

NKT Cables Group A/S

Vibeholms Allé 20
2605 Brøndby
Denmark

CVR no. 15 51 58 72

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 Cables Group 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.

Brøndby, 28 May 2020
Executive Board:

Roland Munkerod Andersen
Director

Mark Skriver Nielsen
Director

Board of Directors:

Alexander Lothar Kara
Chairman

Anders Steffen Jensen

Roland Munkerod Andersen

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 1 January – 31 December 2019 comprising 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 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 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, 28 May 2020

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR no. 33 96 35 56

Lars Siggaard Hansen
State Authorised
Public Accountant
mne32208

NKT Cables Group A/S
Annual report 2019
CVR no. 15 51 58 72

Management's review

Company details

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

Telephone: +45 4348 2000
Fax: +45 4396 1820
Website: www.nktcables.com
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

Alexander Lothar Kara, Chairman
Anders Steffen Jensen
Roland Munkerod Andersen

Executive Board

Roland Munkerod Andersen, Director
Mark Skriver Nielsen, Director

Auditor

Deloitte
Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S
Denmark

Management's review

Financial highlights

EUR'000	2019	2018	2017	2016	2015
Key figures					
Gross profit/loss	12,017	6,501	-15,450	-15,284	689
Ordinary operating loss	-7,122	-8,181	-24,935	-19,081	-171
Loss from financial income and expenses	-4,000	-2,049	-4,285	-5,089	-9,649
Loss for the year	-8,695	-7,902	-38,011	-36,532	-57,294
Assets					
Total assets	774,504	803,497	781,157	682,196	690,317
Equity	190,433	199,128	207,030	245,346	285,983
Investment in property, plant and equipment	7	293	718	0	0
Ratios					
Return on invested capital	-0.92%	-1.00%	-3.20%	-2.79%	0.02%
Current ratio	2.91%	7.60%	4.30%	137.19%	2,250.98%
Return on equity	-4.46%	-3.89%	-16.81%	-13.75%	-61.48%

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

Return on invested capital $\frac{\text{Operating profit/loss} \times 100}{\text{Total assets}}$

Current ratio $\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$

Return on equity $\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$

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 Group GmbH, NKT s.r.o., nkt cables Spain S.L., NKT Ultera a/s, NKT Pty Ltd., NKT (Sweden) AB, Unique Vantage Ltd., NKT Lithuania, UAB, NKT HVC Holding AB, NKT Inc.

Income statement:

No dividend has been received in 2019, which has a negative impact on the financial performance in the company, hence a reported loss of 8,7 mEur in 2019 compared to a loss of 7,9 mEur in 2018.

Equity:

No dividend was paid to the parent company NKT Holding in 2019, and no dividend is proposed for the 2020 financial year.

Business line organization

To serve the various parts of the power cable market with differing characteristics and demand patterns, NKT is organized into three business lines: Solutions, Applications, and Service & Accessories. These business lines are supported by global functions primarily comprising Finance, Human Resources, IT, and Technology.

Solutions:

This business line specializes in high-voltage power cable solutions. NKT provides a broad range of solutions for off- and onshore power transmission systems and can supply both AC (Alternating Current) and DC (Direct Current) power cable systems. NKT offers customers complete and customized end-to-end turnkey solutions, including full installation services.

NKT has two high-voltage production facilities centrally situated in Northern Europe: Cologne, Germany, and Karlskrona, Sweden. Their sea and river accesses enable efficient logistics for offshore solutions in Europe and the rest of the world. These production sites, combined with the company's high-tech capabilities, in-house installation expertise and a dedicated best-in-class cable-laying vessel, make NKT a leading company in the interconnector, offshore wind, and oil & gas segments.

Applications:

The Applications business line offers customers a broad range of low- and medium-voltage power cable solutions. NKT markets high-quality products that conform to the continued increased regulatory requirements and customer expectations, and has developed ergonomic solutions which are easy to install. Telecom power cables are also being developed and marketed with a view to future opportunities in the roll-out of the next-generation 5G mobile network.

NKT holds leading positions in north, central and east European markets. In its Applications activities, the company operates five main production sites situated in the Czech Republic, Denmark, Poland, and Sweden.

Management's review

Operating review

Service & Accessories:

The Service & Accessories business line provides services for off- and onshore power cables and offers a full portfolio of power cable accessories across the medium and high-voltage categories.

The Service business focuses on high-voltage power cables. These generally require surveillance but limited maintenance. However, incidents will occur due to external damage caused by anchor drag, excavation works, etc. To reduce such incidents and shorten potential power cable downtime, there is a demand for monitoring solutions and rapid response, and NKT has service teams based 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 provides market support for accessories from three production sites in Germany and Sweden.

Market overview

The NKT purpose is to bring power to life by being a key partner in providing solutions to meet the growing need for power – especially from renewable energy sources.

As a full-service partner in the power cable industry, NKT enables its customers to create a safe and sustainable future in a world increasingly dependent on power.

The power cable industry covers market segments with a variety of characteristics and drivers. NKT focuses on trends within these markets to develop new solutions and offerings, and has identified four megatrends which define its overall future market direction.

Characteristics and developments in the NKT main markets in 2019 and ahead are outlined in the following section.

Sustainability

The global focus on climate changes is moving societies toward increasing reliance on renewable energy sources. This is important for the power cable industry as it requires a power grid capable of handling the changes in the power generation mix. It means a displacement of power production to for example offshore wind farms generating large quantities of power far away from the point of consumption. Further, interconnection of power grids is important to ensure stability.

Urbanization

With people increasingly moving to the cities, the power grids in and around these population centres will need to be continuously upgraded. This includes both the distribution of power to households and the organization of power within new buildings.

Globally, there is increasing transition towards electric vehicles. This development requires power to be instantly available and easily accessible. As the number of electric vehicles increases, the power grids will have to be upgraded and expanded to meet the increasing demand.

Digitization

The world is becoming increasingly digital. This will also increase the requirement for more digital solutions in the power cable industry and for smarter power grids. The impact will take place in different areas of the market, such as increased data collection, monitoring, and control of power cable systems to optimize the power grids.

Management's review

Operating review

High-voltage power cable market (Solutions)

The NKT Solutions business line operates in the global high-voltage power cable market. This mainly encompasses complex projects calling for ongoing R&D investment. The solutions are engineered to order and demand a high level of expertise, but operating in this market also has project risks. The number and size of project awards in the market will fluctuate over time and thereby impact earnings in individual years.

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

1) The power cable solutions provided in this market primarily serve offshore and onshore interconnector, offshore wind, and oil & gas projects. The German DC corridor projects that are part of the federal renewable energy strategy ("Energiewende") will also be in this category. NKT plays an important role in establishing the infrastructure for the continued transition towards renewable energy sources such as wind and hydro power. The increasing reliance on renewable energy means that more connected and flexible power grids are required to offset periods when power generation is limited in some areas.

2) The high-voltage AC onshore market covers land-based power cable projects with voltages above 72kV and primarily consists of transmission of power. The number of market players exceeds that for the previously described high-voltage AC offshore and DC segments, leading to different competitive dynamics. The move towards renewable power generation drives the need for upgrade of power grids in combination with the continuing urbanization.

Market awards at satisfactory level in 2019:

Towards the end of 2018, several significant high-voltage projects were awarded to NKT and market competitors. This continued in 2019 with project awards across the interconnector, offshore wind, and oil & gas segments. NKT was successful in winning orders in all three categories.

NKT estimates that project awards in the relevant high-voltage market (projects larger than EUR 5m) totalled around EUR 3bn in 2019, which was largely on par with 2018. The order backlog for market players improved during 2019, leading to better balance between supply and demand.

Attractive market outlook supported by continued tender activity:

The continued growth in renewable power generation is an important driver for the attractive outlook in the high-voltage market. Progress continues on several tenders across market segments and geographies. NKT still views Europe as its largest market opportunity, but more projects are also coming to the market in the US and Asia.

In 2020, NKT expects the value of relevant new high-voltage project awards, excluding the upcoming German DC corridor projects, to be around EUR 3bn. If the corridor projects materialize, the market is expected to be significantly higher than in the previous years. The potential project awards in 2020 are expected to span the interconnector, offshore wind, and oil & gas segments with both DC and AC solutions.

While the timing of future project awards is subject to uncertainty, particularly in the interconnector market, the prospective order awards are expected to improve the supply and demand situation for power cable manufacturers in the years ahead.

Management's review

Operating review

Low and medium-voltage power cable market (Applications)

The NKT Applications business line operates in the low and medium voltage market, primarily in northern, central and eastern Europe. The solutions are less complex than in the high-voltage market and the number of market players is higher. The products will typically be “made-to-stock” with differentiated specifications and designs from country to country to match local requirements. Compared to the project driven high-voltage market, demand in this area is generally more aligned with macroeconomic development. The market can be divided into two categories with different characteristics: 1) Low-voltage and 2) Medium-voltage.

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

1) Low-voltage: The market drivers for low-voltage cables and building wires are primarily construction industry sentiment and the need for further electrification of cities due to increased urbanization

2) Medium-voltage: Medium-voltage power cables serve the power distribution grid. As in the high-voltage market, the transition towards renewable energy plays an important role in the continuous need for power grid optimization. This is further driven by the growing electrification of society and the increasing power demand in expanding cities.

Market growth in 2019 driven by Eastern Europe:

The overall conditions in the NKT markets were generally as expected in 2019 with moderate growth. Eastern European markets grew faster than Germany and Scandinavia. The medium-voltage markets were relatively stable, while the low-voltage markets, especially in Sweden and Denmark, were negatively impacted by weakened construction sentiment.

Markets expected to be stable:

The development in the markets where NKT operates is expected to be flat in 2020, mainly due to slowdown in the markets in central Europe, whereas growth will continue in eastern Europe. Beyond 2020, further growth is expected, led by eastern Europe and Germany. Nordic markets are likely to remain stable in years ahead.

Service & Accessories markets

The market for servicing power cables is gradually growing. The competitive landscape among service providers is diverse, with different companies offering different solutions. Power cable failures are costly for both on- and offshore operators, hence the rising interest in service agreements.

The customers are increasingly demanding services that will enable them to improve power cable efficiency and solutions to help predict, prevent and mitigate power cable failures. If an incident occurs, power cable operation must be restored as fast as possible.

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. However, the market will fluctuate during this period depending on the number of large offshore cable repairs.

As accessories are necessary components of power cable systems, the accessories market will be closely linked 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. Because transport costs for accessories play a minor role compared to power cables, accessories are a truly global market that NKT can supply on a comprehensive scale. To reap the growth potential, local presence is becoming increasingly important to adequately serve local needs.

Management's review

Operating review

Strategic initiatives

Focus on sustainable financial performance

NKT has an attractive position in the power cable market with capabilities for offering a wide portfolio of solutions across geographies. Currently, the three business lines have varying strengths:

- ◆ Solutions: Technology-leading provider of turnkey high-voltage power cable solutions.
- ◆ Applications: Long-standing market leading positions in selected north and east European countries.
- ◆ Service & Accessories: Gradually improving market presence through innovative solutions and entry into new markets.

With these strengths, NKT is well positioned across markets. The company's near-term focus is to deliver sustainable financial performance during the next couple of years.

For each business line the route to sustainable financial performance will vary, and in each case three strategic priorities have been identified as key for future improvements.

Strategic priorities

Solutions:

Utilization and execution:

The main assets for Solutions are the two high-voltage factories in Cologne, Germany, and Karlskrona, Sweden, and the cable-laying vessel NKT Victoria. Key to success for this business line is optimal utilization of these assets. To achieve this, three strategic priorities have been identified:

1. Optimize asset utilization

The sales effort and subsequent order intake are important for optimizing asset load. NKT will prioritize projects in the right segments and markets to optimize production plans. Project profitability is paramount, and further focus will therefore be given to more profitable business segments.

2. Maintain technology leadership

In the market for high-voltage power cables the technological demands are continuously increasing. This applies for instance to cable route length, power transmission rating and dynamic cable solutions. NKT must therefore continuously strive to remain at the forefront of technology and invest in improved solutions.

3. Improve production processes and project execution

In a competitive environment, the cost structure is key to remaining attractive while achieving satisfactory profitability. NKT will increase focus on cost efficiency and improvement of production processes.

Applications:

Profitability:

Applications has market-leading positions in several countries. Key to success in this business line is to build on these market positions to stepwise improve profitability. This will be supported by the following strategic priorities:

Management's review

Operating review

1. Optimize sales and operations planning

The interface between sales and production must be optimized to ensure maximum planning efficiency and focus on producing products that have attractive market demand. Focus will also be placed on increasing allocation of production capacity according to product profitability.

2. Streamline product portfolio

NKT will intensify trimming of the tail of slow moving products in the portfolio and improve focus on the most important products. This will increase production efficiency and remove costly changeover time.

3. Increase factory efficiency

NKT will focus on processes and initiatives that will improve production efficiency and thereby raise factory output significantly.

Service & Accessories:

Growth:

While the service and accessories markets have different profiles, the key to success is to continue to grow this business line and to explore market opportunities. The three following strategic priorities have been identified:

1. Strengthen go-to-market approach

NKT will maintain focus on clear customer relationship management and ensure an optimal customer approach. Geographical expansion into new focus markets is also being pursued.

2. Optimize product portfolio and offerings

Bringing innovative solutions to the market has been an important contributor to growth. To continue this trend, NKT is working on several solutions and products for launch in years ahead.

3. Optimize cost base

To continue a sustainable growth path, the cost structure will be continuously evaluated. This will include further improvement in factory production efficiency, with increased automation and reduced complexity.

Capital resources and financing

At 31 December 2019 the Company has an equity of EUR 190m. The Company's current liabilities including cash pool with NKT A/S of EUR 584,1 m exceed current assets of EUR 17,0 m at 31 December 2019 with a net total of EUR 567,1m. At 31 December 2019, the Company has a credit facility with NKT A/S and NKT A/S – ultimate parent company – has issued a support letter confirming that NKT A/S will continue to support NKT Cables Group A/S with liquidity for the next 12 months, hence to support the going concern assumption for 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 monitors the development of the current Covid-19 health situation closely and the impact on our business and employees. We are following governmental guidelines throughout the world and adjusting our daily work and routines accordingly to minimize the spread and impact of the disease.

Management's review

Operating review

As of April 2020, we have not to the best of our knowledge experienced any material impact on our business, financial performance or our customers' ability to pay, however, Management acknowledges increased uncertainty related to the future and are taking measures to reduce costs and increase liquidity buffers.

After the balance sheet date, NKT was awarded its largest order in history amounting to approx. EUR 500m for the high-voltage project SuedOstLink in Germany. The high-voltage order backlog, which did not include the SuedOstLink award, totalled EUR 1.24bn (EUR 1.11bn in std. metal prices) at end-Q1 2020, approx. EUR 130m lower than at end-2019. With reference to the company announcement no. 7, May 13th 2020 <https://www.nkt.com/news-press-releases/improved-financial-results-in-q1-2020>.

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	2019	2018
Gross profit		12,017	6,501
Staff costs	2	-18,877	-14,560
Depreciation, amortisation and impairment losses		<u>-262</u>	<u>-122</u>
Operating loss		-7,122	-8,181
Financial income	3	941	48
Financial expenses	4	<u>-4,941</u>	<u>-2,097</u>
Loss before tax		-11,122	-10,230
Tax on profit/loss for the year		<u>2,427</u>	<u>2,328</u>
Loss for the year	5	<u><u>-8,695</u></u>	<u><u>-7,902</u></u>

Financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	31/12 2019	31/12 2018
ASSETS			
Fixed assets			
Intangible assets	6		
Software		<u>872</u>	<u>794</u>
Property, plant and equipment	7		
Land and buildings		489	543
Fixtures and fittings, tools and equipment		<u>304</u>	<u>357</u>
		<u>793</u>	<u>900</u>
Investments	8		
Equity investments in group entities		<u>755,842</u>	<u>755,842</u>
Total fixed assets		<u>757,507</u>	<u>757,536</u>
Current assets			
Receivables			
Trade receivables		916	442
Receivables from group entities		2,650	35,105
Other receivables		768	285
Deferred tax asset	9	8,715	6,253
Corporation tax		1,466	1,501
Prepayments	10	<u>1,553</u>	<u>334</u>
		<u>16,068</u>	<u>43,920</u>
Cash at bank and in hand		<u>929</u>	<u>2,041</u>
Total current assets		<u>16,997</u>	<u>45,961</u>
TOTAL ASSETS		<u><u>774,504</u></u>	<u><u>803,497</u></u>

Financial statements 1 January – 31 December

Balance sheet

EUR'000	Note	<u>31/12 2019</u>	<u>31/12 2018</u>
EQUITY AND LIABILITIES			
Equity			
Contributed capital	11	26,939	26,939
Retained earnings		<u>163,494</u>	<u>172,189</u>
Total equity		<u>190,433</u>	<u>199,128</u>
Liabilities			
Current liabilities other than provisions			
Trade payables		3,607	1,380
Payables to group entities	12	574,643	597,963
Other payables		<u>5,821</u>	<u>5,026</u>
		<u>584,071</u>	<u>604,369</u>
Total liabilities		<u>584,071</u>	<u>604,369</u>
TOTAL EQUITY AND LIABILITIES		<u><u>774,504</u></u>	<u><u>803,497</u></u>

Financial statements 1 January – 31 December

Statement of changes in equity

EUR'000	Contributed capital	Retained earnings	Total
Equity at 1 January 2019	26,939	172,189	199,128
Transferred over the distribution of loss	0	-8,695	-8,695
Equity at 31 December 2019	26,939	163,494	190,433

Financial statements 1 January – 31 December

Notes

1 Accounting policies

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

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. 62 72 52 14.

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.

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 recognised 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 date 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.

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1 Accounting policies (continued)

Balance sheet

Intangible assets

Intangible assets includes software and are measured at cost less accumulated amortisation and impairment losses.

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

Software	5 years
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The useful life and residual value are reassessed annually with a scrap value of 0. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

On completion of development of software, the software are amortised on a straight-line basis over their estimated useful life from the date the asset is available for use. The basis of amortization 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 with a scrap value of 0. 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.

Depreciation is recognised in the income statement as depreciation, amortization and impairment losses.

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.

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Notes

1 Accounting policies (continued)

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.

Prepayments

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

Cash

Cash comprises bank deposits.

Other financial liabilities

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

Financial statements 1 January – 31 December

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1 Accounting policies (continued)

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 monitors the development of the current Covid-19 health situation closely and the impact on our business and employees. We are following governmental guidelines throughout the world and adjusting our daily work and routines accordingly to minimize the spread and impact of the disease.

As of April 2020, we have not to the best of our knowledge experienced any material impact on our business, financial performance or our customers' ability to pay, however, Management acknowledges increased uncertainty related to the future and are taking measures to reduce costs and increase liquidity buffers.

After the balance sheet date, NKT was awarded its largest order in history amounting to approx. EUR 500m for the high-voltage project SuedOstLink in Germany. The high-voltage order backlog, which did not include the SuedOstLink award, totalled EUR 1.24bn (EUR 1.11bn in std. metal prices) at end-Q1 2020, approx. EUR 130m lower than at end-2019.. With reference to the company announcement no. 7, May 13th 2020 <https://www.nkt.com/news-press-releases/improved-financial-results-in-q1-2020>.

2 Staff costs

EUR'000	2019	2018
Wages and salaries	17,118	13,366
Pensions	1,664	1,157
Other social security costs	95	37
	<u>18,877</u>	<u>14,560</u>
Average number of full-time employees	<u>101</u>	<u>76</u>

Staff costs of the Group and the Parent Company include remuneration of the Parent Company's Executive Board of EUR 1,279 thousand (2018: EUR 756 thousand).

3 Financial income

Interest income from group entities	0	48
Other financial income from group entities	941	0
	<u>941</u>	<u>48</u>

4 Financial expenses

Interest expense to group entities	4,933	2,074
Other financial costs	8	23
	<u>4,941</u>	<u>2,097</u>

Financial statements 1 January – 31 December

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5 Proposed distribution of loss

Retained earnings	-8,695	-7,902
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6 Intangible assets

EUR'000	<u>Software</u>
Cost at 1 January 2019	805
Additions for the year	226
Cost at 31 December 2019	<u>1,031</u>
Amortisation and impairment losses at 1 January 2019	-11
Amortisation for the year	-148
Amortisation and impairment losses at 31 December 2019	<u>-159</u>
Carrying amount at 31 December 2019	<u><u>872</u></u>

7 Property, plant and equipment

EUR'000	<u>Land and buildings</u>	<u>Fixtures and fittings, tools and equipment</u>	<u>Total</u>
Cost at 1 January 2019	598	413	1,011
Additions for the year	7	0	7
Transfers for the year	0	0	0
Cost at 31 December 2019	<u>605</u>	<u>413</u>	<u>1,018</u>
Depreciation and impairment losses at 1 January 2019	-55	-56	-111
Depreciation for the year	-61	-53	-114
Depreciation and impairment losses at 31 December 2019	<u>-116</u>	<u>-109</u>	<u>-225</u>
Carrying amount at 31 December 2019	<u><u>489</u></u>	<u><u>304</u></u>	<u><u>793</u></u>

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8 Investments

EUR'000	Equity investments in group entities
Cost at 1 January 2019	762,627
Cost at 31 December 2019	762,627
Impairment losses at 1 January 2019	-6,785
Impairment losses at 31 December 2019	-6,785
Carrying amount at 31 December 2019	755,842

Name/legal form	Registered office	Voting rights and ownership interest	Equity	Profit/loss for the year
Subsidiaries:			EUR'000	EUR'000
NKT (Denmark) A/S	Denmark	100%	65,923	-7,869
NKt Group GmbH	Germany	100%	549,882	23,744
NKT s.r.o.	Czech Republic	100%	30,084	-6,909
nkt cables Spain S.L.	Spain	100%	319	14
NKT Ultera a/s	Denmark	100%	-76	-109
NKT Pty Ltd	Australia	100%	4,890	103
NKT (Sweden) AB	Sweden	100%	4,067	-6,121
Unique Vantage Ltd.	China	100%	-10	0
NKT Lithuania, UAB	Lithuania	100%	281	98
NKT HVC Holding AB	Sweden	100%	178,857	35,657
NKT Inc.	USA	100%	-376	-11

At 31 December 2019 the Company has assessed the investments in subsidiaries for indication of impairment especially for the Solution segment incorporated in the legal entity of NKT cables group GmbH and NKT HVC Holding AB.

The recoverable amount is based on a value-in-use calculation. The calculation uses cash flow projections (budget period) based on financial budget for 2020 and financial forecasts for 2021-20-25, hence a 6 year budget period in 2019. Significant parameters in these estimates are revenue growth, EBITDA margin, discount rate, working capital and growth expectations for the terminal period.

The long-term growth rate for the terminal period is based on the expected growth in the world economy as well as long-term development for the industries and markets in which the different units operate.

Investments reflect both maintenance and expectations of organic growth.

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During 2018, several significant high-voltage projects were awarded to NKT and market competitors. This continued in 2019 with several project awards across the interconnector, offshore wind, and oil & gas segments. NKT was successful in winning its fair share of orders in all three categories in 2018 and 2019. The continued growth in renewable power generation is an important driver in the attractive outlook for the high-voltage market. Progress continues on several tenders across market segments and geographies. NKT still views Europe as its largest market opportunity, but more projects are also coming to the market in the USA and Asia. It is an underlying assumption that NKT will be awarded its fair share of projects, and after the balance sheet date, NKT was awarded its largest order in history amounting to approx. EUR 500m for the high-voltage project SuedOstLink in Germany. Assessing the future awards to NKT is by nature subject to uncertainty, and the value-in-use calculation of the Solutions segment is very sensitive to any changes in the actual share awarded to NKT.

9 Deferred tax

EUR'000	31/12 2019	31/12 2018
Deferred tax at 1 January	6,253	7,070
Deferred tax adjustment for the year in the income statement	1,969	-817
Deferred tax adjustment concerning previous years	493	0
	<u>8,715</u>	<u>6,253</u>

At 31 December 2019 a significant part of the recognized deferred tax asset of EUR 8,7m relates to tax losses carried forward. Management has in the valuation assessment of the deferred tax asset assumed a continued joint taxation with NKT Photonics.

10 Prepayments

For both 2019 and 2018 the figures are prepaid costs.

11 Equity

The contributed capital consists of 200,001 shares of a nominal value of EUR 135 each.

All shares rank equally.

12 Payables to group entities

The figures include cash pool of EUR 574.137 thousand for the year 2019 and EUR 589.144 thousand for the year 2018.

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13 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.

EUR'000	<u>2019</u>	<u>2018</u>
Operating lease obligations		
Rental obligations related to rent, IT equipment and cars	<u>1,834</u>	<u>0</u>

14 Related party disclosures

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

Control

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.