive Officer

Board of Directors:



Jens Maaløe
Chairman



Mark Skriver Ostensen
Nielsen



Line Andrea Fandrup



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 2020, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant 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 2020 and of the results of the Entity's operations for the financial year 1 January – 31 December 2020 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 Entity 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 Entity'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 Entity 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

Independent auditor's report

- identify and assess the risks of material misstatement of the 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 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 Entity'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 Entity'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 Entity 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.

Independent auditor's report

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, 21 May 2021

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR no. 33 96 35 56

Kåre Kansonen Valtersdorf
State Authorised
Public Accountant
mne34490

NKT Photonics A/S
Annual report 2020
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
Line Andrea Fandrup
Stig Nissen Knudsen
Thomas Torp Hansen

Executive Board

Basil Garabet, Chief Executive Officer

Auditor

Deloitte
Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
DK-2300 København S
CVR no. 33 96 35 56

Management's review

Financial highlights

DKKm	2020	2019	2018	2017	2016
Key figures					
Revenue	390	372	324	234	195
Gross profit	52	180	184	114	100
Operating profit/loss	-73	88	33	-7	9
EBITDA	-38	109	53	13	24
Loss from financial income and expenses	-28	-1	-2	-3	-7
Profit/loss before tax	-101	87	31	-9	2
Total assets	953	919	759	666	416
Equity	27	102	26	1	1
Investment in property, plant and equipment	13	14	8	19	3
Ratios					
Gross margin	13%	48%	57%	49%	51%
Solvency ratio	3%	11%	3%	0%	0%
Average number of full-time employees	230	174	154	143	126

The financial ratios have been calculated as follows:

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

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 production 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 manufactures fiber lasers with either a very high spectral purity or with a very wide color spectrum. Fiber lasers are used as 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 research environments, e.g. for cooling atoms.

Development in activities and financial position

Revenue for NKT Photonics A/S increased in 2020 to DKK 390 million from DKK 372 million in 2019 (growth rate: 4.8%). However, revenue for the NKT Photonics Group decreased to EUR 69.9 million in 2020 against EUR 74.6 million in 2019, corresponding to organic growth of a negative 6%. Revenue performance was adversely influenced by the COVID-19 pandemic, particularly during the first half of 2020.

Gross profit was negatively affected in 2020 compared to 2019, by a higher level of IPC and higher production costs from the subsidiaries that supply products and sub-assemblies to NKT Photonics A/S for use in the production and for resale.

Operating profit was further negatively impacted in 2020 compared to 2019, due to an increase in level of FTEs, reversal of bonus accruals in 2019 and full year impact from depreciation of the ERP system in 2020.

NKT Photonics has pursued its strategic direction to grow the business and increase profitability by prioritising focus on commercialization over focus predominantly centred on scientific markets. NKT Photonics will continue to pursue commercialisation of solutions and technologies in the years ahead to sustain further growth.

Intellectual capital resources

As a high-technological company, attracting talents and highly skilled employees is essential to NKT Photonics. To ensure an attractive working environment, NKT Photonics encourages diversity in the organisation and promotes gender equality without compromising on qualifications in terms of professional skills and personal competencies. Furthermore, NKT Photonics does not tolerate any form of harassment or discrimination as described in the Code of Conduct.

Environmental matters

With a long-term perspective of supporting the transition to renewable energy and improving human health and safety, NKT Photonics is committed to working for a sound environment through sustainable business practices. To ensure this, the majority of the Company's products are manufactured in accordance with regulations such as the RoHS directive, which restricts the use of hazardous substances in electronic and electrical equipment. Part of the product portfolio is furthermore dedicated to drive efficient integration of renewable energy with sensing systems monitoring the performance in the global power grid.

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 participates 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 the NKT Sustainability Report 2020.

<https://investors.nkt.com/static-files/497df69c-1439-4bae-8367-a820dadbb6f9>

Particular risks

Interest rate risk

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

Currency risks

Activities in foreign countries have 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 at group level by the Parent Company, NKT A/S.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Outlook

The organic revenue growth is expected to be approx. 0-10%, and the EBITDA margin is expected to be approx. 3-7%. The financial outlook is subject to high uncertainty given the unknown development of the COVID-19 pandemic, which impacted some parts of the market negatively in 2020. The pandemic is expected to continue impacting the market in 1st half 2021, while a more normalized market picture being anticipated later in the year.

The forecasted positive revenue development is assumed to be driven by the Medical & Life Science segment with product launches and an anticipated attractive market development. In Industrial and Aerospace & Defence, more moderate growth is expected. Industrial particularly was impacted by the COVID-19 pandemic in 2020 that weakened market demand, and the pandemic is also expected to slow down parts of the market in 2021.

As in previous years, the largest earnings contribution is expected to be generated in Q4.

Financial statements 1 January – 31 December

Income statement

DKK'000	Note	2020	2019
Revenue	2	389,909	371,792
Cost of goods sold		-287,456	-135,144
Other operating income	3	9,037	6,736
Other external costs		-59,599	-63,858
Gross profit		51,891	179,526
Staff costs	4	-88,931	-70,358
Depreciation, amortisation and impairment losses		-35,212	-21,439
Other operating costs		-586	0
Operating profit/loss		-72,838	87,729
Financial income		855	0
Financial expenses	5	-29,264	-926
Profit/loss before tax		-101,247	86,803
Tax on profit/loss for the year		26,479	-10,434
Profit/loss for the year	6	-74,768	76,369

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2020	31/12 2019
ASSETS			
Fixed assets			
Intangible assets	7		
Completed development projects		60,107	4,805
Patents, licenses, trademarks and software		79,705	77,652
Development projects in progress		51,635	75,882
		<u>191,447</u>	<u>158,339</u>
Property, plant and equipment	8		
Land and buildings		730	1,095
Plant and machinery		33,403	17,246
Property, plant and equipment in progress		4,012	18,330
		<u>38,145</u>	<u>36,671</u>
Investments	9		
Equity investments in group entities		403,310	403,310
Deposits		1,014	1,001
		<u>404,324</u>	<u>404,311</u>
Total fixed assets		<u>633,916</u>	<u>599,321</u>
Current assets			
Inventories			
Raw materials and consumables		40,777	59,323
Work in progress		18,363	12,317
Finished goods and goods for resale		6,892	5,465
		<u>66,032</u>	<u>77,105</u>
Receivables			
Trade receivables		84,080	82,669
Receivables from group entities		147,360	142,475
Construction contracts		0	2,675
Other receivables		4,456	11,579
Corporation tax		16,609	423
Prepayments	10	791	1,808
		<u>253,296</u>	<u>241,629</u>
Cash at bank and in hand		<u>16</u>	<u>554</u>
Total current assets		<u>319,344</u>	<u>319,288</u>
TOTAL ASSETS		<u>953,260</u>	<u>918,609</u>

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	31/12 2020	31/12 2019
EQUITY AND LIABILITIES			
Equity			
Contributed capital		15,200	15,200
Reserve for development costs		97,514	76,766
Retained earnings		-85,311	10,205
Total equity		<u>27,403</u>	<u>102,171</u>
Provisions			
Deferred tax	11	5,791	15,666
Other provisions	12	5,131	6,841
Total provisions		<u>10,922</u>	<u>22,507</u>
Liabilities other than provisions			
Non-current liabilities other than provisions			
Payables to group entities	13	734,290	674,209
Other payables		14,441	18,993
Deferred income		1,088	1,817
		<u>749,819</u>	<u>695,019</u>
Current liabilities other than provisions			
Prepayments received from customers		8,429	0
Trade payables		29,689	28,736
Payables to group entities		89,691	27,355
Other payables		35,136	41,633
Deferred income	14	2,171	1,188
		<u>165,116</u>	<u>98,912</u>
Total liabilities other than provisions		<u>914,935</u>	<u>793,931</u>
TOTAL EQUITY AND LIABILITIES		<u>953,260</u>	<u>918,609</u>
Contractual obligations, contingencies, etc.	15		
Related party disclosures	16		

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 2020	15,200	76,766	10,205	102,171
Reserve for development projects	0	56,284	-56,284	0
Transfers, reserves	0	-23,154	23,154	0
Tax on other equity movements	0	-12,382	12,382	0
Transferred over the distribution of loss	0	0	-74,768	-74,768
Equity at 31 December 2020	15,200	97,514	-85,311	27,403

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of NKT Photonics A/S for 2020 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

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 are fully consolidated into 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 write-downs 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.

Other operating costs

Other operating costs comprise items secondary to the activities of the entity, including losses on the disposal of intangible assets and property, plant and equipment.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

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.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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 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.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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 as well as the maintenance of depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

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.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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	<u>2020</u>	<u>2019</u>
2 Revenue		
Revenue domestic	1,038	1,457
Revenue abroad	<u>388,871</u>	<u>370,335</u>
Total revenue	<u><u>389,909</u></u>	<u><u>371,792</u></u>
3 Other operating income		
Grants, etc.	<u>9,037</u>	<u>6,736</u>
	<u><u>9,037</u></u>	<u><u>6,736</u></u>
4 Staff costs		
Wages and salaries	109,090	102,561
Pensions	12,916	11,221
Other social security costs	8,368	2,971
Capitalised development costs	<u>-41,443</u>	<u>-46,395</u>
	<u><u>88,931</u></u>	<u><u>70,358</u></u>
Average number of full-time employees	<u><u>230</u></u>	<u><u>174</u></u>
<p>Staff costs include remuneration to the Executive Board of DKK 13,071 thousand (2019: DKK 7,359 thousand).</p>		
5 Financial expenses		
Interest expense to group entities	18,109	48
Impairment losses on financial assets	0	84
Other financial costs	<u>11,155</u>	<u>794</u>
	<u><u>29,264</u></u>	<u><u>926</u></u>
<p>Increase in interest expenses is mainly related to higher level of interest level on the bank overdraft facilities from the parent company NKT Group. Increase in other financial costs is mainly related to unrealized exchange losses from balances with other NKT Photonics companies.</p>		
6 Proposed profit appropriation/distribution of loss		
Retained earnings	<u><u>-74,768</u></u>	<u><u>76,369</u></u>

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7 Intangible assets

DKK'000	Completed development projects	Patents, licenses, trademarks and software	Development projects in progress	Total
Cost at 1 January 2020	58,866	134,974	75,882	269,722
Additions for the year	0	14,833	41,451	56,284
Disposals for the year	-2,059	-4,040	0	-6,099
Transfers for the year	65,698	0	-65,698	0
Cost at 31 December 2020	122,505	145,767	51,635	319,907
Amortisation and impairment losses at 1 January 2020	-54,061	-57,322	0	-111,383
Amortisation for the year	-10,389	-12,765	0	-23,154
Reversed amortisation and impairment losses on assets sold	2,052	4,025	0	6,077
Amortisation and impairment losses at 31 December 2020	-62,398	-66,062	0	-128,460
Carrying amount at 31 December 2020	60,107	79,705	51,635	191,447

8 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Property, plant and equipment in progress	Total
Cost at 1 January 2020	3,375	124,535	18,330	146,240
Additions for the year	0	7,850	5,557	13,407
Disposals for the year	0	-29,761	0	-29,761
Transfers for the year	0	19,875	-19,875	0
Cost at 31 December 2020	3,375	122,499	4,012	129,886
Depreciation and impairment losses at 1 January 2020	-2,280	-107,289	0	-109,569
Depreciation for the year	-365	-11,568	0	-11,933
Reversed depreciation and impairment losses on assets sold	0	29,761	0	29,761
Depreciation and impairment losses at 31 December 2020	-2,645	-89,096	0	-91,741
Carrying amount at 31 December 2020	730	33,403	4,012	38,145

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9 Equity investments in group entities

Cost at 1 January 2020	403,329
Cost at 31 December	403,329
Revaluations at 1 January 2020	-19
Revaluations 31 December 2020	-19
Carrying amount at 31 December 2020	403,310

Name	Ownership %	Domicile	Result for the	Equity
			year	
			DKK'000	DKK'000
NKT Photonics Technology GmbH	100	Köln, Germany	1,217	10,771
NKT Photonics Inc.	100	New Jersey, USA	1,727	7,100
NKT Photonics Ltd.	100	Southampton UK	512	60,892
NKT Photonics GmbH	100	Cologne	-13,826	28,520
OneFive GmbH	100	Zurich, Switzerland	2,603	49,719
NKT Photonics AB	100	Falun, Sweden	447	2,088
NKTP Shenzhen	100	Shenzhen, China	-2,238	-3,871
Advance Laser Diode Systems A.L.S GmbH	100	Berlin, Germany	2	1,023
			-9,556	156,242

10 Prepayments

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

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11 Deferred tax assets

DKK'000	31/12 2020	31/12 2019
Deferred tax at 1 January	-15,666	-4,808
Deferred tax adjustment for the year in the income statement	9,875	-18,886
Deferred tax adjustment regarding prior year	0	8,028
	<u>-5,791</u>	<u>-15,666</u>

Deferred tax consists primarily of tax loss carryforwards 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 5,131 thousand (2019: DKK 6,841 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, 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 dividends for the jointly taxed companies.

Operating lease obligations

Rental commitments under operating lease obligations amounts to DKK 14,050 thousand (2019: DKK 13,092 thousand), of which DKK 6,529 thousand falls due in 2021 and DKK 7.520 thousands within 2022 and 2023.

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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 into 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.

Ownership

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