

NKT Cables Group A/S

Vibeholms Allé 20
2605 Brøndby
Denmark

CVR no. 15 51 58 72

Annual report 2018

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

24 May 2019

Morten Bang
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 Cables Group A/S for the financial year 1 January – 31 December 2018.

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 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Brøndby, 24 May 2019
Executive Board:

Morten Bang
Director

Roland Munkerod Andersen
Director

Board of Directors:

Jens Peter Due Olsen
Chairman

Morten Bang

Michael Chino Hjorth

Independent auditor's report

To the shareholder of NKT Cables Group A/S

Opinion

We have audited the financial statements of NKT Cables Group A/S for the financial year 01.01.2018 - 31.12.2018, which comprise the income statement, balance sheet 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 financial position at 31.12.2018 and of the results of its operations for the financial year 01.01.2018 - 31.12.2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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 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 as 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, for disclosing, as applicable, matters related to going concern, and for 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 about 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 applicable in Denmark will always detect a material misstatement when it exists. Misstatements can 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 taken 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 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.

Independent auditor's report

- 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 content of the financial statements, including the disclosures in the notes, 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 commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary 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 commentary.

Copenhagen, 24 May 2019

Deloitte

Statsautoriseret Revisionspartnerselskab

CVR no. 33 96 35 56

Lars Siggaard Hansen
State Authorised
Public Accountant
mne32208

NKT Cables Group A/S
Annual report 2018
CVR no. 15 51 58 72

Management's review

Company details

NKT Cables Group A/S
Vibeholms Allé 20
2605 Brøndby
Denmark

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Fax: +45 4396 1820
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E-mail: nktcables@nktcables.com

CVR no.: 15 51 58 72
Established: 1 October 1991
Registered office: Brøndby
Financial year: 1 January – 31 December

Board of Directors

Jens Peter Due Olsen, Chairman
Morten Bang
Michael Chino Hjorth

Executive Board

Morten Bang, Director
Roland Munkerod Andersen, Director

Auditor

Deloitte
Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S
Denmark

Management's review

Operating review

Principal activities

NKT Cables Group A/S serves as holding company for the Group's activities and undertakes the tasks related thereto.

Development in activities and financial position

General:

The financial statements cover investments in the subsidiaries NKT (Denmark) A/S, NKT (Sweden) AB, nkt cables group GmbH, nkt cables s.r.o., nkt cables Espana SL, nkt cables Ultera a/s, nkt cables Australia Pty Ltd and Unique Vantage Ltd, along with their subsidiaries.

Income statement:

No dividend has been received in 2018.

Investments in subsidiaries:

During 2018 NKT established a Shared Service Center providing various administrative services to group companies. A new company is established in Lithuania to serve the purpose.

Equity:

No dividend was paid to the parent company NKT Holding in 2018 and no dividend is proposed for the 2018 financial year.

Segment and market overview

NKT is organized in three business lines: Solutions, Applications, and Service & Accessories. These business lines are supported by global functions: Finance, Human Resources, Operations, and Technology.

Solutions:

The Solutions business line comprises high-voltage solutions. NKT provides a broad range of solutions for offshore and onshore power transmission and can supply both AC and DC power cables. With support of key production assets, NKT can offer customers complete and customized end-to-end turnkey solutions, including full installation services.

NKT has two high-voltage production facilities, in Cologne and Karlskrona, located close to the important north European market and also provide a global reach. The production sites are key strengths for NKT as a leading player in the offshore wind and interconnector segments. They are supported by an inhouse offshore competence and logistics centre in Rotterdam, and a dedicated cable-laying vessel, NKT Victoria.

Applications:

The Applications business line offers customers a broad range of low- and medium-voltage power cables. NKT markets high-quality products that conform to regulatory requirements for flame-retardant material and has developed ergonomic solutions that are easy to install. Telecom power cables are also developed and marketed.

NKT holds leading positions in several north and east European markets. In its Applications activities, NKT utilizes six main production sites situated in the Czech Republic, Denmark, Germany, Poland, and Sweden. Opportunities are continuously pursued to optimize the production network to facilitate flexible production and increase utilization and profitability.

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Service & accessories:

This latest established business line focuses on services for onshore and offshore power cables. In addition, a full portfolio of power cable accessories is offered across medium- and high-voltage categories. The Service business focuses on high-voltage power cables. These generally require limited maintenance, but incidents will occur as a result of external damage, such as anchor drag, excavation works, or other incidents. To avoid incidents and shorten the potential downtime of power cables, solutions to monitor and react fast are in demand. NKT has service teams located in Denmark, Germany and Sweden. Accessories are critical components in any power cable system. In the high-voltage market, the technological competence possessed by NKT is key as only a limited number of suppliers can match the numerous requirements that accessories must meet for reliable and consistent performance. NKT is able to provide the market with both AC and DC accessories based on three production sites in Germany and Sweden.

High-voltage power cable market (Solutions)

High-voltage power cables address a global market and it is typically complex projects and solutions that call for ongoing investment in R&D. The solutions are "engineered-to-order" and have attractive earnings margins, but higher risk profile on project execution. The number of project awards in the market can be volatile and thereby have a significant impact on earnings in individual years.

The high-voltage segment has differing characteristics depending on technological solution and can be divided into two categories based on the market dynamics: 1) High-voltage DC offshore/onshore and AC offshore, and 2) High-voltage AC onshore.

1) This market primarily consists of projects related to interconnector and offshore wind projects, where high-voltage cables are required to transport large power volumes. The two main growth drivers are the global transition towards greener energy sources such as wind power, and the political agenda to improve interconnection of power grids between countries to create better balance between demand and supply in the power market and ensure a high level of transmission security.

2) This market covers land-based power cable projects with voltage levels above 72kV. The number of market players is higher than for the high-voltage AC offshore and DC segments, leading to different competitive dynamics. The market is driven by a combination of factors, such as continued urbanization, the shift towards renewable power generation and the associated requirement for grid extension, as well as grid reinforcement. In some areas, the trend towards increasing use of underground cables also creates market demand.

Market improved in 2nd half 2018:

The trend in 2017, with relatively few high-voltage DC offshore/onshore and AC offshore projects awarded in the market, continued into 1st half 2018. The market was impacted by postponement of large interconnector projects. While there were no material cancellations, some projects were postponed among others due to political decisions and for legal approval and permit reasons. The market improved in 2nd half 2018 with several large project awards to NKT and across the industry.

NKT estimates that project awards in the relevant high-voltage market (projects larger than EUR 5m) amounted to approx. EUR 3bn in 2018. In 2017, the market size was estimated to be approx. EUR 1.2bn. Market conditions at the lower end of the high-voltage AC onshore market were unsatisfactory in 2018, with continued imbalance between supply and demand. However, the high end of this market was characterized by greater stability.

Market outlook remains attractive:

NKT views the outlook for the high-voltage market as attractive in the medium- to long-term. This perspective is primarily based on more mature European markets, but also the potential that resides in less developed offshore wind markets such as the US and Taiwan. Tender activity is in progress on a number of projects across geographies and market segments.

Currently, the market view from NKT is that the value of new high-voltage project awards in 2019 will be at least on par with the level in 2018. This is based on the ongoing progress of a number of projects. The

Management's review

Operating review

potential project awards are expected to be across the interconnector, offshore wind, and oil & gas segments.

Although the timing of new project awards, particularly in the interconnector market, is subject to uncertainty, these anticipated projects are expected to make the supply and demand situation more balanced.

Low- and medium-voltage power cable market (Applications)

In the low- and medium-voltage segments, the market includes less complex products in a regional landscape with a more competitive environment. These products will typically be “made-to-stock” with differentiated designs from country to country. The demand is more correlated with the general macroeconomic development compared to the project-driven high-voltage market.

The market can be separated into two categories with different characteristics: 1) Medium-voltage and 2) Low-voltage

1) The power distribution network is connected by medium-voltage cables. The market is driven by ongoing grid maintenance, replacement of ageing infrastructure, and the trend towards underground power cables instead of overhead lines. The gradual transition towards greater reliance on renewable energy is also benefitting this market.

2) The drivers in the market for low-voltage power cables and building wires are primarily the demand from the construction industry as well as the need for further electrification of cities due to increased urbanization. The enforcement of the EU Construction Products Regulation (CPR), introduced in July 2017, has provided the market with improved fire resistant cables.

Mixed market development in 2018:

In 2018, conditions in the low- and medium-voltage market in northern and eastern Europe were generally as expected. The Swedish medium-voltage market was negatively impacted by weather-related underground cable installation challenges and restrictions, and in Germany onshore wind activity was lower. Conversely, the Czech, Polish and UK markets delivered healthy growth rates in 2018.

Growth to remain modest:

The European markets in the low- and medium-voltage segments are expected to deliver annual volume growth of around 2% from 2018 to 2020.

In the markets relevant for NKT, the expectation is that higher tax revenues will allow for increased civil engineering investments in public construction, transport networks and other infrastructure projects.

Geographically, the markets in eastern Europe are expected to grow at a faster pace than more developed markets like Denmark, Germany and Sweden.

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Service & Accessories markets

The market for servicing power cables is relatively immature and the power cable owners differ in their approach. The competitive landscape among service providers is therefore diverse, with different companies offering various solutions. However, as power cable failures can be costly for the power cable owners and operators of both off- and onshore power cables, the interest in establishing service agreements is increasing.

The customers are increasingly demanding services that will help them improve power cable efficiency and solutions that can help predict, prevent and mitigate power cable failures. And if an incident does occur, power cable operation must be restored as fast as possible.

In light of the above, the Service market is expected to see attractive growth in the years ahead, driven by the installation of further power cables both off- and onshore in line with the megatrends driving the power cable market.

As accessories are necessary components of power cable systems, the market for these products will be closely tied to that for medium- and high-voltage power cables. As with power cables, competitive pressure is greatest at the lowest voltage levels due to the increasing complexity of accessories for higher voltage application.

Strategic initiatives

The strategic journey has been challenging

Since 2015, EXCELLENCE 2020 has provided the strategic roadmap for NKT. Certain elements of the strategy have proved more difficult to implement than initially expected and some have been introduced too early. As a result, initiatives will be reprioritized to support near-term profitability.

As part of the strategy, NKT acquired ABB HV Cables in March 2017 to establish a leading position in the global high-voltage market and a strong platform for participation in the future project pipeline in this segment.

During 2016 and 2017, NKT divested a number of non-core activities. In 2018, NKT announced the divestment of its railway business to further strengthen the focused market approach. The divestment was completed in February 2019.

Must-win battles

During 2018, NKT continued to execute on the four cross-organizational must-win battles as part of the strategic roadmap.

Safety, People and Organization:

Improved working environment, an agile, engaged workforce, a leaner organization and excellent management and leadership skills.

In 2018, focus was placed on standardizing processes and securing the benefits following the introduction of the new organizational structure in 2017. The transition to three business lines – Solutions (high-voltage), Applications (low- and medium-voltage) and Service & Accessories – supported by global functions – Operations, Technology, Finance and HR – has been completed.

The functions designated in 2017, such as Supply Chain, Lean, QHSE (Quality, Health, Safety, Environment), Commercial Excellence, Procurement and R&D, are in place, but the results of these functions have not yet been harvested. Importantly, however, the focus on safety, which is a core value for NKT, has led to a reduction in LTAs (Lost Time Accidents) from 31 in 2017 to 18 in 2018.

In 2018, a new shared service centre was set up in Lithuania to streamline financial processes and create a leaner and more efficient structure. A similar step has been taken in 2019 with creation of a centralized customer service centre to deliver consistent high-quality service performance.

In May 2018, NKT announced a cost base reduction mainly by adjusting its white-collar organization. This was driven by the low level of activity in the high-voltage market in 2017 and 1st half 2018, and the desire

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to further accelerate acquisition synergies. This is followed up in February 2019 with a cost programme including reduction of an additional approx. 8% of the the white-collar organization.

Operational and Commercial Excellence:

Strive for leaner and more efficient operations by implementing e.g. lean production and supporting functions, obtain best-in-class sales capabilities, review and improve product offerings.

Throughout 2018, NKT has focused on optimizing the link between its operational and commercial functions in order to improve the relationship between production locations, supply chain and customer lead time. As part of this, NKT rationalized its Applications product portfolio in 2018, reducing its assortment by almost 25%.

In order to minimize customer lead times and increase production output NKT has focused on improving its manufacturing capabilities. In 2018, a new operating system was tested on certain production sites to optimize production flow to increase capacity utilization.

During 2018, maintenance of NKT machinery and equipment was outsourced at all production sites. The aim is to increase management attention on production and to realize savings through further professionalizing of the maintenance setup.

The implementation of initiatives has been more difficult than expected and had a negative impact on profitability. This was particularly evident in regard to the Applications business, and therefore a more focused implementation approach will now be introduced with focus on execution and near-term profitability.

Material and Product Development:

Development based on customer needs, e.g. proactive and systematic portfolio management, and differentiation from competitors, e.g. in use of compound material.

Innovation is key for NKT in a competitive environment in order to provide customers with more efficient solutions. The establishment of a strengthened R&D function is an important enabler to stay among the technological leaders in the power cable industry. More than 120 R&D engineers, supported by modern testing facilities, are dedicated to supplying customers with tailored, high-quality and cost-efficient solutions.

During 2018, NKT continued its work to improve power cable design, with the development of more efficient, largedimension aluminium conductors. NKT is engaged in ongoing initiatives to develop next-level AC and DC power cables based for example on different materials and offering reduced power loss. NKT is in the process of testing and qualifying its Cologne facility for DC cable production according to international standards. This will improve production planning flexibility between Cologne and Karlskrona. In 2018, an experienced Chief Technology Officer joined NKT and became part of the Group Leadership Team.

Digitalization:

Optimization of internal production processes and customer service interfaces.

The company's digital hub function in Berlin was strengthened in 2018 to explore new business and service models.

The first digitalization projects have been initiated and the first product commercialization will be realized in 2019. As its first commercial project, NKT has released a digital tracking solution for cable drums, TrackMyDrum to enable smarter handling of cable drums.

NKT is currently implementing a uniform IT production platform to improve data transparency and process automation across factories and geographical markets. The first phase of the IT roll-out is scheduled for completion in 2019 and will provide key support for the global supply chain function throughout the company.

Events after the balance sheet date

The Management is not aware of any other subsequent matters that could be of material importance to the Group's financial position.

Management's review

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Diversity

NKT Cables Group A/S is firmly committed to equality of treatment for all employees regardless of gender, age or nationality and specific actions have been initiated to increase the share of leaders of the underrepresented gender in senior management. This is outlined in the Diversity and Inclusion Policy of the parent company, NKT A/S, also applicable for NKT Cables Group A/S.

At board level a target representation of 30% for 2019, has been set for the underrepresented gender among members elected at the Annual General Meeting.

Financial statements 1 January – 31 December

Income statement

EUR'000	Note	2018	2017
Gross profit/loss		6,501	-15,450
Staff costs	2	-14,560	-6,595
Depreciation, amortisation and impairment losses		-122	-2,890
Operating profit/loss		-8,181	-24,935
Income from equity investments in group entities		0	-10,990
Financial income	3	48	199
Financial expenses	4	-2,097	-4,484
Profit/loss before tax		-10,230	-40,210
Tax on profit/loss for the year	5	2,328	2,199
Profit/loss for the year		-7,902	-38,011
Proposed distribution of loss			
Retained earnings		-7,902	-38,011

Financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	31/12 2018	31/12 2017
ASSETS			
Fixed assets			
Intangible assets	6		
Software		<u>794</u>	<u>0</u>
Property, plant and equipment	7		
Land and buildings		543	0
Property, plant and equipment under construction		0	718
Fixtures and fittings, tools and equipment		<u>357</u>	<u>0</u>
		<u>900</u>	<u>718</u>
Investments	8		
Equity investments in group entities		755,842	755,742
Receivables from group entities		<u>0</u>	<u>0</u>
		<u>755,842</u>	<u>755,742</u>
Total fixed assets		<u>757,536</u>	<u>756,460</u>
Current assets			
Receivables			
Trade receivables		442	445
Receivables from group entities		36,606	16,255
Other receivables		285	241
Deferred tax asset		6,253	7,070
Prepayments		<u>334</u>	<u>22</u>
		<u>43,920</u>	<u>24,033</u>
Cash at bank and in hand		<u>2,041</u>	<u>664</u>
Total current assets		<u>45,961</u>	<u>24,697</u>
TOTAL ASSETS		<u>803,497</u>	<u>781,157</u>

Financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	<u>31/12 2018</u>	<u>31/12 2017</u>
EQUITY AND LIABILITIES			
Equity			
Contributed capital	9	26,939	26,939
Retained earnings		<u>172,189</u>	<u>180,091</u>
Total equity		<u>199,128</u>	<u>207,030</u>
Liabilities			
Current liabilities other than provisions			
Trade payables		1,380	17,019
Payables to group entities		597,963	555,325
Other payables		<u>5,026</u>	<u>1,783</u>
		<u>604,369</u>	<u>574,127</u>
Total liabilities		<u>604,369</u>	<u>574,127</u>
TOTAL EQUITY AND LIABILITIES		<u>803,497</u>	<u>781,157</u>
Contractual obligations, contingencies, etc.	10		
Related party disclosures	11		

Financial statements 1 January – 31 December

Statement of changes in equity

EUR'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2018	26,939	180,091	207,030
Transferred over the distribution of loss	0	-7,902	-7,902
Equity at 31 December 2018	26,939	172,189	199,128

Financial statements 1 January – 31 December

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1 Accounting policies

The annual report of NKT Cables Group A/S for 2018 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-in of specific provisions for reporting class C.

The financial statements are presented in EUR.

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

Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of NKT Cables Group A/S and group entities are included in the consolidated financial statements of NKT A/S, Vibeholms Allé 20, 2605 Brøndby, CVR no. 62725214.

Recognition and measurement

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 recognized in the income statement as financial items.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at 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

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Company's primary activities, including management fees, rental income and gains from the sale of intangible assets and property, plant and equipment.

Other external expenses

Other external expenses include expenses relating to the Company's ordinary activities.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for the Company's staff.

Impairment of fixed assets

Impairment of financial assets comprises impairment of investments in subsidiaries.

Financial income

Financial income comprises dividends etc received from other investments, interest income, including interest income from receivables from group enterprises, currency gains as well as tax relief under the Danish on-account tax scheme, etc.

Financial expenses

Financial expenses comprise interest expenses, including interest expenses from payables to group enterprises, currency losses as well as tax surcharge under the Danish on-account tax scheme, etc.

Income taxes

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, serves as the administrative company in a joint taxation arrangement 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 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 by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

Intellectual property rights, etc. includes ongoing and completed development projects and software with associated intellectual property rights, acquired intellectual property rights and prepayments for intangible fixed assets.

Clearly defined and identifiable development projects for which the technical feasibility, adequacy of resources and a potential market or internal utilisation can be demonstrated, and where it is intended to manufacture, market or utilise the project, are recognised in intangible assets, provided the costs can be reliably determined and there is adequate certainty that the future earnings or the net selling price can cover costs of raw materials, consumables and goods for resale, staff costs, other costs and amortisation, and also the development costs. Other development costs are expensed in the income statement as incurred.

Capitalised development projects are measured at cost less accumulated amortisation and impairment losses. The cost includes wages, amortisation and other costs relating to the Company's development activities.

Intangible assets are amortised on a straight-line basis over the expected useful life which is:

Software	5 years
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On completion of the development work, development projects are amortised on a straight-line basis over their estimated useful life from the date the asset is available for use. The basis of amortisation is reduced by impairment losses.

Property, plant and equipment

Land and buildings 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.

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	10-25 years
Fixtures and fittings, tools and equipment	4-8 years

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

Land is not depreciated.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Fixed assets under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

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.

Investments in group entities

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

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

Deferred tax

Deferred tax is measured according to the balance-sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Where alternative taxation rules can be applied to determine the tax base, deferred tax is measured according to Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss allowed for carry forward, are recognized under other non-current assets at the expected value of their utilization, either as a set-off against tax on future income or by set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is adjusted for elimination of unrealized intragroup profits and losses.

Deferred tax is measured according to the taxation rules and taxation rates in the respective countries applicable at the balance sheet date when the deferred tax is expected to crystallize as current tax.

Income tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash

Cash comprises cash in hand and bank deposits.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually correspond to nominal value.

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EUR'000	<u>2018</u>	<u>2017</u>
2 Staff costs		
Wages and salaries	13,366	6,050
Pensions	1,157	534
Other	<u>37</u>	<u>11</u>
	<u>14,560</u>	<u>6,595</u>
Average number of full-time employees	<u>76</u>	<u>34</u>
3 Financial income		
Interest income from group entities	48	162
Other financial income	<u>0</u>	<u>37</u>
	<u>48</u>	<u>199</u>
4 Financial expenses		
Interest expense to group entities	2,074	4,483
Other financial costs	<u>23</u>	<u>1</u>
	<u>2,097</u>	<u>4,484</u>
5 Tax on profit/loss for the year		
Current tax for the year	-1,502	-86
Deferred tax for the year	-994	-2,113
Adjustment of tax concerning previous years	-1,643	0
Adjustment of deferred tax concerning previous years	<u>1,811</u>	<u>0</u>
	<u>-2,328</u>	<u>-2,199</u>
6 Intangible assets		
EUR'000		<u>Software</u>
Cost at 1 January 2018		0
Additions for the year		<u>805</u>
Cost at 31 December 2018		<u>805</u>
Amortisation and impairment losses at 1 January 2018		0
Amortisation for the year		<u>-11</u>
Amortisation and impairment losses at 31 December 2018		<u>-11</u>
Carrying amount at 31 December 2018		<u>794</u>

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7 Property, plant and equipment

EUR'000	Land and buildings	Property, plant and equipment under construction	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2018	0	718	0	718
Additions for the year	280	0	13	293
Transfers for the year	318	-718	400	0
Cost at 31 December 2018	598	0	413	1,011
Depreciation and impairment losses at 1 January 2018	0	0	0	0
Depreciation for the year	-55	0	-56	-111
Depreciation and impairment losses at 31 December 2018	-55	0	-56	-111
Carrying amount at 31 December 2018	543	0	357	900

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8 Investments

EUR'000	Equity investments in group entities
Cost at 1 January 2018	762,527
Additions for the year	100
Cost at 31 December 2018	762,627
Impairment losses at 1 January 2018	-6,785
Impairment losses at 31 December 2018	-6,785
Carrying amount at 31 December 2018	755,842

Name/legal form	Registered office	Voting rights and ownership interest	Equity	Profit/loss for the year
Subsidiaries:			EUR'000	EUR'000
NKT Cables a/s	Denmark	100%	73,427	-3,994
NKT cables group GmbH	Germany	100%	528,580	-26,099
NKT s.r.o.	Czech Republic	100%	34,655	-4,383
NKT Espana SL	Spain	100%	305	12
NKT Cables Ultera a/s	Denmark	100%	33	-44
NKT Australia Pty Ltd	Australia	100%	4,726	293
Falun AB	Sweden	100%	9,820	-8,035
Unique Vantage Ltd.	China	100%	-10	0
Kaunas UAB	Lithuania	100%	183	83
NKT HVC Holding AB	Sweden	100%	145,328	121
NKT Inc. (USA)	USA	100%	-352	77
			<u>796,695</u>	<u>-41,969</u>

The figures above are stated in accordance with IFRS and are based on the entities' internal reporting to NKT Cables Group a/s adjusted for amortisation of goodwill where relevant.

The disclosures above may therefore differ significantly from the financial statements published by the companies concerned which are presented in accordance with local accounting standards.

9 Equity

The contributed capital consists of 200,001 shares of a nominal value of EUR 13 each.

All shares rank equally.

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10 Contractual obligations, contingencies, etc.

Contingent liabilities

The Company is jointly registered for VAT purposes with NKT (Denmark) a/s, NKT Ultra A/S and NKT A/S and is jointly liable for VAT liabilities.

The Company 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 from the financial year 2013 for income taxes, etc. of the jointly taxed entities. and from 1 July 2012 for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed entities. The total known net liability of the jointly taxed entities under the joint taxation arrangement is evident from the administration company's financial statements.

11 Related party disclosures

NKT Cables Group A/S' related parties comprise the following:

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NKT A/S, Vibeholms Allé 20, 2605 Brøndby

NKT A/S holds the majority of the contributed capital in the Company

NKT Cables Group A/S is part of the consolidated financial statements of NKT A/S, Vibeholms Allé 20, 2605 Brøndby, CVR no. 62 72 52 14..