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Som dirigent:

Christian Lundgren

NKT

Annual Report 2020 We connect a greener world

Company Reg: 6272 5214

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Letter from the Chairman

Based on favourable megatrends and our strong technology positions, we expect both the power cables and the photonics businesses represent significant mid-term financial growth potential.

NKT runs all its power cable factories on renewable energy saving annually over 48,000 tonnes of CO_2.

This is reducing NKT's CO_2-emissions from energy consumption by 72%.

We connect a greener world

Read more in **NKT's annual statutory sustainability report**

To provide greater insight into the remuneration outcomes for 2020, to comply with new governance requirements and provide a better understanding of and transparency into our Executive Remuneration practices, NKT's Remuneration report for 2020 has been released.

Read more in **NKT's annual remuneration report**

Introduction

Repair of MI power cables on a 170 km connection between Denmark and Germany

Group

NKT Group at a glance

NKT Group consists of two standalone companies: NKT, a leading provider of power cable solutions, and NKT Photonics, a leading supplier of fiber lasers and photonic crystal fibers. Both companies are headquartered in Denmark and have operations across the world.

Power to life since 1891

NKT at a glance
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NKT Photonics at a glance
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Pushing innovation since

1891

People worldwide

3,886

Nationalities

75

Listed on the Danish stock exchange

Nasdaq Copenhagen

Registered shareholders

+27,000

NKT

EUR 1,087m

Revenue (std. metal prices)
Up from EUR 945m in 2019.
All three business lines contributed with improved revenue

EUR 56.7m

Operational EBITDA
More than tripled from EUR 15.1m in 2019.
Driven by Solutions and Applications with significant improvements

NKT Photonics

EUR 69.9m

Revenue
Down from EUR 74.6m in 2019.
The performance was adversely influenced by the COVID-19 pandemic, particularly in 1st half 2020

EUR 2.6m

EBITDA
Down from EUR 14.6m in 2019 due to the lower revenue

Letter from the Chairman

Positive and sustainable transformation

We will turn another page in the long life of NKT in 2021. We celebrate 130 year anniversary with promising market growth prospects.

These are challenging times for us as human beings, for our societies and the world economy. We strive to find purpose and to define the future 'new normal' once the COVID-19 pandemic is defeated. In 2021, NKT celebrates its 130 year anniversary. Our long history has provided us with robustness, experience and persistence. These qualities proved to be key to succeed and deliver an improved financial performance in the past year. Combined with innovation, these will also be the foundation for the expected growth of our businesses in the coming years.

Megatrends such as green transformation, growing and aging population, increased technological complexity, urbanisation, and electrification continue to guide the development of our societies.

In particular, the green agenda in terms of climate change, remained a key priority on the political scene and with our customers during 2020. NKT is well-positioned to contribute to the drive towards renewable energy aimed at reducing carbon footprint. This is to gain further pace in the coming years. In 2020, NKT also signed up for the Science Based Target initiative to become a net-zero emissions company.

Leading technologies to provide mid-term growth ambitions

Both our power cables and photonics businesses are among the market leaders with innovative and technological complex solutions for our customers. Our businesses demonstrated this position in 2020.

NKT's record high-voltage order backlog of EUR 3.07bn at end-2020 was driven by our strong position within DC technology,

“Based on favourable megatrends and our strong technology positions, we expect both the power cables and the photonics businesses represent significant mid-term financial growth potential”

which was significantly strengthened by our acquisition of ABB HV Cables in 2017. The backlog increase came from more large order wins including two of the German high-voltage DC corridor projects that will provide renewable energy produced in e.g. the North Sea to the southern parts of Germany, replacing nuclear energy and fossil fuel. Further high-voltage DC orders for offshore wind farms in Northern Europe underlined NKT's position as an important contributor to the green transformation.

Our photonics business supplies leading technology to customers and growing markets within innovate industries such as autonomous electric cars, smartphones, quantum computing, artificial intelligence, stem cell and cancer research, and renewable energy.

Despite significant negative impact from the COVID-19 pandemic, NKT Photonics continued to strengthen its commercial position by for example supplying lasers to power microscopes in detection of cancer cells.

Based on favourable megatrends and our strong technology positions, we expect both the power cables and the photonics businesses to hold significant mid-term financial growth potential. We therefore also announced the expansions of our high-voltage power cable plants in Sweden and Germany. Investments in our people and our facilities will keep our technology relevant and competitive across our businesses and are key elements in our future success.

The Board of Directors was therefore pleased to see that the two capital increases totalling net proceeds of EUR 259m were well-received by our shareholders. We appreciate the continued support and belief in NKT as an attractive investment.

The announced strategic review of NKT Photonics to maximise value creation was not finalized in 2020. We intend to resume the review when the business and financial performance is no longer materially affected by the pandemic.

People, leadership and collaboration are reasons to success

Our employees throughout the company deserve a special thanks for managing the situation in a year with COVID-19 related challenges. Our production sites were kept in operation and at the same time our future was strengthened by winning new key projects. This was achieved on top of the daily task of continuously improving our businesses.

We also believe in strong leadership and collaboration to be instrumental for success and a key reason for this year's achievements. In August 2020, Line Fandrup joined NKT A/S as CFO and together with CEO Alexander Kara she now constitutes our Executive Management.

We would also like to thank our shareholders, customers and business partners for their continuous support. This year has called for even more alignment, flexibility and creativity – and together we have built an even stronger foundation for our future relations.

Jens Due Olsen
Chairman of the Board of Directors,
NKT A/S

Key messages 2020

NKT Group improved financial results in 2020. The operational EBITDA was EUR 59.3m, a doubling compared to 2019. Improved performance in the power cable business was the main driver.

2020 was the best-ever year for NKT in terms of high-voltage order intake. A total of EUR 2.3bn high-voltage projects was awarded, that will contribute to the ongoing European transition towards increased renewables energy generation. The largest project awards were SuedLink and SuedOstLink in Germany, long-distance power lines to transmit renewable energy from north to south.

Better financial performance in NKT
NKT delivered improved revenue and earnings in 2020 with contributions from all three business lines. Solutions' execution of recent years' high-voltage order awards, and Applications' turn-around of its financial performance were main contributors.

NKT Photonics impacted by pandemic
In NKT Photonics, organic growth was negative in 2020 as the Industrial segment was impacted by the COVID-19 pandemic, which could not be offset by positive development in Medical & Life Science. The Board of Directors intends to resume the strategic review of NKT Photonics when the business and financial performance is no longer materially affected by the COVID-19 pandemic and the general economic situation. The objectives are to maximize value creation, and position NKT Photonics for long-term growth.

Reduction in debt level
In 2020, the net interest-bearing debt improved by EUR 268m to EUR -25.9m at end-2020, driven primarily by the proceeds from the issuance of new shares in 2020. Combined with increased earnings, net interest-bearing debt relative to operational EBITDA amounted to -0.4x at end-2020.

Improvement expected in 2021
The improved financial performance is expected to continue in 2021. NKT expects a revenue* of approx. EUR 1.1–1.2bn and an operational EBITDA of approx. EUR 80–110m. NKT Photonics expects organic revenue growth of approx. 0–10% and an EBITDA margin of approx. 3–7%.

NKT

	Q4 2020	Q4 2019	2020	2019
Revenue	348.3	342.0	1,402.5	1,268.2
Revenue in std. metal prices**	268.7	262.2	1,087.0	945.0
Organic growth**	1%	16%	15%	-10%
Operational EBITDA**	9.1	1.2	56.7	15.1
Operational EBITDA margin*	3.4%	0.5%	5.2%	1.6%
EBIT	-15.5	-34.1	-38.4	-87.7
Working capital**			-164.5	-146.3
Working capital % of revenue, LTM**			-7.1%	2.2%
RoCE***			-2.9%	-7.2%

NKT Photonics

	Q4 2020	Q4 2019	2020	2019
Revenue	25.9	25.5	69.9	74.6
Organic growth**	3%	15%	-6%	10%
Operational EBITDA**	4.2	7.2	2.6	14.6
Operational EBITDA margin*	16.2%	28.2%	3.7%	19.6%
EBIT	0.8	4.0	-9.5	4.7
Working capital**			27.4	28.2
Working capital % of revenue, LTM**			41.9%	35.8%
RoCE***			-8.8%	4.9%

* Std. metal prices
** Alternative performance measures
*** RoCE is calculated on Operational EBIT, LTM, as a percentage of average capital employed as defined in Section 7.4 on page 133

5-year financial highlights

Amounts in EURm	2020	2019	2018 [1]	2017 [1]	2016 [1]
Income statement					
Revenue	1,470.2	1,342.4	1,501.6	1,479.3	1,046.1
Revenue in std. metal prices** [3]	1,154.7	1,019.3	1,147.1	1,108.4	792.8
Operational EBITDA ** [6]	59.3	29.7	79.3	141,8	74.9
EBITDA	49.4	17.7	49.8	96.9	27.9
Amortization, Depreciation and impairment	-97.3	-100.7	-87.3	-79.6	-41.6
Operational EBIT** [7]	-38.0	-71.0	-8.0	62.2	33.3
EBIT	-47.9	-83.0	-37.5	17.3	-13.7
Financial items, net	-16.7	-12.3	-8.0	-14.7	5.7
Earnings before tax (EBT)	-64.6	-95.3	-45.5	2.6	-8.0
Profit from continuing operations	-74.5	-76.0	-46.3	-3.4	-17.5
Profit from discontinued operations	0.0	0.0	0.0	932.2	29.6
Net result	-74.5	-76.0	-46.3	928.8	12.1
Cash flow					
Cash flow from operating activities	136.3	125.0	-42.2	87.8	153.9
Cash flow from investing activities	-107.4	-66.8	-60.9	-493.3	-132.0
hereof investments in P,P&E	-65.5	-34.4	-28.5	-50.6	-40.7
Free cash flow	28.9	58.2	-103.1	-405.5	21.9

Amounts in EURm	2020	2019	2018 [1]	2017 [1]	2016 [1]
Balance sheet					
Share capital	115.4	73.2	72.8	72.8	72.0
Group equity	1,076.4	803.8	895.6	816.3	951.4
Total assets	2,150.6	1.789.4	1,859.2	1,904.6	1,747.1
Net interest-bearing debt** [8]	-25.9	242.2	248.3	293.2	-68.4
Capital employed** [9]	1,050.5	1.046.0	1,143.9	1,109.5	883.0
Working capital** [10]	-137.1	-118.1	7.7	-83.5	217.0
Financial ratios and employees					
Operational EBITDA margin, continuing operations (std. metal prices)**	5.1%	2.9%	6.9%	12.8%	9.4%
Gearing (NIBD as % of Group equity)**	-2%	30%	28%	36%	-7%
NIBD relative to operational EBITDA** [11]	-0.4	8.2	3.1	1.9	-0.4
Solvency ratio (equity as % of total assets) ** [12]	50%	45%	48%	43%	54%
Return on capital employed (RoCE) ** [13]	-3.5%	-6.2%	-0.7%	11.8%	11.7%
Number of DKK 20 shares ('000)**	42,976	27,260	27,126	27,126	26,835
EPS, EUR [1]	-2.7	-3.1	-1.8	34.3	0.5
Diluted EPS, EUR [1]	-2.7	-3.1	-1.8	34.3	0.5
Equity value, EUR, per outstanding share** [14]	22	24	27	30	35
Market price, DKK, per share**	271	161	89	283	499
Average number of employees**	3,800	3,671	3,744	3,600	8,958

[1] Comparison figures have not been restated following the implementation of IFRS 16 Leases 1st January 2019.
[1–14] Definitions appear in Section 7.4 in the consolidated financial statements.
** Alternative performance measures

Financial review Q4 2020

NKT

Driven by Solutions and Service & Accessories, NKT increased revenue* to EUR 269m in Q4 2020 from EUR 262m in the same period of 2019. This corresponded to organic growth of 1%. NKT thereby reported improved revenue in all four quarters in 2020.

The growth in revenue benefitted profitability, with all three business lines delivering improved earnings in Q4 2020 compared to Q4 2019. The operational EBITDA amounted to EUR 9.1m in Q4 2020, up from EUR 1.2m in Q4 2019, equal to a margin* improvement of 3%-points.

Solutions generated organic growth of 6% in Q4 2020. As in the previous quarters of 2020, the positive development in revenue was driven by higher factory output based on the orders awarded over recent years. During Q4 2020, NKT progressed projects across various power cable segments, and NKT Victoria was utilized for installation purposes.

In Applications, the revenue development took a negative turn in Q4 2020 and organic growth was -8%. The consequences of the COVID-19 pandemic were visible in some markets, such as Sweden and Denmark, leading to negative growth, and in Germany, NKT was up against a strong comparison figure. Despite the reduction in revenue, NKT improved earnings compared to Q4 2019, driven by a positive change in product mix and continued focus on cost and production efficiencies.

Service & Accessories continued driving positive revenue development, delivering 11% organic growth in Q4 2020. This growth was based on improved sales across the Service and Accessories businesses. On the Service side, a large turnkey offshore repair was completed, and a higher level of activity was recorded in the onshore maintenance business. Accessories benefitted from increased production output, and growth was driven by improved sales to the Middle East and Scandinavia.

NKT
Organic growth in Q4 2020

1%

NKT Photonics
Organic growth in Q4 2020

3%

NKT Photonics

2020 was an unusual year for NKT Photonics with negative market impact due to the COVID-19 pandemic. In 1st half 2020, the revenue decreased, but stabilized in Q3 and this continued into the final quarter.

As in previous years, NKT Photonics realized its strongest performance in the final quarter, with revenue rising to EUR 25.9m in Q4 2020 from EUR 25.5m in Q4 2019. This development was largely as expected, corresponding to the midpoint of the forecast in the most recently announced financial outlook.

NKT Photonics' financial performance in Q4 2020 continued to be impacted by the COVID-19 pandemic, with demand remaining subdued in parts of the Industrial market due to restrictions and closedowns. However, the negative trend in Industrial was offset by growth in the Medical & Life Science segment.

NKT Photonics delivered EBITDA of EUR 4.2m in Q4 2020, compared to EUR 7.2m in Q4 2019. The development was partly due to an increased cost base driven by preparation for future growth opportunities. Profitability was further negatively impacted by the customer mix and by temporary yield inefficiencies associated with a shift to high-volume customers.

Financial development in Q4

	Revenue*			Operational EBITDA			Oper. EBITDA margin*	
Amounts in EURm	Q4 2020	Q4 2019	Change	Q4 2020	Q4 2019	Change	Q4 2020	Q4 2019
NKT - Solutions	155.2	142.6	12.6	8.9	5.6	3.3	5.7%	3.9%
NKT - Applications	83.6	92.4	-8.8	0.4	-2.6	3.0	0.5%	-2.8%
NKT - Service & Accessories	38.5	30.6	7.9	3.8	2.5	1.3	9.9%	8.2%
Elimination of transactions between segments and non-allocated costs	-8.6	-3.4	-5.2	-4.0	-4.3	0.3		
NKT	**268.7**	**262.2**	**6.5**	**9.1**	**1.2**	**7.9**	**3.4%**	**0.5%**
NKT Photonics	25.9	25.5	0.4	4.2	7.2	-3.0	16.2%	28.2%
Elimination of transactions between segments	-0.6	0.0	-0.6	0.0	0.0	0.0		
NKT Group	**294.0**	**287.7**	**6.3**	**13.3**	**8.4**	**4.9**	**4.5%**	**2.9%**

* Std. metal prices

Financial performance versus outlook 2020

The financial performance of both NKT and NKT Photonics in 2020 was in line with the financial outlook published in November 2020.

NKT

The financial outlook released in November 2020 specified both the expected revenue and the expected operational EBITDA for the year. The realized revenue* was EUR 1,087m, which was consistent with the outlook of around EUR 1.1bn. And the operational EBITDA, for which the forecast was in the upper end of approx. EUR 40–60m, ended in line with this at EUR 56.7m.

The initial financial outlook announced at the beginning of 2020 was based on four main assumptions:

- Satisfactory execution on projects in the high-voltage order backlog
- Award of additional high-voltage orders with some financial impact in 2020
- Improved profitability in Applications from the unsatisfactory level in 2019
- Increased offshore power cable repair work activity

NKT performed well in regard to these assumptions. In particular, profitability in Applications recovered strongly in 2020. The Solutions business line executed on the projects awarded in previous years, and the Service business performed satisfactorily on a number of offshore repair jobs.

NKT Photonics

The financial performance of NKT Photonics for 2020 ended at the midpoint of the financial outlook published in October 2020, but was below the outlook provided at the start of the year. The year was impacted by the COVID-19 pandemic, which caused parts of the market to slow and created unusually high uncertainty. This meant that the financial outlook was withdrawn for five months during 2020.

As expected, the primary contributor to revenue growth in 2020 was the Medical & Life Science segment, while Aerospace & Defence saw moderate growth and Industrial was negatively impacted by the COVID-19 pandemic. The market situation stabilized for NKT Photonics in 2nd half 2020, when revenue was slightly up compared to the same period of 2019.

Realized figures versus financial outlook 2020

Amounts in EURm	Initial, February 2020	Adjustment, May 2020	Adjustment, October 2020	Adjustment, November 2020	Realized
NKT					
Revenue*	~1.0-1.1bn	Unchanged	Unchanged	~1.1bn	1.09bn
Operational EBITDA	~40-60m	Unchanged	Unchanged	Upper end of ~40-60m	56.7m
NKT Photonics					
Organic revenue growth	~5-15%	Withdrawn	~(-12%)-(-2%)	Unchanged	-6%
EBITDA margin	~15-18%	Withdrawn	~1-6%	Unchanged	3.7%

*Std. metal prices

Financial outlook – NKT

NKT

2021

NKT's financial outlook for 2021 was already published in the Q3 2020 Interim Report released in November 2020 and remains unchanged.

Revenue (in std. metal prices) is expected to be approx. EUR 1.1–1.2bn and the operational EBITDA is expected to be approx. EUR 80–110m in 2021. This is a continuation of the growth achieved in 2020.

The targeted improvement in revenue and earnings compared to 2020 is mainly expected to be driven by Solutions.

Delivering on the financial outlook is based on several assumptions. The most critical are:

- The global COVID-19 pandemic and consequences thereof will not have material negative impact on the markets NKT is operating in or on NKT's ability to execute customers' orders
- Satisfactory execution of high-voltage projects to deliver on expected profitability margin
- Award of additional high-voltage projects with financial impact in 2021
- Continued profitability improvement in Applications driven by increased revenue and improved production efficiency
- Satisfactory offshore power cable repair work activity

Medium-term ambitions

In its Q3 2020 Interim Report, NKT also introduced medium-term ambitions. The underlying assumptions and the ambitions remain unchanged.

The ambition is to grow revenue* organically from 2019 (EUR 945m) to the medium-term by a CAGR above 10% and to increase the operational EBITDA margin* to approx. 10-14%.

To achieve the targeted medium-term financial ambitions, NKT has to perform satisfactorily in its three business lines. Additionally, the COVID-19 pandemic is assumed not to impact financial performance materially.

In Solutions, NKT needs to continuously be successful in relevant high-voltage project tenders across market segments and to ensure the projects awarded will be based on satisfactory terms and conditions. Order wins will be a prerequisite to have optimal utilization of production and installation assets with satisfactory mix of power cable types. Following the project awards, it is key for NKT to deliver satisfactory project execution in order to generate the expected profitability on the individual projects.

In Applications, NKT has to improve profitability and has several initiatives ongoing. The main areas include a strong commercial mindset, improved production efficiency and control of the cost level. To support profitability further, NKT is focusing on having the relevant product portfolio available and targeting the most attractive market segments.

In Service & Accessories, the overall focus area is to maintain growth momentum. This will be achieved through various initiatives such as geographical expansion in new and existing markets. Furthermore, the portfolio of products and services is continuously being expanded with a broader customer offering.

* Std. metal prices.

Outlook 2021

Revenue* EUR

~1.1–1.2bn

* Std. metal prices

Operational EBITDA EUR

~80–110m

Medium-term ambitions

Organic growth CAGR

>10%

From 2019 as base year

Operational EBITDA margin*

~10–14%

Financial outlook – NKT Photonics

NKT Photonics

2021

The organic revenue growth is expected to be approx. 0-10%, and the EBITDA margin is expected to be approx. 3-7%.

NKT Photonics initiated and completed a FTE reduction exercise in January 2021. Redundancy costs of around EUR 1.5m will be expensed in 2021 and is part of the above outlook.

The financial outlook is subject to high uncertainty given the unknown development of the COVID-19 pandemic, which impacted some parts of the market negatively in 2020. The pandemic is expected to continue impacting the market in 1st half 2021, while a more normalized market picture being anticipated later in the year.

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

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

Outlook 2021

Organic growth

~0–10%

EBITDA margin

~3–7%

The fast moving consumer electronics market led by the big cellphone manufacturers increases use of NKT Photonics' laser technology for characterization of the many optical components used in the devices.

Business overview NKT

NKT Victoria is one of the world's most energy-efficient cable-laying vessels, and plays a key part in NKT's ambition to consistently minimize the environmental impact arising from its offshore operations.

NKT at a glance

We connect a greener world

As a company dedicated to power cable technology, NKT's purpose is to connect you, us and society to a greener world. With the global community moving towards clean and renewable energy, we deliver life-time value by enabling sustainable energy transmission. We perform in real life, and we value the power of collaboration to change the future of power cable technology. Together, we connect a greener world.

Founded in	Countries with offices	Nationalities	Employees
1891	**15**	**66**	**3,469**

NKT Victoria
State-of-the-art high-voltage cable-laying vessel
Length

140 metres

Carrying up to

9,000 tonnes

of power cables

NKT selected as major supplier for SuedLink, the world's longest HVDC underground power link
Approx. route length - SuedLink

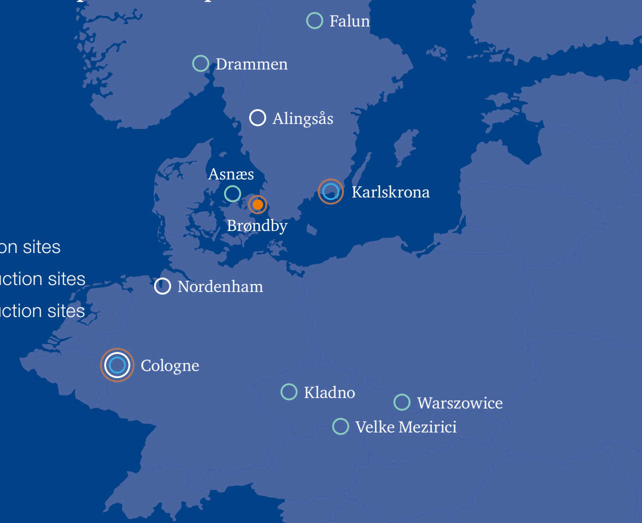
750 km

High-voltage order backlog

EUR 3.07bn

At record level, up from EUR 1.37bn at end-2019

The main production sites for the three NKT business lines are located in the northern part of Europe



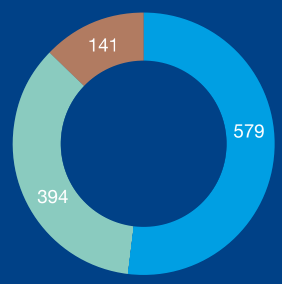
- Solutions production sites
- Applications production sites
- Accessories production sites
- Service hubs
- Headquarters

Three business lines
Revenue distribution 2020 (EURm)*

52% Solutions

35% Applications

13% Service & Accessories



Letter from the CEO

NKT accelerated its role in connecting a greener world

2020 was a successful year in which our contribution to the green transformation gained speed

We won high-voltage orders worth EUR 2.3bn in 2020. Not only was this the largest amount in NKT's history, it was also driven by our world-leading high-voltage DC technology. Across our businesses we are well positioned to grasp the opportunities created by the green transformation. With the ongoing global expansion of power grids, electrification and e-mobility, the need for our products will continue to grow.

It was satisfactory to see that in 2020 we were able to improve financial performance in all our business lines and grow earnings. In our ambition to connect a greener world this is a good platform for the future.

I am proud of these accomplishments in a year where a key focus was also to steer NKT safely through the COVID-19 pandemic. Across 2020, our priorities remained the same: to keep our people safe and ensure business continuity. I am grateful that due to early implementation of preventive measures, combined with flexibility and vigilance among our people, suppliers and customers, we have coped well and seen only modest impact.

Our purpose "We connect a greener world" reflects our role in the green transformation

NKT plays a key role in the global transformation to renewable energy and increased electrification of society. The power infrastructure – the grid system - that transports electricity from the energy source to the socket outlet in our home, requires power cable solutions, accessories and services. Our strong contribution to the green transformation is reflected in our revised company purpose, "We connect a greener world", which was launched in 2020.

All our power cable factories run on green electricity reducing our greenhouse gas emissions from electricty with

72%

compared to 2019

“NKT plays a key role in the global transformation to renewable energy and increased electrification of society. At NKT, we connect a greener world”

We also take responsibility for our own impact on climate change. Accordingly, we are the first major power cable manufacturer to sign up to the Science Based Target initiative with the aim of becoming a net-zero emissions company. Already now NKT has committed to reducing its own greenhouse gas emissions by an average of 5% annually.

Record high-voltage order intake, and investments in future growth

The approx. EUR 1.5bn order awards for two German interconnector projects, SuedLink and SuedOstLink in 2020, marked a historic moment for NKT. These awards underline the potential which high-voltage DC technology has for both the interconnector and offshore wind markets in the years ahead. The same technology was also in demand for the majority of our other significant order awards in Germany and the UK in 2020. I was also delighted that we were awarded our first project in the Mediterranean, an area which represents good growth opportunities for NKT.

The orders awarded to NKT for the German interconnector projects also meant we took a strategically important step forward in 2020. In the period 2020-2022 we are investing to expand our high-voltage plants in Sweden and Germany to execute on these orders and to prepare the way for future growth opportunities.

Confirmed turnaround in Applications, and continued growth in Service & Accessories

Applications is on the right track to regain satisfactory profitability in the future, while continued focus on productivity, product mix, production footprint and cost efficiency remain fundamental. In 2020, earnings improved despite negative COVID-19 impact on demand in certain markets.

The Service & Accessories business line continued to perform, delivering double-digit organic growth. Service benefitted from our 10-day vessel guarantee to ensure faster repair of offshore power cable lines, while Accessories started building its two excellence hubs in Germany and Sweden to prepare for execution of the high-voltage DC interconnector projects and for future growth.

Satisfactory financial performance and strategy execution

Overall, NKT’s financial performance in 2020 was in line with our expectations, with revenue and earnings even finishing at the high end of the outlook published at the start of the year. While the financial performance remained below the level of our medium-term ambitions, we firmly believe that we are on track to deliver further financial improvements. This is expected to be driven mainly by delivering strong execution, remaining cost-conscious, and exploiting the opportunities created by the green transformation.

Our 2020 achievements and our trajectory towards further strengthening our financial platform for the future are outlined in our ReNew strategy which began rollout in 2020. Execution of this strategy is progressing to plan.

2021 ambitions: We Advance, Connect, Deliver and Care

In the past year, we also updated our shared beliefs. Combined with our purpose, these shared beliefs set out why we are here and how we want to progress going forward. Our four shared beliefs, We Advance, We Connect, We Deliver, and We Care, express the commitment and ambitions which I and my colleagues in the Group Leadership Team have for 2021 and beyond.

I would like to thank all our people, suppliers, customers and shareholders for a truly extraordinary year and for their continued good collaboration. Together, we connect a greener world.

Alexander Kara
President and CEO, NKT

Key financials – 5-year review

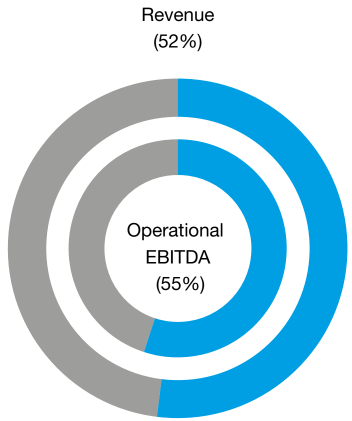
Amounts in EURm	2020	2019	2018[1]	2017[1]	2016[1]
Income statement					
Revenue	1,403	1,268	1,429	1,004	1,212
Revenue in std. metal prices**	1,087	945	1,080	1,058	750
Operational EBITDA**	56.7	15.1	70.2	138.3	72.5
EBITDA	46.8	3.1	40.8	93.4	26.2
Depreciations, amortizations and impairment	-85.2	-90.8	-79.4	-74.4	-36.8
Operational EBIT**	-28.5	-75.7	-9.2	63.9	35.7
EBIT	-38.4	-87.7	-38.6	19.0	-10.6
Financial items, net	-11.5	-11.6	-7.7	-13.8	-3.0
EBT	-49.9	-99.3	-46.3	5.2	-13.6
Tax	-13.6	20.8	-2.0	-6.4	-8.7
Net result	-63.5	-78.5	-48.3	-1.2	-22.3
Cash flow					
Cash flow from operating activities	135.6	117.8	-46.3	78.2	33.7
Cash flow from investing activities excl. acq. & div.**	-90.8	-52.3	-49.1	-63.0	-31.5
Free cash flow excl. acq. & div.**	44.8	65.5	-95.4	15.2	2.2
Balance sheet					
Capital employed**	940	942	1,065	1,041	348
Working capital**	-164.5	-146.3	-16.2	-106.5	57.8
Financial ratios and employees					
Organic growth**	15%	-10%	0%	7%	-10%
Operational EBITDA margin*, **	5.2%	1.6%	6.5%	13.1%	9.7%
RoCE**	-2.9%	-7.2%	-0.8%	7.5%	9.3%
Full-time employees, end of period**	3,469	3,303	3,419	3,393	2,769

[1] Comparison figures have not been restated following the implementation of IFRS 16 Leases on 1 January 2019.
* Std. metal prices
** Alternative performance measures

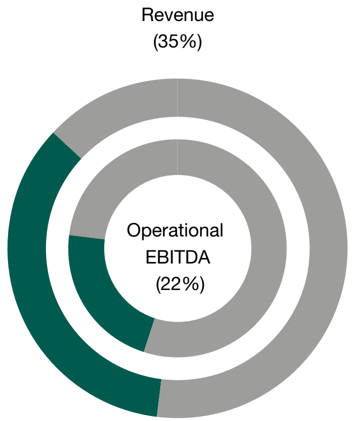
Business line organization

NKT is divided into three business lines: Solutions, Applications, and Service & Accessories. Each business line specializes in separate areas of the power cable market. The business lines are supported by cross-functional global functions principally comprising Finance, Human Resources, IT and Technology.

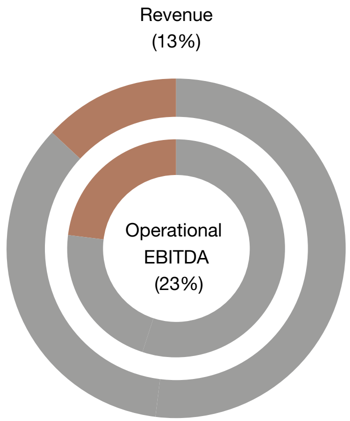
Solutions



Applications



Service & Accessories



Revenue, std. metal prices, in 2020 (% of total NKT revenue) and Operational EBITDA in 2020 (% of total NKT operational EBITDA). This figures exclude intersegment transactions and non allocated costs.

Key figures 2020 (EURm) – Solutions

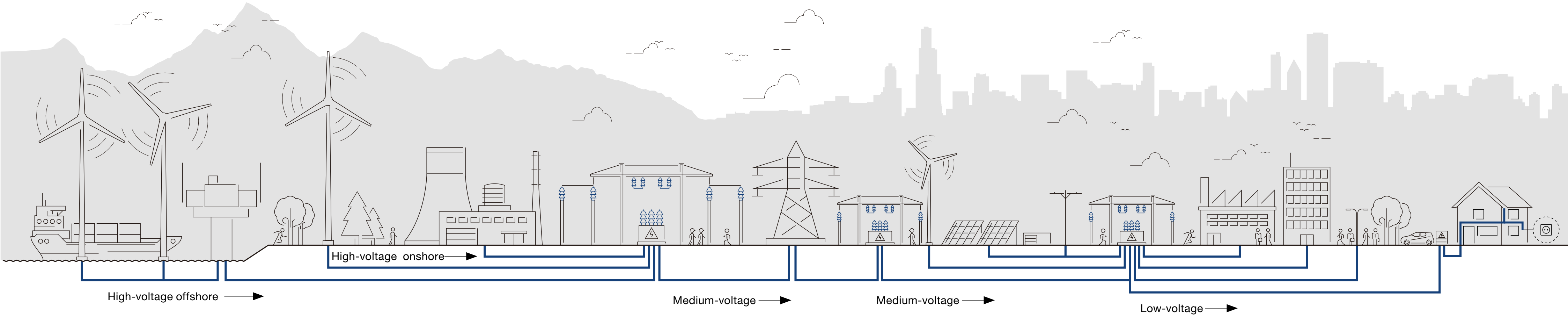
Revenue (market prices)	**653**
Revenue (std. metal prices)	**579**
Operational EBITDA	**35.9**
Operational EBIT	**-28.3**
Working capital	**-197**

Key figures 2020 (EURm) – Applications

Revenue (market prices)	**654**
Revenue (std. metal prices)	**394**
Operational EBITDA	**14.5**
Operational EBIT	**-0.2**
Working capital	**40.2**

Key figures 2020 (EURm) – Service & Accessories

Revenue (market prices)	**141**
Revenue (std. metal prices)	**141**
Operational EBITDA	**15.2**
Operational EBIT	**10.5**
Working capital	**13.2**



Solutions

Specializes in high-voltage power cable solutions. NKT provides a broad range of solutions for off- and onshore power transmission systems, and supplies both AC and DC power cables. Further, NKT offers complete and customized end-to-end turnkey solutions, including full installation services.

NKT has two high-voltage production facilities in Germany and Sweden. Centrally situated in the north European market, these sites have sea and river access. This enables convenient and efficient logistics for offshore solutions around the world as well as ideal access to onshore opportunities in Europe. These production sites, combined with NKT's installation expertise and dedicated cable-laying vessel, make NKT a leading company in the high-voltage interconnector, offshore wind, and oil & gas segments.

Applications

Offers a broad range of low- and medium-voltage power cable solutions. NKT markets high-quality products that conform to regulatory requirements and high customer expectations and has developed ergonomic solutions that are easy to install. These solutions are important contributors to the ongoing electrification of societies. Telecom power cables are also developed and marketed with a view to addressing future opportunities in the roll-out of 5G mobile networks.

Applications has five main production sites located in the Czech Republic, Denmark, Poland and Sweden. NKT holds strong positions in these markets. Further, NKT is relatively well placed in other European markets, such as Germany and Norway. The proximity of the production sites to the markets are important to ensure fast delivery and cost-efficient solutions.

Service & Accessories

Supplies off- and onshore power cable services and offers a full portfolio of power cable accessories across the medium- and high-voltage categories.

The Service business focuses on servicing high-voltage power cables. These generally require limited maintenance, but unfortunate events will occur due to external damage caused by anchor drag, excavation works, etc. This can lead to power cable failures. To avoid such events and to shorten potential downtime, monitoring solutions and rapid response are in demand. NKT provides these services from teams based in Denmark, Germany and Sweden.

Accessories are critical components in any power cable system. In the high-voltage market, NKT's technological competence is key as only a few suppliers can match the requirements that accessories must deliver. NKT provides market support for accessories from three production sites in Germany and Sweden.

Market overview

As a full-service partner in the power cable industry, NKT provides its customers in the energy sector with high-quality on-demand support to facilitate a safe and sustainable future in a world increasingly dependent on power.

The power cable industry consists of several market segments related to power generation, transmission and distribution each with a variety of specific characteristics and drivers.

NKT addresses three of these market segments through its business lines Solutions, Applications and Service & Accessories.

The power cable industry covers market segments with a variety of characteristics and drivers. NKT addresses three main markets:

1. High-voltage power cable market is addressed by Solutions. Page 21
2. Low- and medium-voltage power cable market is addressed by Applications. Page 23
3. Power cable service & accessories markets are addressed by Service & Accessories. Page 24

Market overview

High-voltage power cable market

The Solutions business line operates in the global high-voltage power cable market.

The market mainly encompasses complex projects that are engineered-to-order and demand a high level of expertise for successful implementation. In some cases these projects even call for new R&D solutions as well as investment in both technology and production assets. As a project-driven segment, revenue and earnings streams are affected by the number and size of project awards in the market, and may therefore fluctuate over time.

The high-voltage segment can be divided into two categories with slightly differing characteristics depending on technological solution and market dynamics:

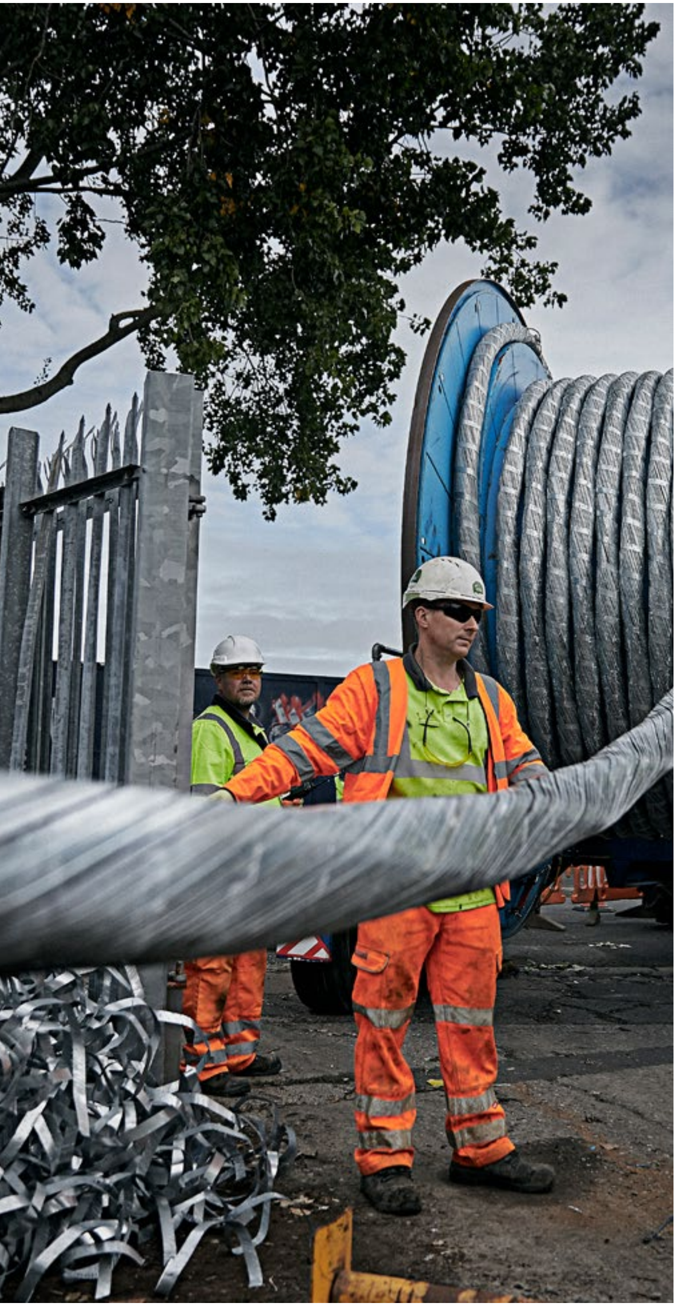
1. High-voltage DC onshore/offshore and AC offshore power cable systems are primarily used in off-/onshore interconnector, offshore wind, and oil & gas projects. The recently awarded German Corridor Projects fall within this category. The increasing reliance on renewable energy means that more efficient, better connected and flexible power grids are required to offset periods when power generation is limited in some areas.
2. High-voltage AC onshore power cable systems are relevant for projects with voltages above 72kV used primarily for power transmission. The trend towards renewable power generation has increased the distance between the point of production and the point of consumption, as well as upgrade of existing power grids for the continuing urbanization and general electrification of societies.

The demand for high-voltage offshore AC power cable systems has declined in recent years due to the trend in the North Sea region of moving offshore wind parks further from shore. Over longer distances high-voltage DC technology offers better performance, and this has been reflected in a meaningful shift in volume from AC to DC in the last couple of years. While AC technology is expected to continue losing share to DC within some markets, there will be other emerging markets calling for traditional AC technology. NKT estimates the size of the AC offshore market opportunity to be above EUR 2bn, based on the tenders expected to come to market over the next five years.

Significant increase in market value in 2020

Driven particularly by the German Corridor Projects, the value of project awards in the high-voltage power cable market was significantly higher in 2020 than in previous

High-voltage onshore power cables being installed



years. Management estimates that the total award level in the market (addressable high-voltage power cable projects larger than EUR 5m each) amounted to around EUR 6bn.

The majority of these project awards were DC technology, as they predominantly related to interconnector power cable projects and offshore wind export power cable projects of a significant distance.

Attractive market outlook supported by continued tender activity

As the transition to renewable energy gains pace globally, NKT expects the need for reliable high-quality power transmission systems to continue increasing. Several countries both inside and outside Europe have launched carbon reduction initiatives, including introducing more offshore wind into the power mix. Entering 2021, progress continues on several tenders across market segments and geographies.

NKT expects the value of relevant new high-voltage project awards (projects exceeding EUR 5m each) to be more than EUR 3bn in 2021. This expectation is subject to uncertainty as the pipeline includes a number of large projects with no fixed award date. Based on current tender activity, the potential project awards in the market are expected to span the interconnector, offshore wind, and oil & gas segments and to include 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 continuously improve the supply and demand situation for power cable manufacturers in the years ahead.

Market overview – Solutions

<table>
<tr><th></th><th>Geographical scope</th><th>Market characteristics</th></tr>
<tr><td>DC off- and onshore</td><td rowspan="2">Global</td><td rowspan="3">▪ Growing market
▪ High technical capabilities and know-how required (especially for higher voltage levels and DC)
▪ Increasing competition at lower voltage levels</td></tr>
<tr><td>AC offshore</td></tr>
<tr><td>AC onshore</td><td>Continental</td></tr>
</table>

Market overview

Low- and medium-voltage power cable market

NKT's Applications business line operates in the low- and medium-voltage market, primarily in northern, central and eastern Europe.

NKT holds the largest share of the market in Czech Republic, Denmark, Germany, Poland and Sweden, while other important markets are UK, Netherlands, France and Norway.

The offerings in the low- and medium-voltage market are less complex than in the high-voltage market, and the number of market players is higher. The products are typically "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 segment is generally more aligned with macroeconomic development.

The market can be divided into two categories with different characteristics:

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. The transition towards renewable energy is an important part in the continuous need for power grid optimization. This is further driven by the growing electrification of society, including e-mobility, and the increasing power demand in cities.

Mixed market development due to COVID-19 pandemic

While growth over time is expected to be positive in the low- and medium-voltage power cable markets, 2020 saw a slowdown due to the COVID-19 pandemic. Restrictions impacted transport of products across borders, power cable installation works, and further areas.

The market uncertainty impacted individual countries in different ways. The most severely affected markets included France and UK, where market development was negative The Swedish market also slowed down. The market development was more stable in central and eastern Europe in countries such as Germany, Netherlands and Poland.

Uncertain near-term market conditions

Despite the expectation of growth in the low- and medium-voltage market in the years ahead, the outlook for 2021 is subject to uncertainty and will depend on developments in the COVID-19 pandemic and on the economic stimulation programmes launched by the EU and governments.

NKT believes that the underlying megatrends driving the markets are in place. A recovery to normalized levels of activity is anticipated when the general economy again develops favourably.

Market overview – Applications

	Geographical scope	Market characteristics
Medium-voltage	Regional	▪ Scale and operational leverage are key competitive advantages ▪ Local technical regulations define markets ▪ Competitive market
Low-voltage and building wires		

Market overview

Power cable service and accessories markets

The market for power cable services and accessories is growing with the increased electrification of societies.

In the accessories market, competitive pressure is greatest at the lowest voltage levels due to the higher complexity of accessories for high-voltage power cables.

The market potential for accessories is closely linked to the general development in the medium- and high-voltage power cable markets. The Accessories business is expected to benefit from the growth in renewable energy.

The market for servicing power cables is gradually growing with the expansion in the installed base of power cables.

The competitive landscape among service providers is diverse, with different companies offering different solutions. Power cable failures are costly for both offshore and onshore operators, and they are therefore increasingly demanding services that will improve the power cable efficiency along with solutions to help predict, and mitigate power cable failures. If a failure occurs, power cable operation must be restored fast.

Moving forward, the growth in the service market will be driven by the installation of further power cables. However, the service market is expected to fluctuate depending on the number of large repairs to offshore high-voltage power cables.

Market overview – Service & Accessories

	Geographical scope	Market characteristics
Service	Global	▪ Growing market ▪ Power cable service market requires fast response time ▪ Profound experience and complex technical capabilities required
High- and medium-voltage accessories		

Megatrends

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

Sustainability

The global focus on climate change is moving societies towards increasing reliance on renewable energy sources. In several countries, the transition away from conventional coal and nuclear power towards renewable energy such as wind and solar is high on the political agenda and backed by an ambition to reduce carbon emissions in the years ahead. At EU level, the European Green Deal sets the direction for a sustainable EU economy with net-zero emissions of greenhouse gases by 2050.

The shift towards renewable energy is important for the power cable industry as it requires a power grid capable of handling the changes in the power generation mix, and a displacement of power production to, for example, offshore wind farms generating large quantities of power far away from the point of consumption.

Urbanization

With people increasingly moving to the cities, the demographic landscape is gradually changing and the power grids in and around these population centres will need continuous upgrading. This includes both the transmission and distribution of power to households and the organization of power within new buildings. With its broad portfolio of low- to high-voltage power cable solutions, NKT expects to be an important contributor to power grid expansion and upgrade in the countries where it operates.

As an example, NKT was in 2019 selected to supply power cable systems to the Beckomberga-Bredäng power grid expansion in Stockholm, Sweden. The full project comprises a planned expansion of the local power grid to meet rising power demand due to the city's population growth.

E-mobility

Globally, there is increasing transition towards electric vehicles. This trend is primarily driven by the focus on greener solutions and decreased reliance on fossil fuels. The transition requires power to be instantly available and easily accessible from the power grids. As the number of electric vehicles rises, the power grids will have to be expanded and upgraded to meet the increasing electrification of societies.

Power grid expansion to support this trend fits well into NKT's product offering, particularly in the Applications business line, where an extensive array of medium-voltage power cable solutions will be important for power distribution.

Digitization

We live in an increasingly digital world. This will also be reflected in a growing need for digital solutions for 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.

NKT offers power cable solutions with sensors to monitor and collect data and continues to develop further solutions for the years ahead.

Strategic focus

ReNew strategy

NKT has realized several strategic milestones in recent years, including the acquisition of ABB HV Cables and several divestments to create a more focused business. On this basis, NKT's purpose is to connect a greener world by enabling sustainable energy transmission.

While NKT is viewed as holding strong market positions, there are areas within technological, operational and financial performance which hold potential for improvement. These areas are the key focus of the ReNew strategy launched in 2020

New overall business strategy

Given NKT's situation, the markets where NKT operates, current megatrends and past lessons, NKT's new business strategy – ReNew – is based on four principles:

ReNew is based on four principles

1. Business line driven

This means that NKT's advancement will come from the business lines and not from group functions. The business lines will drive NKT forward and the group functions will enable this direction.

2. Improved business performance

ReNew places specific focus on improving internal business performance. It is a balanced strategy: Focus is given to NKT's customers and markets, but there is also focus on internal capabilities to deliver top products and services for customers and on how to deliver on customer promises.

3. Action-, decision- and implementation-oriented

This means that focus is on big-ticket items in business lines, and implementation is part of strategy and not detached. All implementation plans are feasible and realistic. With ReNew, strategy implementation will be a focus for management.

4. Near-term focus

For this strategy, NKT has applied a short-term focus. If turnaround comes sooner, NKT will adjust accordingly. The company works with concrete bottom-up plans that have been assessed as realistic within a near-term perspective.

Strategic initiatives

Renew is built around three key pillars: Fix and restart. Invest. Grow. These pillars are detailed in the business line strategies.

Fix and restart NKT:
Tackle, address and resolve key internal issues. This is the basis for successful operation of the business and delivery to customers.

Invest in NKT:
Prepare NKT for tomorrow: Invest in high-voltage technology to maintain technological leadership. Upgrade Applications' production plants. Expand Accessories capacities. Prepare NKT for delivery of German Corridor Projects.

Grow NKT:
Enter growing markets: Benefit from green transformation, widen Accessories' global footprint, and provide more services in home markets.

Solutions – Investing for the future

To further power the Solutions business line, NKT will strengthen technology where required, make strategic investments, and leverage the capabilities of the production sites. This will position the business line favourably relative to competition and capture future market opportunities.

Investing for the future

The ReNew strategy focuses on investing in technology and competence to maintain NKT's leading market position in technology and quality. This means creating flexible sites that can react to dynamic markets and customer requests by quickly and efficiently adapting the product portfolio.

For Solutions, the strategic plan consists of four key pillars

- Maintain technology leadership: Maintain position as a premium player with technology and quality leadership expressed through superior operational performance

- Improve turnkey capabilities: Strengthen in-house turnkey, risk management capabilities and execute the German Corridor Projects

- Increase competitiveness: Do this through operational excellence and continuous improvement efforts

- Competence management: Maintain a solid pool of critical competencies with clear forward planning

While the strategy shares a common foundation for Solutions, it is applied independently to the production sites in Karlskrona and Cologne to cater for the differences in the competitive strengths of the respective business units.

Internal status quo

Solutions has in recent years been reorganized to increase the focus and accountability for the two high-voltage sites in Germany and Sweden. Currently, the plants predominantly address different market segments, except with regard to AC offshore solutions. ReNew defines how NKT will continue to optimize the two locations to become the best performers among their respective competitors, while also increasing flexibility as regards where to produce major power cable projects.

Market potential driving investment

Growth is expected throughout the European market. The European Green Deal is the EU's roadmap for economic sustainability and climate neutrality by 2050. This will increase demand for both offshore and onshore power cable systems as a result of the need to transmit a larger amount of renewable energy at higher voltage levels from the remote generating locations to the distribution points, and also to upgrade the power grids to reliably meet the increased need for electricity.

In addition, a promising market is emerging in the US that will require support from European specialist companies such as NKT. Finally, the Mediterranean is a potential growth area of high interest to NKT, driving the need for products and solutions adaptable to that market.

All power cables undergo a number of tests before delivered to the customer. The high-voltage facility in Karlskrona is NKT's most advanced test centre.

Strategic focus

Applications – Performing through customer focus

For Applications, the key focus of the ReNew strategy is to restore the business line to improved and satisfactory profitability levels following a period with earnings below expectations. The first step was the improved financial performance in 2020, but the strategy identifies further areas for improvement.

Ensuring the right setup

From 2015 to 2019, NKT transitioned from a regional to a cross-functional organization, allocating more decision-making to central functions. The intention was to reap synergies by combining functions, but financial performance weakened during the period. To establish improved end-to-end accountability this setup was to some extend reversed at the end of 2019, and a single Applications business line was established with responsibility from production to sales.

This setup actively and simultaneously balances two objectives to achieve the desired financial performance: It ensures full accountability and execution of the strategy at regional level, while still realizing the benefits and synergies of working across regions and functions to take the next steps as an organization.

Management change

To head the change, Will Hendrikx, an experienced executive within the power cable industry, was appointed in 2020 to lead Applications. Thereafter, the organizational setup was changed to augment the power cable knowledge of the leadership team and create stronger working links within the business line functions (e.g. establishment of product development or supply chain team across regions/plants). In addition, a separate department was established to lead the change and improvement program.

Main areas of strategic plan

The strategic plan for Applications has been developed through both a top-down and bottom-up process. Top-down targets were set to guide the overall direction and develop the business line agenda. A bottom-up process was used to identify the improvements per production site to develop an actionable plan with tangible actions. This approach was to ensure sufficient buy-in and accountability across the organization.

The strategy consists of a range of initiatives. The cornerstones of the strategy relate to the commercial, operational and developmental areas:

1. Commercial:

- Diversify risk by addressing various customers and channels.
- Build up and ensure customer centricity in all actions
- Add value for customers as a service provider to secure long-term partnerships

2. Operational:

- Cost optimization with a KPI-driven organization and environment
- Specialized factories with high efficiency. Ensure best practice sharing across locations and continuous improvement
- Conduct targeted, value-creating investments

3. Developmental:

- Be a part of emerging product technologies and exercise conscious portfolio steering
- Ensure focus on sustainability
- Creation of an innovative organization

Installation of building wires using the ergonomic NKT Qaddy drum

Strategic focus

Service & Accessories – Focus on growth

As in recent years, the Service & Accessories business line will continue its focus on growth.

It is planned to support growth for the Service business by pre-engineered and expertise-driven products. Focus on data-driven improvements will ensure increased efficiency and an enhanced offering to build value-adding products for customers.

For Accessories, growth will focus on building a solid platform to capture market opportunities and strengthen customer relationships. As such, Accessories is transforming for growth.

Service: Driving growth

The Service business will focus on developing superior off- and onshore power cable services. This will be done by increasing and complementing the portfolio of pre-engineered products. Future sales growth will be supported by expanding into additional geographically adjacent markets and developing them to the same high level as current focus markets.

To enable entry into new business and customer markets, Service will leverage NKT's extensive knowledge in power cables and installation. Going forward, Service will offer products and expertise for further types of power cables and customers.

In its Service business, NKT operates from three sites in Denmark, Germany and Sweden. The projects and solutions are sold to internal and external customers, mainly across Europe.

Market development

Following the introduction of the EU's European Green Deal the offshore power cable market is expected to grow. This will also lead to continued growth opportunities in key service categories, such as power cable installation and offshore repairs, where NKT has a competitive offering.

Offshore competitors include other power cable manufacturers and specialized marine operators. In the onshore category the competitive landscape for XLPE cables consists of major construction players operating on large scale.

Accessories: Transforming for growth

In the Accessories business, the following four focus areas will drive future growth:

- Strengthen capabilities and capacity: Invest in production capacity and efficiency, including future technologies such as digitization and automation, and build strong competence centres for medium- and high-voltage accessories
- Improve cost base: Strengthen cost competitiveness by footprint optimization and increased localization in key growth regions such as India and the Middle East
- Optimize product portfolio: Develop and launch new innovative products that are safe and reliable to install and deliver lifetime value. Foster product cost-optimization of products
- Invest in strong workforce: Attract and develop skilled and talented people

Market view and NKT positioning

Within a truly global market, Accessories will particularly benefit from the global green agenda and associated investments in grid expansion and renewable energy projects. Alongside Solutions and Applications, the Accessories business expects continued demand in Europe, but also in other focus regions such as India and the Middle East.

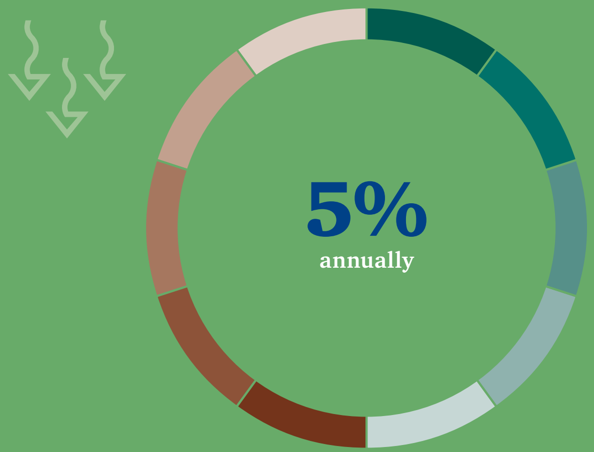
NKT is well positioned to exploit the positive market trends and to further pursue geographical expansion in focus regions due to its strong global sales network and high-quality products.

→ NKT installation of a medium-voltage cable joint in Germany

Sustainability – We connect a greener world

Our power cable technology is essential to the transition to renewable energy and we are committed to mitigate climate change by reducing the environmental impact arising from our operations, products and solutions. In 2020, we have continued the journey to become a net-zero emissions company.

We commit to reduce our greenhouse gas emission by an average of



We have signed up for the Science Based Target initiative to become a net-zero emissions company no later than 2050. In 2021, we will define a climate action programme addressing scope 1, 2 and 3 emissions.

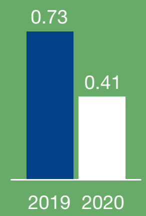
NKT Victoria is one of the world´s most advanced and fuel efficient cable-laying vessels.

The onboard technologies ensure up to

80%

reduction of NOx* emissions compared to similar vessels.

Our Lost Time Injury rate decreased compared to 2019.



Our Employee Engagement Index increased to

73

from 65 in 2019.

We are primarily contributing to the following Sustainability Development Goals:

7 AFFORDABLE AND CLEAN ENERGY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

SUSTAINABLE DEVELOPMENT GOALS

SCIENCE BASED TARGETS
DRIVING AMBITIOUS CORPORATE CLIMATE ACTION

WE SUPPORT UN GLOBAL COMPACT

SILVER 2020 ecovadis Sustainability Rating

europacable® Try life without us

BUSINESS AMBITION FOR 1.5°C

WE MEAN BUSINESS

* NOx = Nitrogen oxide

Sustainability

NKT is connecting a greener world by delivering the power cable technology essential to the global transition to renewable energy.

The company is committed to supporting the environment through sustainable business processes rooted in the business code of conduct. In 2020 the corporate sustainability journey continued with initiatives minimizing the environmental impact of its operations, driving a safety culture and promoting diversity and inclusion.

As a key step in reducing the corporate carbon footprint, NKT committed to become a net-zero emissions company by 2050. To fully focus on reaching this target NKT committed to the Science Based Target initiative providing a scientifically based method to validate the corporate climate strategy. Another significant step supporting this commitment was to ensure that all power cable factories is powered by electricity originating from renewable energy leading to a 72% reduction in greenhouse gas emissions from electricity compared to 2019.

An important element of NKT's journey towards net-zero emissions is to decarbonize the supply chain, which accounts for a significant part of the corporate greenhouse gas emissions and a supplier engagement programme has been launched to drive the decarbonization.

In a year shaped by the Covid-19 pandemic, NKT has continued to strengthen the corporate safety culture through dedicated initiatives leading to a decrease in the Lost Time Injury Rate.

NKT is promoting diversity and inclusion across the company and has set a corporate target of minimum 30% female leaders in the Board of Directors , the Group Leadership Team and the Extended Leadership Team by 2024.

As a signatory to the UN Global Compact, NKT conducts business in accordance with the UN Sustainability Development Goals defining the most central global challenges which is reflected in the corporate sustainability strategy

Find data and details in the **Sustainability Report 2020**

The development of new and more environmental friendly materials is key to become a net-zero emissions company.

Financial review

NKT improved financial performance across all three business lines in 2020. The organic growth was 15%. The increased revenue also drove up earnings. Cash flow generation was also positive due to the improved financial performance and favourable development in working capital.

Growth in revenue across all business lines

Driven by growth in all three business lines, NKT's revenue increased to EUR 1,087m in 2020 from EUR 945m in 2019. The main growth contributors were Solutions and Service & Accessories through increased levels of activity and successful business expansion.

NKT reported overall organic growth in 2020 of 15%. Organic growth was 26% for Solutions, 3% for Applications and 15% for Service & Accessories.

The revenue measured in market prices was EUR 1,403m in 2020, against EUR 1,268m in 2019.

Increased operational EBITDA driven by higher revenue

The operational EBITDA for NKT in 2020 amounted to EUR 56.7m, against EUR 15.1m in 2019. While this improvement was satisfactory, NKT remains set to improve profitability significantly. All three business lines contributed with increased earnings on the back of the higher revenue and profitable efficiency measures.

The earnings improvement led to an increased operational EBITDA margin of 5.2% in 2020, against 1.6% in 2019.

Total one-off items in 2020 amounted to EUR -9.9m, a reduction from EUR -12.0m in 2019. The one-off costs in 2020 mainly comprised legal expenses incurred in contesting customer claims for damages following the decision of the European Commission in 2014. NKT was fined as a fringe player in alleged high-voltage power cable project cartel activities. NKT has since filed several appeals against the Commission's decision.

Driven by the growth in operational EBITDA and reduced one-off costs in 2020, the reported EBITDA increased to EUR 46.8m in 2020 from EUR 3.1m in 2019.

Improved net result

The EBIT amounted to EUR -38.4m in 2020, an improvement from EUR -87.7m in 2019. The depreciation and amortiza-

Revenue development and organic growth

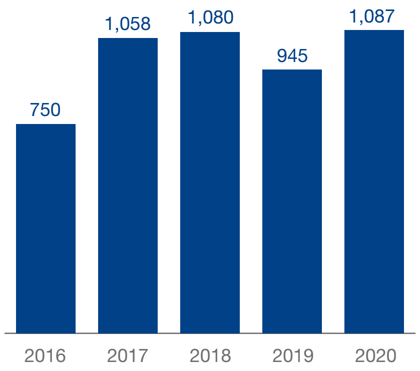
Amounts in EURm

2019 revenue*	**945.0**
Currency effect	-3.0
Acquisitions	0.0
Divestments and reclassifications	2.3
2019 adjusted revenue*	**944.3**
Organic growth	142.7
2020 revenue*	**1087.0**
Organic growth %	**15%**

* Std. metal prices

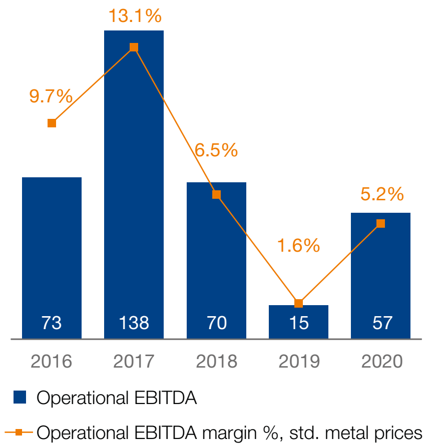
Revenue development

Amounts in EURm



Operational EBITDA

Amounts in EURm



tion level was lower in 2020 compared to 2019. As a result of the higher EBIT, earnings before tax (EBT) increased from EUR -99.3m in 2019 to EUR -49.9m in 2020.

NKT's net result for 2020 amounted to EUR -63.5m, against EUR -78.5m in 2019. The tax level was impacted by a difference between IFRS and local tax accounting for revenue recognition leading to a temporary difference, and thereby a deferred tax liability, in Germany. Further, compared to 2019, no capitalization of deferred tax assets was done in 2020.

Working capital at unusually low level

NKT improved its working capital position from an already low level of EUR -146m at end-2019 to EUR -165m at end-2020. Due to the record-high order intake in 2020, Solutions was the main contributor to this improvement due to the phasing of prepayments and milestone payments.

Working capital at end-2020 was at an unusually low level, and an increase is expected during the upcoming quarters. The future development will continuously depend strongly on phasing of prepayments and milestone payments on the high-voltage projects in Solutions.

The working capital ratio, LTM, was -7.1% at end-2020, compared to -2.2% at end-2019.

Positive free cash flow

NKT generated free cash flow of EUR 44.8m in 2020, continuing the positive development from 2019 when the corresponding figure was EUR 65.5m.

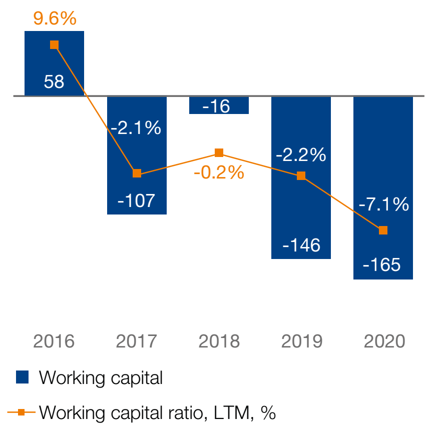
Driven by the positive EBITDA contribution and the improved working capital position, the cash flow from operating activities was EUR 136m in 2020.

NKT increased its investment level in 2020. This mainly reflected equipment upgrades in Solutions including investments in 2nd half 2020 related to the investment programme to strengthen the high-voltage manufacturing facilities. The cash flow from investing activities, excluding acquisitions and divestments, amounted to EUR -90.8m in 2020, against EUR -52.3m in 2019,

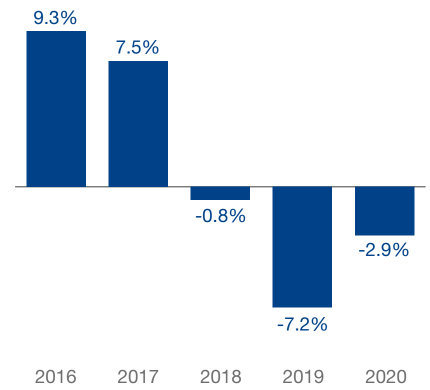
Improved RoCE based on improved earnings

The improvement in earnings was reflected in RoCE, which increased to -2.9% at end-2020 from -7.2% at end-2019. Capital employed was EUR 940m at end-2020, which was largely unchanged from 2019.

Working capital
Amounts in EURm



RoCE
%



Business review – Solutions

Increased revenue driven by execution on higher order backlog
The revenue* for the Solutions business line amounted to EUR 579m in 2020, up from EUR 456m in 2019. This equalled organic growth of 26%. NKT's high-voltage order backlog has risen gradually since mid-2018, and the increased revenue is based on higher factory output driven by execution on these projects.

Revenue measured in market prices amounted to EUR 653m in 2020, against EUR 523m in 2019.

Operational EBITDA more than doubled
The increased activity resulted in operational EBITDA of EUR 35.9m in 2020, compared to EUR 14.1m in 2019. While the level of earnings is still not satisfactory, the performance was as expected and the operational EBITDA margin* doubled from 3.1% in 2019 to 6.2% in 2020.

During 2020, NKT progressed on several projects within the various stages of their respective execution phases. The assignments included project-defined power cable solutions for several offshore wind projects as well as interconnector projects and power-from-shore applications for the offshore oil & gas market.

Larger contributors to revenue and earnings in 2020 were the DC projects Dogger Bank A and B, Johan Sverdrup 2, Nordlink and Viking Link, and the AC projects Borssele Alpha and Beta, Hornsea 2, Moray East, Ostwind 2 and Triton Knoll. Within the high-voltage onshore segment, NKT progressed and completed a multitude of various AC projects

Overall project execution was satisfactory, with projects advancing better than anticipated, while a few experienced delays.

Utilization of the company's cable-laying vessel, NKT Victoria, was in line with expectations in 2020. The vessel was deployed on a number of installation campaigns, including the UK offshore wind farms Moray East and Hornsea 2, as well as repair works.

Highlights

- Satisfactory improvement in revenue and earnings
- Record-high order intake mainly driven by green transformation
- Continued tender activity across segments

* Std. metal prices

579m
Revenue*, EUR
(2019: EUR 456m)

26%
Organic growth
(2019: -18%)

35.9m
Operational EBITDA, EUR
(2019: EUR 14.1m)

* Std. metal prices

Business review – Solutions

Record-high order intake driven by green transformation

2020 was the best-ever year for NKT in terms of high-voltage order intake. This growth in orders was primarily driven by the ongoing European transition towards increased generation of renewable energy. The total order intake in 2020 amounting to EUR 2.3bn was driven by five large DC projects:

- In May 2020, NKT was awarded the contract for the Attica-Crete interconnector project in Greece. The first of its kind for NKT in southern Europe. The onshore cable systems delivered by NKT will enable transmission of green energy from Attica on the Greek mainland to the island of Crete. The order has a value of approx. EUR 115m (EUR 105m in std. metal prices).
- In May 2020, NKT was awarded a major share of SuedOstLink, one of the German high-voltage DC corridor projects. The turnkey contract has a value of approx. EUR 500m (EUR 400m in std. metal prices).
- Awarded in June 2020, SuedLink is NKT's biggest ever order, worth more than EUR 1bn (EUR 875m in std. metal prices). The cable system to be supplied by NKT will be the world's largest and longest high-voltage DC underground interconnector.
- SuedLink and SuedOstLink consist of long-distance power lines to transmit renewable energy from north to south as part of "Energiewende", Germany's long-term strategy for transitioning to renewable energies by 2050.
- In July 2020, NKT was awarded the turnkey order for the Shetland HVDC Link, a combined on- and offshore project with a contract value of approx. EUR 235m (EUR 230m in std. metal prices). The order includes installation by NKT Victoria.
- In August 2020, NKT was awarded a turnkey contract with a value of below EUR 250m (EUR 235m in std. metal prices) to deliver and install a high-voltage DC XLPE power cable system for the BorWin5 project in northern Germany. The order includes installation by NKT Victoria.

Record high-voltage order backlog

Driven by the substantial order intake, NKT's high-voltage order backlog reached an all-time high of EUR 3.07bn (EUR 2.59bn in std. metal prices) at end-2020. This was up from EUR 1.37bn (EUR 1.21bn in std. metal prices) at end-2019. NKT expects around 20% of the order backlog to be realized in 2021 and the balance in 2022 and beyond.

In November 2020, NKT announced it had entered into a Preferred Supplier Agreement as main contractor for delivery and installation of high-voltage DC on- and offshore export cable systems to a European offshore wind farm. For NKT, the order is expected to have an estimated contract value exceeding EUR 250m (EUR 200m in std. metal prices). This project is not included in the current high-voltage order backlog.

Investments supporting future growth

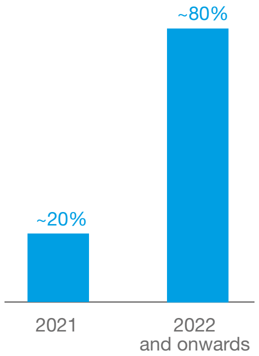
To fulfil the significant order intake received in 2020 and to further prepare for demand driven by the green energy transition, NKT announced plans to invest approx. EUR 150m in strengthening its high-voltage manufacturing facilities during 2020–2022.

Continued tender activity

Progress continued on several tenders across market segments and geographies. The timing of project awards will depend on the timelines for the individual projects. For NKT, achieving optimal production and installation flow, and thereby improving earnings, is contingent upon high utilization of capacity across all production and installation phases. This among others requires a balanced mix of power cable technologies.

Market activity relating to high-voltage project awards was not materially impacted by the COVID-19 pandemic.

Expected revenue distribution of high-voltage order backlog (EUR 3.07bn) at end-2020



> "We have proven our position as a technology leading supplier of high-voltage power cable systems in 2020. Despite COVID-19 restrictions our order intake was record high and we have won projects across several market segments. Going forward the pipeline of project opportunities continues to look promising with ongoing global transition towards renewable energy."

Michael C. Hjorth
Executive Vice President, Chief Commercial Officer HV Solutions

Business review – Applications

Increased revenue
In 2020, the Applications business line increased revenue* to EUR 394m from EUR 389m in 2019, corresponding to organic growth of 3%. This improvement was achieved despite negative impact on market demand due to the COVID-19 pandemic. Through focused efforts, NKT managed to keep all production sites operational in 2020 and experienced limited supply chain impact throughout the year.

The revenue in market prices amounted to EUR 654m in 2020, against EUR 645m in 2019.

Highlights
- Financial performance turned around in 2020
- Modest organic growth despite negative impact on demand due to COVID-19 pandemic
- New leadership to drive profitability improvement

* Std. metal prices

Operational EBITDA margin up 4%-points
The operational EBITDA amounted to EUR 14.5m in 2020, up from EUR 0.3m in 2019. The operational EBITDA margin* increased to 3.7% from 0.1%. After two unsatisfactory years, profitability was partly restored in 2020. The turnaround was due to several factors, including a positive change in product mix towards more profitable medium-voltage power cables, and a more profit-driven approach generally.

As part of the ambition to stabilize and improve performance, NKT has launched a series of initiatives, and these started to take positive effect in 2020. The Initiatives focus strongly on cost and production efficiencies.

Furthermore, started early 2021, NKT initiated the rollout of a uniform IT platform across its Eastern European sites. This is the second rollout phase following that which took place at the Scandinavian sites in 2019. The ongoing rollout in Eastern Europe has so far developed satisfactorily. The overall goal is a more efficient and unified IT setup across Applications' production sites.

394m
Revenue*, EUR
(2019: EUR 389m)

3%
Organic growth
(2019: -2%)

14.5m
Operational EBITDA, EUR
(2019: EUR 0.3m)

* Std. metal prices

Business review – Applications

New management to drive financial improvement
In April 2020, to further strengthen the Applications business line and drive improved profitability, Will Hendrikx was appointed to the position of EVP, Head of Applications. Will Hendrikx brings with him broad experience from the power and telecom cable and transformer business.

Market demand impacted by the COVID-19 pandemic
Overall, the markets in Applications were negatively impacted by the COVID-19 pandemic in 2020. NKT maintained stable production and delivery during the period, but restrictions imposed due to the pandemic challenged deliveries to some markets.

In 2020, Applications grew its presence in Germany and the Netherlands driven by positive development in the medium-voltage segment, an area in which competitors experienced delivery challenges. Positive progress was similarly delivered in Poland.

However, the French and UK markets were more severely impacted by COVID-19 related restrictions, leading to lower sales to these markets.

New frame agreements secured
In 2020, NKT was awarded several medium-voltage frame contracts spanning Germany, Sweden and Denmark. The contracts were in many cases in response to major investments in the distribution power grids of these countries to support the ongoing shift to renewable energy generation. The contracts also cover power grid maintenance and expansion.

"For Applications 2020 was an important year. We established the foundation to turn around the financial performance with primary focus on business processes, customer centricity and cost awareness. This has created the right dynamics across the organization and should lead to further improvements"

Will Hendrikx
Executive Vice President, Head of Applications

Business review – Service & Accessories

Double-digit organic growth driven by both segments
Driven by higher contributions from both segments, Service & Accessories increased revenue* from EUR 117m in 2019 to EUR 141m in 2020. This equalled organic growth of 15%. Growing the business is a key strategic priority.

In 2020, the revenue measured in market prices amounted to EUR 141m, up from EUR 119m in 2019.

Highlights

- Double-digit percentage organic growth
- Higher activity in the recurring onshore Service business
- Continued medium-voltage growth in Accessories

* Std. metal prices

Operational EBIDA up driven by higher revenue
The operational EBITDA for Service & Accessories amounted to EUR 15.2m in 2020, up from EUR 13.5m in 2019. The operational EBITDA margin* in 2020 was 10.8%, compared to 11.6% in 2019.

The earnings improvement was driven by the growth in revenue. In parallel with this development, Service & Accessories has increased its cost level, for example by increased recruitment, to prepare for future growth opportunities.

Driving growth in Service
In 2020, the Service business delivered solid revenue growth. This improvement was attributable to higher activity in the sustainable onshore business and an increase in the number of service agreements.

NKT has steadily expanded its portfolio of service agreements for both off- and onshore power cables. These agreements are delivering a higher share of recurring income. NKT's service offering has also been expanded with a vessel mobilization guarantee. This guarantee is a central part of NKT's overall preparedness plan and removes customer uncertainty from the repair timeline by ensuring rapid repair in case of power cable damage.

The level of offshore repair work was stable from 2019 to 2020. In 2020, NKT

141m
Revenue*, EUR
(2019: EUR 117m)

15%
Organic growth
(2019: 5%)

15.2m
Operational EBITDA, EUR
(2019: EUR 13.5m)

* Std. metal prices

Business review – Service & Accessories

completed a number of turnkey offshore assignments, including repair of the high-voltage DC Baltic cable connecting the power grids in Sweden and Germany, and the repair of the Skagerrak 1 and Skagerrak 2 high-voltage DC power links between Norway and Denmark.

In Q3 2020 a new facility was established in Troisdorf, Germany. This facility includes a warehouse for storing both customer parts as well as a customer training centre and an oil & gas competence centre.

Accessories business growth driven by medium-voltage sales
2020 was another year of growth for the Accessories business. The development was mainly attributable to increased sales of medium-voltage power cable accessories, particularly in the Middle East but also in Western Europe. Sales of accessories for high-voltage power cables also gradually increased due to initiation of deliveries for DC projects awarded in recent years.

In 2020, NKT carried out investments in its factory at Nordenham, Germany, in preparation for increased sales opportunities and future growth potential. These investments will facilitate both higher production output and additional automation to benefit efficiency and profitability.

The Accessories business recorded reduced sales in certain non-European markets due to restrictions related to the COVID-19 pandemic. However, stable production was maintained, with limited impact on the supply chain.

New Head of Accessories
To strengthen growth of the business line, Fredrik Eskengren was appointed EVP, Head of Accessories, in April 2020. Fredrik Eskengren has solid experience from the power cable business and has been with NKT since 2007.

"We have grown our power cable accessories business well in the past years. This development was successfully continued in 2020. We have invested in automating and making our production facilities more efficient. This benefitted our performance in 2020 and serves as a good foundation for future growth."

Fredrik Eskengren
Executive Vice President, Head of Accessories

Risk management

Risk management is and always has been a priority for NKT as various activities all pose uncertainty or risk that NKT needs to manage. As such, risk taking is a natural part of doing business.

The NKT risk management goal is to understand, prioritize and mitigate the large risks. NKT's risk-based approach allows NKT to operate with confidence on the key risks and to monitor the mitigations in a structured, coordinated way with continued focus on efficient day-to-day business operation in line with the company strategy.

The company's main revenue streams originate from different segments of the power cable market with independent market dynamics. To some extent this has the effect of spreading the risk. The Solutions business line, which is a project and backlog driven business, is largely decoupled from short-term developments in the general economic environment. The Applications business line is mainly driven by construction development in both residential and non-residential buildings, while the medium-voltage market benefits from ongoing optimisation of the power grids by private and public stakeholders. Finally, growth in the Service & Accessories business line partly depends on large power cable repair projects. The development in 2020 for each business line is described in the business reviews on pages 34–39.

Responsibilities

The company's enterprise risk management (ERM) model ensures that risks are identified, reported and managed.

The formal responsibility for risk management rests with the NKT Group Leadership Team via the Risk Board, while monitoring is carried out by the Board of Directors.

NKT's risk management framework includes a process for reporting key risks and their mitigating actions. This process is performed and consolidated biannually to the Board of Directors via the Audit Committee.

NKT risk matrix

The company's key risks are mapped in a risk matrix according to probability and impact. The overall risk picture remains unchanged compared to 2019 with the following material changes.

Firstly, the risk of the COVID-19 pandemic has been introduced this year and is also a contribution factor in several of the other risks. So far however, COVID-19 has had limited disruption or operational impact, including supply of materials.

Secondly, the risk connected to complete the DC qualification in Cologne has decreased in impact as a result of the ongoing investments in additional high-voltage DC production capacity at the production site in Karlskrona.

As a complex, international business NKT is also exposed to financial risks not covered in the risk matrix. These risks arise from financial market fluctuations and primarily consist of currency and commodity risks. NKT utilizes varied financial derivatives to hedge substantial exposure and to protect earnings and assets from significant fluctuations.

See Section 5.6 on pages 124–129

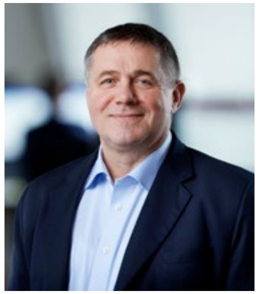
NKT risk matrix

1. COVID-19 pandemic (new)
2. Product claims
3. Operational breakdowns at factories
4. Compliance
5. DC qualification in Cologne
6. Project execution in high-voltage segment
7. Cyber risk
8. Key suppliers
9. Price pressure
10. Key customers

Risk	1.	2.	3.	4.	5.
Risk identification	COVID-19 pandemic	Product claims	Operational breakdowns at factories	Compliance	DC qualification in Cologne
Monitoring	Country-specific pandemic preventive regulation is monitored at the local sites. Supply chain and market sentiment risks are continuously in focus. Active employee infection and quarantine numbers are continuously monitored and regularly reported to the CEO	Close monitoring of product and warranty issues to identify potential failures in either production and/or product designs	Close monitoring of operational performance for critical equipment and processes	Continuous monitoring of regulatory developments	The ongoing DC testing and qualification process is monitored closely to ensure timely and successful completion
Mitigating action	Since the outbreak in early 2020, a range of protective measures have been implemented to safeguard employees as well as a proactive approach to any change in market demands	Strengthening of quality awareness and associated control procedures throughout the production cycle to ensure solid products and solutions. Sharing of best practice across sites. Systematic root cause analysis of product issues and subsequent implementation of corrective measures	Maintenance programme established with external third party including high-voltage collaboration between the Cologne and Karlskrona sites	Mandatory e-learning and tests in the new NKT Code of Conduct, data privacy and competition law, an established Ethics & Compliance Procedure monitored by the Ethics & Compliance Board and the Audit Committee, and monitoring and auditing processes in place to identify potential issues. Issues reported via the whistle-blower hotline are investigated and corrective measures taken	Significant investments have been made to increase capacity and upgrade the manufacturing facilities. A designated project team is managing the ongoing upgrade of facilities as failure to successfully complete such investments on time could impact the ability to deliver successfully on Solutions contracts awarded

Risk	6.	7.	8.	9.	10.
Risk identification	Project execution in high-voltage segment	Cyber risk	Key suppliers	Price pressure	Key customers
Monitoring	High focus on risk management activities in all project phases to ensure delivering customised and large projects in accordance with the terms of the contract. Defined work groups are closely monitoring and addressing specific projects	Continuous monitoring of cybercrime, virus attacks or cyber related incidents impacting business operations, incl. IT to control the supply chain, perform customer service and manage production and labour resources	NKT works with suppliers of a range of products, including key materials, compounds and metals	NKT is experiencing pressure on pricing for solutions, products and services in several power cable markets	In a few markets in the Applications segment, a limited number of customers contribute a significant share of revenue. NKT maintains close and regular interaction with all identified key customers. Monitoring of some utility customers' shift towards an Engineering, Procurement and Construction (EPC) business model
Mitigating action	Mitigation of identified risks via risk management activities and through insurance, contract provisions and preproduction testing	Strengthening of Information Security Management governance. Additional resources onboarded during 2020 to address the increasing cyber threat landscape	Close working relationship with identified key suppliers to reduce risks and maintain inventory control while also investigating and qualifying alternative sourcing opportunities	Macro-economic and market dynamics vary across markets, leading to a different mitigation approach in each business line. Actions taken include establishing focused working groups, qualifying new markets and strengthening NKT's value proposition	NKT is expanding market presence and strengthening its value proposition to reduce dependence on individual customers

NKT Group Leadership Team



Alexander Kara
President & Chief Executive Officer
Born 1961
Joined NKT in 2019

Line Fandrup
Executive Vice President,
Chief Financial Officer
Born 1979
Joined NKT in 2020

Fredrik Eskengren
Executive Vice President,
Head of Accessories
Born 1980
Joined NKT in 2007

Will Hendrikx
Executive Vice President,
Head of Applications
Born 1964
Joined NKT in 2020

Michael C. Hjorth
Executive Vice President,
Chief Commercial Officer HV Solutions
Born 1966
Joined NKT in 1995-2012 and again in 2017

Anders Jensen
Executive Vice President,
Chief Technology Officer
Born 1964
Joined NKT in 2018

Mika Makela
Executive Vice President,
Head of HV Solutions Cologne
Born 1981
Joined NKT in 2017

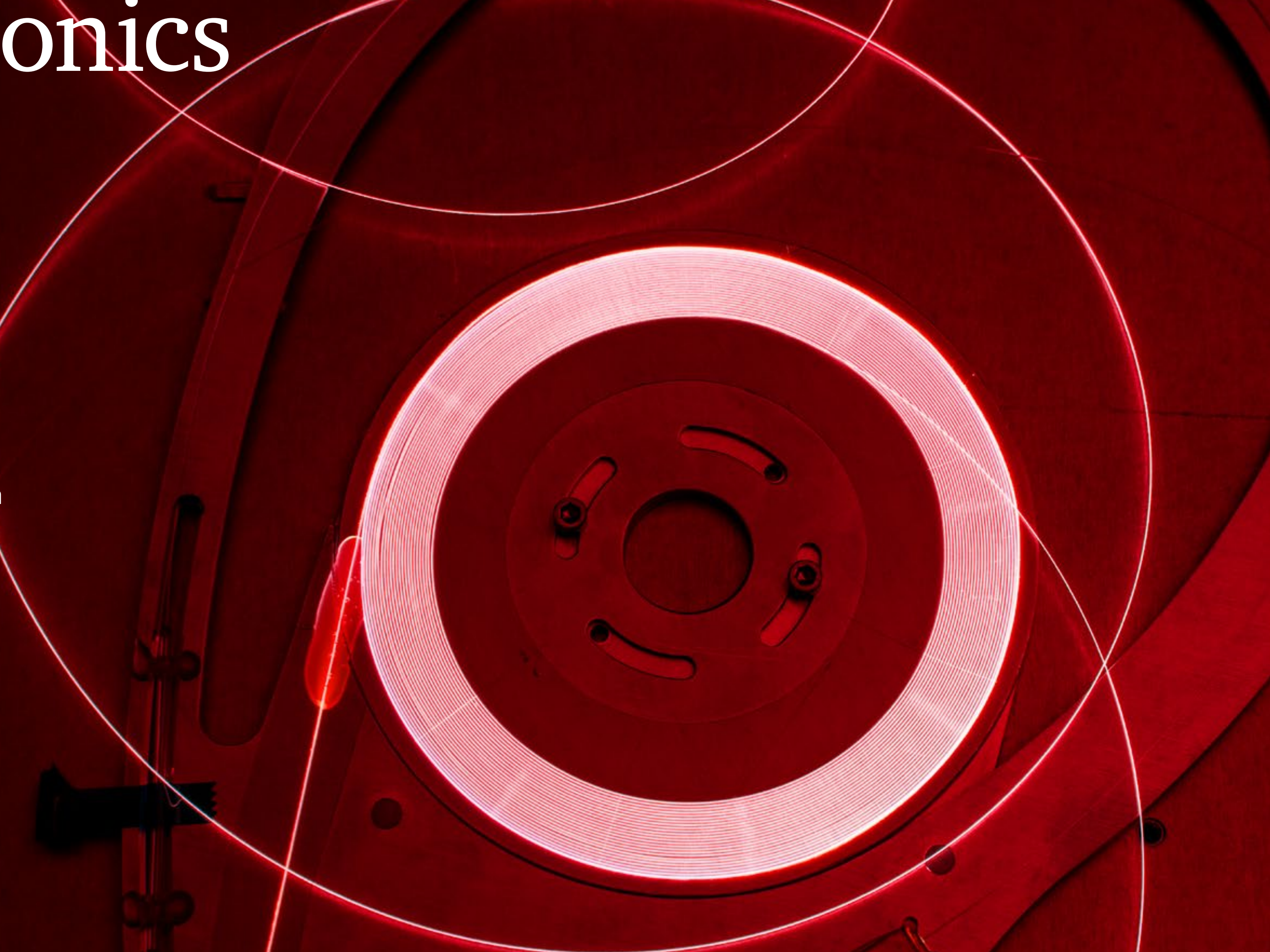
Lika Thiesen
Executive Vice President,
Chief Human Resources Officer
Born 1975
Joined NKT in 2015

Claes Westerlind
Executive Vice President,
Head of HV Solutions Karlskrona
Born 1982
Joined NKT in 2017

Axel Barnekow Widmark
Executive Vice President,
Head of Service
Born 1977
Joined NKT in 2020

Business overview
NKT Photonics

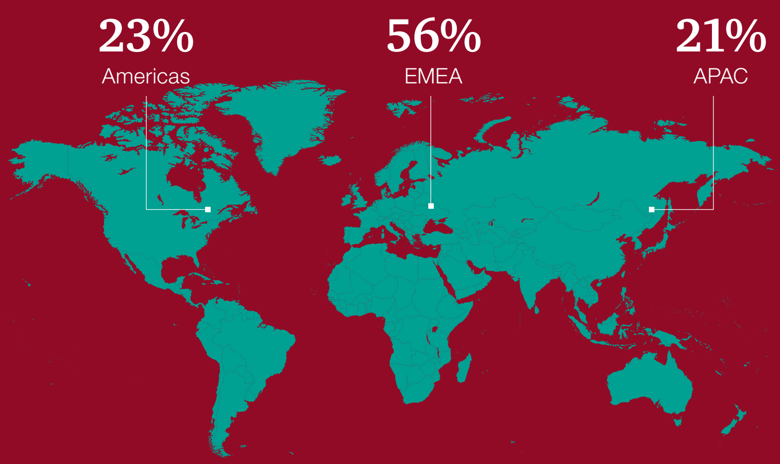
NKT Photonics is at the forefront of optical fiber technology and manufactures some of the most sophisticated optical fibers for use in its lasers.



NKT Photonics at a glance

Our innovative ultrafast lasers and sensing systems enhance our industrial and medical partners by enabling the introduction of new and advanced volume products and technology to their markets. We are, with relentless zeal, building a commercial and highly scalable business that benefits all our customers, employees and stakeholders.

Revenue distribution 2020



Founded in	Countries with offices	Nationalities	Employees
2000	7	33	417

Issued and pending patents	People in R&D and engineering	R&D spend as % of revenue
390	150	+20%

Three business segments

Revenue distribution 2020 (EURm)*

21%
Medical & Life Science

63%
Industrial

15%
Aerospace & Defence

Letter from the CEO

An unusual year

As for most of us, 2020 was an unusual year for NKT Photonics. Many of our plans had to be rewritten and new ways of working invented.

Mixed market reactions during COVID-19 pandemic

We delivered strong growth in Medical & Life Science, where our latest generation of supercontinuum white light lasers set new performance standards in advanced microscopes used in a range of applications. This included the pursuit of COVID-19 vaccines. We also saw good traction within ophthalmology, where our ultrafast lasers are a key component in the latest generation of super-precise surgical equipment.

However, the global COVID-19 pandemic hit the Industrial markets hard. In particular, our customers from the major research institutions reduced their activity and postponed orders, as many could not access their facilities due to lockdowns around the world. The restrictions on travel also prevented us from visiting these customers during much of the year and many projects were delayed.

Overall, the demand situation meant that for the first time in several years we experienced negative revenue development in 2020.

Signs of improvement

Although the pandemic affected a large part of our markets, the situation is gradually improving, and we are cautiously optimistic for 2021. While many projects were delayed, the business was not lost, and we expect the level of activity to normalize This will though remain uncertain given the current development of the pandemic. We continue to see strong underlying megatrends that we expect to prevail as growth drivers for us in the years ahead.

Our order intake grew throughout 2020 as we and our customers adapted to the new reality and found ways to execute projects despite the restrictions. We also launched several new products in 2020 that will help us grow in the years ahead.

Finally, I would like to thank all our employees who have worked tirelessly throughout the year to deliver products to our customers despite restrictions, lockdowns and the many other complications that the global pandemic has imposed on all our lives. We are all looking forward to returning to more normal operation during the coming year.

Basil Garabet
President and CEO, NKT Photonics

"NKT Photonics delivered growth in Medical & Life Science, but the global COVID-19 pandemic hit the Industrial markets hard"

Key financials – 5-year review

Amounts in EURm	2020	2019	2018[1]	2017[1]	2016[1]
Income statement					
Revenue	69.9	74.6	67.7	50.9	43.1
EBITDA	2.6	14.6	9.0	3.5	6.3
Depreciations, amortizations and impairment	-12.1	-9.9	-7.9	-5.2	-4.8
EBIT	-9.5	4.7	1.1	-1.7	1.5
Financial items, net	-5.2	-0.7	-0.3	-0.9	-1.2
EBT	-14.7	4.0	0.8	-2.6	0.3
Tax	3.7	-1.5	1.2	0.4	-0.1
Net result	-11.0	2.5	2.0	-2.2	0.2
Cash flow					
Cash flow from operating activities	0.7	7.2	4.1	-0.4	-1.4
Cash flow from investing activities excl. acq. & div.**	-16.6	-16.7	-11.8	-7.5	-3.3
Free cash flow excl. acq. & div.**	-15.9	-9.5	-7.7	-7.9	-4.7
Balance sheet					
Capital employed**	110.7	104.4	78.6	69.0	49.3
Working capital**	27.4	28.2	24.0	23.1	18.5
Financial ratios and employees					
Organic growth**	-6%	10%	16%	7%	7%
EBITDA margin	3.7%	19.6%	13.3%	6.9%	14.7%
RoCE**	-8.8%	4.9%	1.6%	-3.1%	4.1%
Full-time employees, end of period**	417	403	349	302	240

[1] Comparison figures have not been restated following the implementation of IFRS 16 Leases on 1 January 2019.
** Alternative performance measures

Market overview

Solutions for Innovators

Technology has the power to transform our lives. This was true with the invention of penicillin, electricity and, more recently, the Internet.

Today, the transformation continues with amazing innovations such as autonomous electric cars, smartphones, quantum computing, artificial intelligence, stem cell and cancer research, renewable energy and even space exploration. NKT Photonics' customers are visionary innovators within these fields and many more. They are changing the world through their innovations, and we are ready to deliver the cutting-edge solutions they need. Solutions for Innovators.

Growth supported by megatrends
NKT Photonics develops innovative solutions with multiple beneficial applications. These technology- leading solutions are tapping into sustainable megatrends that will support growth opportunities for the company going forward.

Megatrends supporting growth in the photonics industry

Growing and ageing population
The continued increase in global population and life expectancy will lead to pressure for more effective use of resources and drive up health costs. This development will increase:

1. The demand for optical sensing and monitoring to optimize use of energy and infrastructure

2. The need for faster and cheaper medical instrumentation for mass screening, diagnostics and treatment based on lasers.

Increased technological complexity
As technology shrinks and more functions are packed into the devices we use every day, the requirements for the technology used to manufacture the advanced products are pushed to new levels.

Mechanical manipulation of material that was feasible a few years back is increasingly being replaced by optical manipulation with ultrafast lasers. This allows higher precision and faster throughput when processing the small structures in high-tech devices like smartphones and advanced medical equipment.

Focus on security
As technology advances and cost decreases, access to autonomous drones, surveillance equipment, and other advanced technology is becoming easier. This is accompanied by increasing security concerns as small groups or individuals can harm civilian targets or disrupt infrastructure. Consequently, there is a growing need for fast and efficient defence systems that are safe to use in any environment.

Directed energy systems using fiber lasers are uniquely suited to accomplish some of these tasks. For example, they can safely disable small drones over an airport, sports stadium or ship both effectively and cost-efficiently. In addition, optical remote sensing technology like Distributed Acoustic Sensing, DAS, is increasingly being used for perimeter and border security, as well as to secure critical infrastructure like communication lines.

Market overview

Market segmentation

NKT Photonics has divided its main market into three main segments: Medical & Life Science, Industrial, and Aerospace & Defence. Most of the products in NKT Photonics' portfolio have applications across these three market segments.

While the global COVID-19 pandemic has temporarily shifted the size and balance of NKT Photonics market segments, the total addressable market is still approximately EUR 2.5-3bn, the impact of the pandemic on Industrial having been offset by growth in Medical & Life Science and Aerospace & Defence.

The overall laser market is expected to grow at a CAGR of 9.6% in 2020-2025*. Within this, the fiber laser market is expected to grow at 11.5% per year in the same period*. Here, one of the principal drivers is Aerospace & Defence, which is expected to grow at 22.6% per year with directed energy systems as the main contributor to growth*. Directed energy systems is NKT Photonics' biggest sub-segment within Aerospace & Defence.

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The majority of NKT Photonics' laser products are based on their unique photonic crystal fiber technology. Produced fully in-house and heavily IP protected, the technology is the foundation for the high performance of the lasers.

Expected CAGR for fiber laser market

11.5%

For 2020-2025

*Source: The Worldwide Market for Lasers, Trends and Five-Year Forecast (2019 – 2025) by Strategies Unlimited.

Market overview

Medical & Life Science

Medical & Life Science is currentlythe fastest growing of the three identified market segments. Ultrafast fiber lasers are finding particular use in medical procedures such as ophthalmology, while supercontinuum lasers are used in advanced bio-imaging, enabling new ways of diagnosing e.g. cancer.

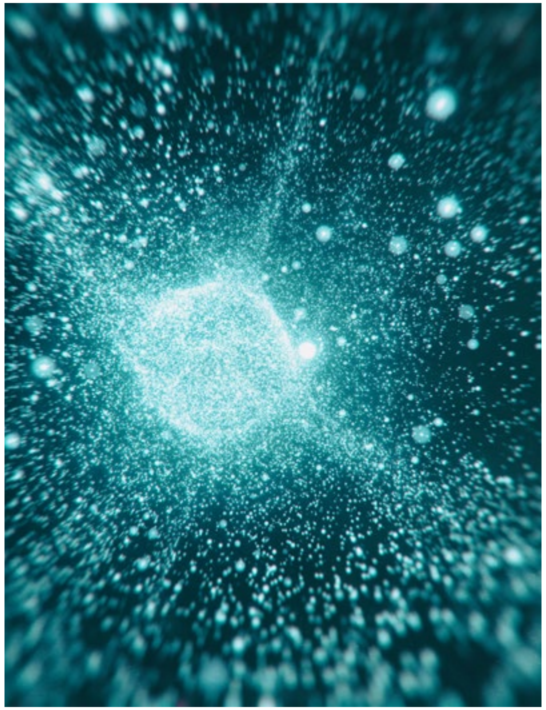
Main applications for Medical & Life Science are:

- Bio-imaging & microscopy
- Medical devices
- Ophthalmology

The Medical & Life Science segment is predominantly driven by identified megatrend 1: Growing and ageing population.

The unique lasers from NKT Photonics can be used in many areas within medical and life science. From high resolution imaging of retinas and eye surgery to skin cancer diagnostics and advanced microscopy

Medical & Life Science
Examples of current main applications



Fast, low-cost detection of skin cancer
Skin cancer is the most frequent cancer type and is becoming increasingly common. The traditional method of detection using biopsies is not optimal as it can be painful, costly, time-consuming and even unreliable. Around 20% of early-stage skin cancers are estimated to be missed when using biopsies. A new medical imaging device developed by DAMAE Medical uses NKT Photonics' SuperK supercontinuum white light laser to detect early-stage skin cancer faster, cost-efficiently, and without the need for biopsies. It eliminates unnecessary surgery and ultimately saves lives.

Pursuing the cure for cancer with confocal microscopes
According to the World Health Organization, 9.6 million people died from cancer in 2018. NKT Photonics' SuperK supercontinuum white light lasers power a large number of high-resolution confocal Leica microscopes around the world. Used for purposes such as cancer research, these microscopes offer superior image contrast and flexibility, enabling the user to see features in cells not previously visible. The SuperK lasers are also used in so-called super-resolution microscopes, such as STED microscopes, that offer even higher resolution. In 2014, Stefan Hell was awarded The Nobel Prize in Chemistry for his work with STED microscopy using NKT Photonics' lasers.

Better implants and stents enabled by lasers
More than 1.8 million surgical stents are implemented in the US alone each year. For stents, precision-machining and surface quality are vital, and ultrafast lasers are uniquely suited to deliver both. Moreover, ultrafast lasers can directly modify the surface of stents and other implants, and thereby change how they interact with biological tissue. These so-called functional surfaces can increase biocompatibility for e.g. prosthetics, thereby potentially reducing complications and speeding up recovery.

Helping to cure cystic fibrosis
The average life expectancy of a person with cystic fibrosis is below 40 years. Using NKT Photonics' SuperK supercontinuum white light lasers, researchers at Massachusetts General Hospital have created in-vivo scanners with cell-level resolution. Such scanners are helping doctors understand the causes of cystic fibrosis and helping pharmaceutical companies design drugs to alleviate and eventually cure the disease.

Traceability and safety through dark marking
In the pharmaceutical and medical market, traceability is of paramount importance to battle counterfeit products, ensure the correct use of sterilized equipment and avoid contamination risk during surgery. Ultrafast lasers are used to mark the two most important materials in this area, glass and stainless steel, thereby enabling full traceability of equipment and medicine all the way from production line to patient.

Safer eye surgery with ultrafast lasers
More than 20 million cataract surgeries are performed worldwide each year. Most of them with manual processes where the results are dependent on the skill of the surgeon. In the latest generation of equipment for cataract operations the scalpel is replaced with an ultrafast femtosecond laser from NKT Photonics. Using lasers ensures consistent quality, reduces the risk of complications and accelerates recovery.

Market overview
Industrial

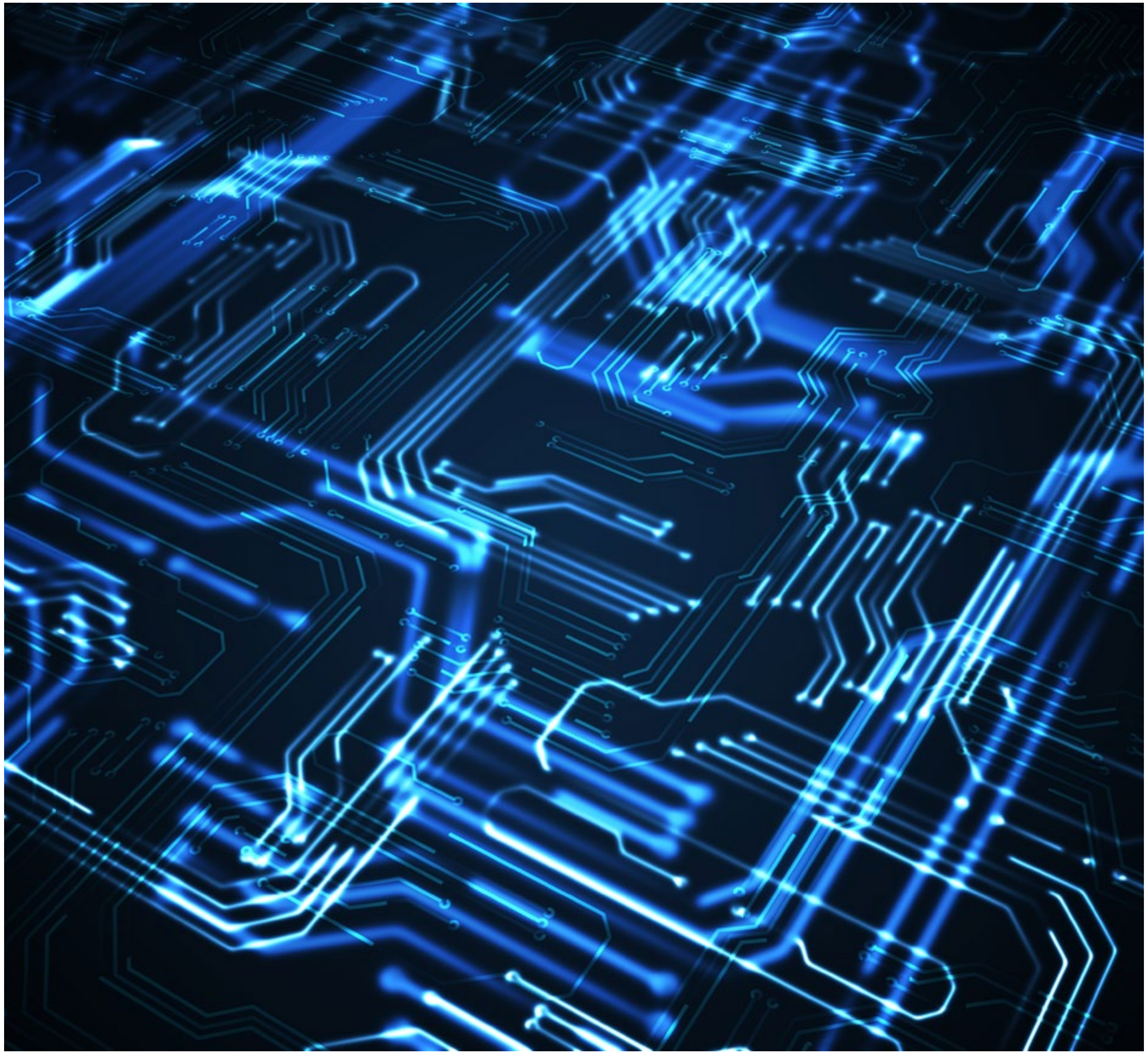
Industrial is the largest and most diversified segment of NKT Portfolio's main markets. Customers in this segment use the full breadth of NKT Photonics' product portfolio, including ultrafast lasers, supercontinuum lasers, and sensing systems.

Within the Industrial segment, NKT Photonics serves a wide range of subsegments and applications, such as:

- Device characterization, sorting and quality control
- Materials and nanostructures
- Micromachining and display
- Remote sensing
- Semiconductors

The Industrial segment is predominantly driven by identified megatrend 2: Increased technological complexity.

As the biggest of NKT Photonics market segments, the applications within the Industrial market are numerous. An important area is semiconductor fabrication, where the lasers are used in manufacturing and quality control of semiconductor structures for processors and memory chips supplied by some of the World's largest manufacturers.



Industrial
Examples of current main applications

Wind sensing reduces cost of renewable energy
More than 600 GW of wind power capacity is already installed worldwide, and the amount is increasing fast. When in operation, the efficiency of the turbines depends on how well the blades and tower are aligned to the wind. Using NKT Photonics' low-noise Koheras lasers, the wind in front of the wind turbine can be measured with high accuracy in three dimensions. By feeding this information to the turbine control system, turbine efficiency can be increased by 3-5%, while also reducing wear and maintenance. All this contributes to lowering the cost of renewable energy, thereby supporting the global green transformation.

More power from renewable energy with power cable monitoring
With the growth in decentralized renewable power sources such as wind and solar, energy production fluctuates more than ever before, increasing the demands on the power grid. NKT Photonics' EN.SURE power cable monitoring systems are used to continuously supervise the health and load of the power cables, enabling improved load distribution and capacity utilization. This means that more of the wind or solar energy produced can be sent into the grid.

Safer tunnels and metros using fiber sensors
Fire safety in tunnels and metros is a high priority and the protection systems have never been better. NKT Photonics' DE.TECT linear heat detection systems currently monitor the temperature in over 300 tunnels and metros worldwide. The fiber optic systems can detect tiny increases in temperature with an accuracy down to 1 m over several km of tunnel. DE.TECT feeds the data to the fire protection systems, enabling fast and accurate response to fires or hotspots, keeping people safe when travelling in tunnels or underground.

Sorting and quality control of food
The characteristic broadband light from the SuperK white light lasers can be used for high-speed sorting of e.g. food and ingredients. Using these unique lasers for sorting directly on the production line enables the manufacturer to switch from off-line sample-based batch quality control to 100% sorting of all batches. Using NKT Photonics' lasers, the customers increase not only the quality of the food produced, but also food safety. The latter is a growing concern globally, where ingredients and materials are often inconsistent and/or misleading.

Smarter, thinner and flexible displays
In 2018, manufacturers shipped more than 600 million OLED panels, and this market is currently growing at around 15% annually. Next-generation displays will be thinner, allowing screens to bend. OLED manufacturing is complex, requiring multiple processes, and any reduction in the number of process steps is important to lower production costs. Moreover, ultrafast lasers enable the use of thinner materials required to improve performance and reduce power consumption.

Ultrafast lasers are increasingly deployed to cut, process and repair displays directly, with little to no post-processing, thereby eliminating costly steps in the manufacturing process. They are also used to embed almost unnoticeable markings for authenticity and to functionalize the display for e.g. fingerprint readers.

Market overview

Aerospace & Defence

While NKT Photonics has always operated within the Aerospace & Defence market, particular focus over the last couple of years has resulted in incrased revenue within this segment. In Aerospace & Defence, NKT Photonics utilizes its entire portfolio of products and capabilities to serve special project needs, focused mainly within the European and US markets.

The main applications include:

- Aerospace
- Directional Infrared Counter Measures (DIRCM)
- Directed energy
- Remote sensing

With the opening of its manufacturing facility in Boston, Massachusetts, NKT Photonics can serve the US Aerospace & Defence market even more effectively. The Aerospace & Defence segment is predominantly driven by identified megatrend 3: Focus on security.

→

NKT Photonics' fiber laser technology enables laser systems that are both light and robust – critical features for deployment on mobile platforms like planes, ships and ground vehicles.

Aerospace & Defence
Examples of current main applications

Lasers preventing drone attacks

In 2018, small drones closed London Gatwick Airport for more than two days, incurring costs estimated at several million EUR. Small, fast-moving drones are an increasing concern around high-risk areas such as airports, ships or stadiums. Lasers from NKT Photonics are used in projects aimed at safely tracking and disabling these drones quickly and effectively.

Koheras lasers keep communication safe

NKT Photonics is supplying thousands of Koheras lasers to a large-scale secure data network project in India. The lasers are the key component in the fiber-optic intrusion detection and location system that monitors the several thousand km long network. The system ensures that the communication lines are secure, and that data cannot be siphoned out of the system without detection. Similar systems are also used for perimeter security at airports and other critical infrastructure.

Koheras lasers in space

NKT Photonics currently has several Koheras low-noise lasers in orbit on board the ESA SWARM satellites measuring the Earth's magnetic field. Space-qualifying a laser is no simple task, but the robust monolithic design of the Koheras fiber lasers makes them well suited to harsh environments. They have been operating for several years in space, helping scientists to better understand the planet and delivering higher-precision navigation for smartphones by mapping the magnetic poles.

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Sustainability

NKT Photonics is a leading supplier of fiber lasers, photonic crystal fibers and distributed temperature systems (DTS) as well as having a strong foothold in ultrafast lasers.

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

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

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The latest generation of wind LIDAR from NKT Photonics enables continuous optimization of the turbine, resulting in up to 5% higher turbine efficiency.

Product portfolio

NKT Photonics offers a variety of innovative solutions within the photonics markets. These solutions are applicable for several market segments as stated in the market overview, and they are described in more detail the following.

Fiber lasers versus solid-state lasers
While the majority of NKT Photonics' laser products are fiber lasers, the company also produces solid-state lasers and hybrid systems. In the last decade, fiber lasers have taken market share from solid-state lasers as they have a range of key advantages, such as robustness, scalability and maintenance-free operation. Solid-state lasers on the other hand have advantages at high pulse energies required in certain applications.

With these two types of lasers, NKT Photonics can choose the platform that best suits the application and even combine the two to gain benefits from both technologies.

Photonic Crystal Fibers
The company's unique and heavily protected Photonics Crystal Fiber technology is at the core of most of its laser products and is a main driver of differentiation and growth. NKT Photonics utilizes the technology to embed as much functionality as possible directly into the fibers to ensure that systems built with these high-function components are simpler, more cost effective, and reliable. Photonic Crystal Fibers are unique and differ from e.g. telecommunication fibers in using a microscopic array of materials running along the length of the fiber. The fibers are also known as microstructured fibers.

Supercontinuum white light lasers
NKT Photonics is a leading global supplier of supercontinuum white light lasers – lasers that emit high-brightness light within a very broad spectral range, from UV light all the way into the near infrared. This is unique to supercontinuum technology as light sources are typically either bright or broad. The SuperK lasers produced by NKT Photonics are the only light sources capable of doing both. This combination is important as it enables supercontinuum lasers to replace a range of other lasers that emit light of only one colour, thereby saving cost and space while improving reliability and robustness. Moreover, the broad spectrum of these lasers enables a new level of measuring precision not possible with any other laser type.

Narrow linewidth low-noise lasers
Koheras lasers are in many ways the exact opposite of SuperK white light lasers. They emit light in an extremely narrow and well-defined spectral range and the light is very well controlled. As the characteristics of the light are so well known, it is ideal for sensing applications, even very small disturbances being observable as changes to the light from the lasers. Primary sensing applications include Distributed Acoustic Sensing (DAS), vibrometry, and LIDAR applications in areas such as pipeline monitoring, windfarm supervision, and intrusion detection. Koheras lasers are also used in quantum technology and atomic research.

Ultrafast lasers
Ultrafast lasers emit very short bursts of high-intensity light that can be used to manipulate material with high precision. NKT Photonics' Onefive and aeroPULSE ultrafast lasers are used directly in material processing applications within the Medical & Life Science and Industrial segments. The aeroGAIN modules are supplied to other manufacturers of ultrafast lasers where they constitute the main "engine" of the lasers.

Sensing systems
NKT Photonics produces a range of linear optical sensing systems for power cable monitoring, fire detection, and industrial temperature monitoring. All these systems can measure temperature with high accuracy over many km of optical fiber. Unlike with electronic temperature measuring, the optical fibers are extremely robust and immune to electrical disturbances. This makes them well suited for measurements in harsh environments such as tunnels, metros, chemical plants, furnaces and inside high-power optical cables.

Commercialization strategy

NKT Photonics has pursued its strategic direction to grow the business and increase profitability by prioritizing focus on commercialization over focus predominantly centered on scientific markets. NKT Photonics will continue to pursue commercialization of solutions and technologies in the years ahead to sustain further growth. This strategy is supported by four focus areas.

#1

Move up in value chain

As part of the progression from primarily serving the scientific market towards a more industrial profile, the products which NKT Photonics offers are rising higher in the value chain. This is to capture a larger part of the value in the market. This development is also a natural consequence of the change in customer base, as industrial customers are inclined to choose complete solutions rather than the flexible building blocks sought after in the scientific market.

#2

Focus on growth

Following the acquisitions of Fianium and Onefive in 2016 and 2017, NKT Photonics' product and competence matrix has become more balanced. The new businesses have been integrated into the company and serve as an important part of its growth platform for the years ahead. NKT Photonics will continue to invest in business areas that offer significant growth opportunities, particularly in the Aerospace & Defence and Medical & Life Science segments.

#3

LEAN operations

As NKT Photonics grows, scale in production and LEAN are becoming increasingly important to improve profitability and manage working capital. The company's manufacturing sites are tied together with centralized functions like procurement and order handling. Responsibility for operating the sites as efficiently as possible across borders and for driving the LEAN process lies with the Chief Operating Officer.

#4

Fast introduction of new products

NKT Photonics' product technology platform is maturing, and focus has shifted from fundamental development to faster introduction of new products and customer-specific variants. This also supports the move into more industrial market segments where product cycles are shorter, and products are typically tailored to individual customer needs.

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NKT Photonics' office in Boston serves as the headquarters for all its US-based sales. It also accommodates a state-of-the-art single-frequency fiber laser manufacturing facility.

Financial & business review

The COVID-19 pandemic impacted demand negatively in 2020, particularly in the Industrial segment. Organic growth for NKT Photonics was -6% as the slowdown in Industrial outweighed strong growth in Medical & Life Science. This resulted in lower profitability for the year. However, performance stabilized during 2nd half 2020, showing signs of improvements entering 2021.

Mixed revenue development due to COVID-19

The revenue for NKT Photonics amounted to EUR 69.9m in 2020, compared with EUR 74.6m in 2019, corresponding to -6% organic growth. Revenue performance was adversely influenced by the COVID-19 pandemic, particularly in 1st half 2020.

NKT Photonics' largest revenue contributor is the Industrial segment, which accounted for 63% of revenue in 2020. This market was impacted negatively by restrictions and uncertainty surrounding the COVID-19 pandemic with several orders postponed. However, none of the postponements resulted in cancellations.

The slowdown in Industrial outweighed the positive performance in the Medical & Life Science segment. This market was relatively resilient despite the global economic slowdown, and NKT Photonics is delivering new-generation solutions to support future growth in this market.

The revenue development in Aerospace & Defence was stable compared to 2019.

EBITDA impacted by negative revenue development

Driven by the lower revenue, the EBITDA for NKT Photonics in 2020 was EUR 2.6m. This compared with EUR 14.6m in 2019, which included some positive non-recurring items.

The customer mix and temporary yield inefficiencies associated with a shift to high-volume customers impacted profitability and margins negatively in 2020.

The EBITDA margin in 2020 was 3.7%, compared to 19.6% in the previous year.

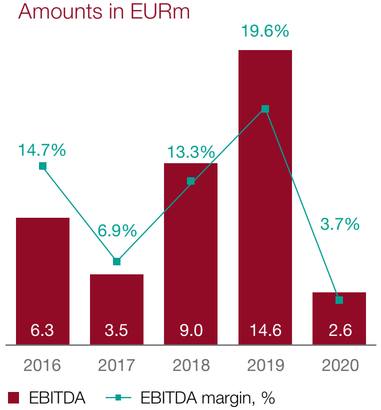
NKT Photonics' cost base also increased in 2020, reflecting the company's continuous investment in future growth opportunities in anticipation of attractive future market development. However, new recruitment was slowed during the year due to the unexpected slowdown in revenue.

EBIT and net result

The development in EBITDA led to a lower EBIT, which amounted to EUR -9.5m in 2020 against EUR 4.7m in 2019. Depreciations and amortizations increased in 2020, reflecting the investments made in recent years.

NKT Photonics reported a net result of EUR -11.0m in 2020 against EUR 2.5m in 2019.

EBITDA
Amounts in EURm



Modest improvement in working capital

At end-2020, the working capital amounted to EUR 27.4m, down from EUR 28.2m at end-2019. The working capital decreased as a result of strengthened accounts receivable collection and was partly offset by higher tax receivables.

The free cash flow (excl. acquisitions and divestments) amounted to EUR -15.9m in 2020, compared to EUR -9.5m in 2019. This development was primarily due to the lower earnings level in 2020.

Order intake down by 17%

Despite a 20% growth in orders from Q3 to Q4 2020 and a rising trend in orders throughout 2020 as the markets found ways to adjust to the COVID-19 pandemic, the order intake for the year as a whole was 17% down compared with 2019. As with revenue, the greatest challenges were in the Industrial segment where several research customers postponed orders.

RoCE negatively impacted by earnings development

Driven by the lower earnings, NKT Photonics saw a decline in RoCE from 4.9% in 2019 to -8.8% in 2020. The capital employed amounted to EUR 110.7m at end-2020, up from EUR 104.4m at end-2019.

Revenue development and organic growth

Amounts in EURm

2019 revenue	**74.6**
Currency effect	-0.4
Divestments and reclassifications	-0.1
2019 adjusted revenue	**74.1**
Organic growth	-4.2
2020 revenue	**69.9**
Organic growth %	**-6%**

Medical & Life Science

The Medical & Life Science segment saw strong growth in 2020 despite the COVID-19 pandemic. This growth was driven by large customers within bio-imaging, microscopy and ophthalmology. Segment outlook remains positive as several smaller customers using supercontinuum and ultrafast lasers gained traction within medical and life science applications.

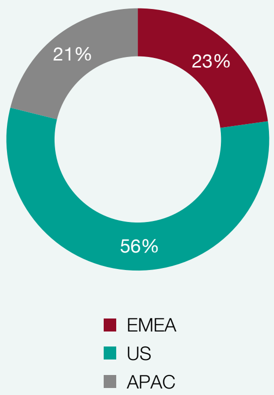
Industrial

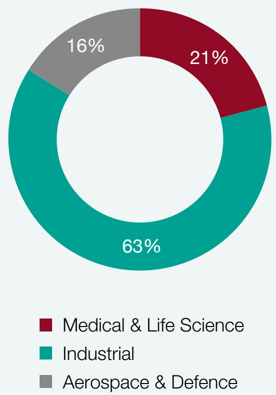
The headwinds confronting the Industrial segment at the start of 2020 strengthened with the COVID-19 pandemic. While subsegments like the semiconductor market performed well, the scientific and research markets struggled in 2020 as many institutions were under lockdown for most of the year. Consequently, projects and orders were delayed. Depending on developments in the pandemic, most parts of this market segment, especially in Europe and the US, are expected to normalize during 2021.

Aerospace & Defence

Delays relating to the COVID-19 pandemic also affected the Aerospace & Defence segment. Although the level of activity continued high and both new and existing projects saw significant progress, revenue development remained largely flat in 2020 compared with 2019. The segment is expected to return to growth in 2021 alongside a projected worldwide lifting of COVID-19 restrictions.

Revenue distribution 2020





Risk management

During 2020, several aspects of the market segments of NKT Photonics and its business partners were adversely affected by the COVID-19 pandemic.

The Board of Directors and the Leadership Team of NKT Photonics are therefore continuously monitoring the company's risk profile and mitigating actions to ensure that management of pandemic-related risk, is a strong and integral part of company policy and stays ahead of potentially damaging developments.

In 2020, continuously changing market conditions and reduced visibility were key considerations in the management of risks and opportunities, and this position will remain unchanged in the short term.

Going forward, the full extent of the impact of the COVID-19 pandemic on the operational and financial performance of NKT Photonics is uncertain and will depend on many factors outside the company's control. These factors depend to a large extent on the duration of the pandemic, the application of pandemic controls, and the availability and effectiveness of treatments and vaccines worldwide. Further, the impact on the global economy, and the impact on demand for technology-leading solutions in the markets of Medical & Life Science, Industrial, and Aerospace & Defence will be key.

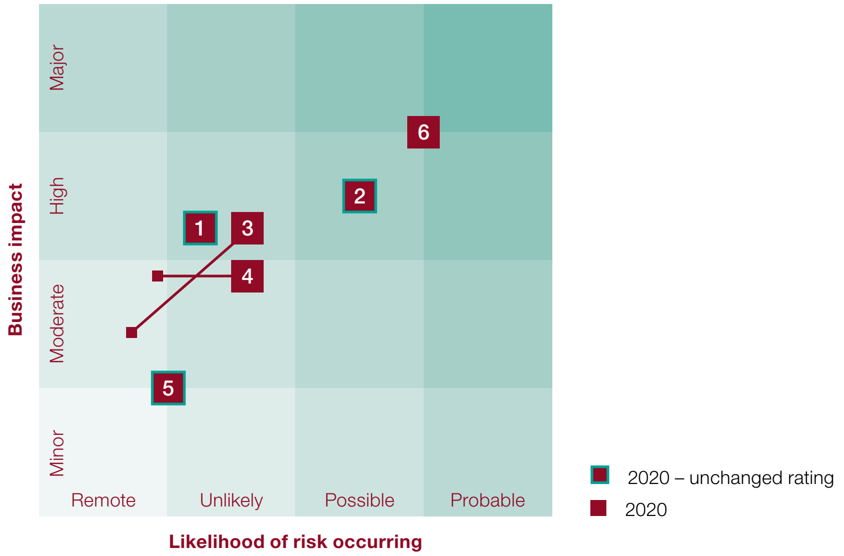
Changes in risk matrix

A detailed overview of the company's primary risks is presented in the following. New compared to 2019 is Risk 6 relating to the COVID-19 pandemic.

Risk 3 related to Intellectual Property Rights has been increased in both business impact and likelihood of occuring. The update has been due to a detailed assessment of the importance of this area.

The final adjustment has been regarding Risk 4: Operations dependence on key suppliers. The increased likelihood of occurence has been due to effects of the COVID-19 pandemic, which has increased risks in certain parts of the supply chain.

NKT Photonics risk matrix



1 Competitive market environment and research & development
2 IT and information security
3 Intellectual property rights
4 Operations dependence on key suppliers
5 Human Resources
6 COVID-19 pandemic (new)

Risk management

Risk	1. Competitive market environment and research & development	2. IT and information security	3. Intellectual property rights	4. Operations dependence on key suppliers	5. Human resources	6. COVID-19 pandemic
Risk identification	Current market leaders find alternatives to NKT Photonics' products and solutions that enable them to compete in the form of new technology.	Failure to adequately protect NKT Photonics' IT infrastructure and main IT systems against the risk of security incidents. This could lead to disclosures of business-critical information, stolen digital assets which may result in reputational damage, and weakening of competitive position.	Intellectual property rights (IPR) relating to commercial opportunities are challenged either by third-party infringements or infringements alleged against us.	Dependence on key suppliers constitutes a risk in case of delivery issues, quality issues, or excessive price increases.	Inability to identify, attract, and/or motivate and retain talented people.	The market segments, employees, operations and business partners of NKT Photonics could be severely affected by the Covid-19 pandemic, with direct negative impact on NKT Photonics revenue and earnings.
Monitoring	Continued focus on internal research and development of new technology, and shifts in market/customer demands.	Continuous log and analysis of threats related to IT and information security.	Close supervision of the specific area of technology and tracking of the development of IPR and registration inside and outside the company.	Perform early quality control of purchased materials and services, and continuously evaluate key supplier performance and options for dual supply.	Focus on existing personnel through employee engagement surveys and dialogue. Continuous dialogue with talents from the industry and educational clusters to attract new people.	Follow and monitor the recommendations and requirements of relevant authorities, including the health and safety of employees and business partners. Maintain close dialogue with current and potential customers to stay abreast of changing market demands.
Mitigating action	Ongoing development and improvement of offerings, and protection of unique technologies by patents, etc.	Supported by a high degree of security awareness among the employees, NKT Photonics continuously addresses such risks through processes and tools designed and deployed to protect sensitive business information from malicious threats and security breaches.	Pursue competitors violating NKT Photonics' IPR, and continuously build on existing strength by further IPR development and registration.	Selective implementation of dual sourcing wherever possible, and avoidance of critical dependency on single-source components as far as possible through design solutions.	Cooperation with universities to ensure recognition and focus from students and schools, and effective succession planning for key positions.	Take appropriate actions and precautions in accordance with the recommendations and requirements of relevant authorities to safeguard employees and maintain operations and manufacturing. Frequently evaluate the impact of changing market demands on business and operations.

NKT Photonics Leadership Team

Basil Garabet
President & CEO
Born 1959
Joined NKT Photonics in 2015

Mads Bodenhoff
Chief Financial Officer
Born 1968
Joined NKT Photonics in 2018

Christian Vestergaard Poulsen
Chief Technology Officer
Born 1968
Joined NKT Photonics in 2001

Don Riddell
Chief Operations Officer
Born 1967
Joined NKT Photonics in 2017

Overview

Group

Power cables consist of many layers of material from the core to the final product

Group financials

Operational EBITDA and EBIT

The NKT Group reported operational EBITDA of EUR 59.3m in 2020, up from EUR 29.7m in 2019. The doubling of earnings was driven by the positive development in the Group's power cable business, NKT. The operational EBITDA margin* increased to 5.1% in 2020 from 2.9% in 2019.

In 2020, EBIT amounted to EUR -47.9m, an improvement from EUR -83.0m in 2019. This development was driven by higher profitability in the power cable business combined with lower depreciation and amortization, and a decrease in one-off costs.

Financial items and net result

The net financial items in 2020 amounted to EUR -16.7m compared to EUR -12.3m in 2019. The financial items primarily consisted of interest costs on debt, and also included interest expenses on leases as well as exchange gains and losses. Earnings before tax were therefore EUR -64.6m in 2020, compared to EUR -95.3m in 2019.

The NKT Group reported an effective tax rate of -15.3% in 2020. The tax rate was impacted by a difference between IFRS and local tax accounting for revenue recognition, leading to a temporary difference, and thereby a deferred tax liability, in Germany. Further, compared to 2019, no capitalization of deferred tax assets was done in 2020. The net result in 2020 amounted to EUR -74.5m, against EUR -76.0m in 2019.

Cash flow

In 2020, the cash flow from operating activities amounted to EUR 136m, up from EUR 125m in 2019. The primary driver for this growth was the improved level of earnings. In 2020, the favourable development in working capital in the Group's power cable business, NKT, was again a contributor to the positive cash generation.

The cash flow from investing activities amounted to EUR -107.4m in 2020, compared to EUR -66.8m in 2019. The increased level of investment was due to upgrade and expansion of production sites in NKT's Solutions business line.

The cash flow from financing activities totalled EUR 203.7m in 2020, driven by the two capital increases completed in May and December, which generated net proceeds of EUR 259m.

2020 financial development

	Revenue*			Operational EBITDA			Oper. EBITDA margin*	
Amounts in EURm	2020	2019	Change	2020	2019	Change	2020	2019
NKT	1,087.0	945.0	142.0	56.7	15.1	41.6	5.2%	1.6%
NKT Photonics	69.9	74.6	-4.7	2.6	14.6	-12.0	3.7%	19.6%
Elimination of transactions between segments	-2.2	-0.3	-1.9	0.0	0.0	0.0		
NKT Group	**1,154.7**	**1.019.3**	**135.4**	**59.3**	**29.7**	**29.6**	**5.1%**	**2.9%**

* Std. metal prices

Liquidity, debt leverage and equity

The net interest-bearing debt amounted to EUR -25.9m at end-2020, a significant decrease from EUR 242.2m at end-2019. The reduced debt level was mainly due to proceeds from the issuance of new shares in 2020.

At end-2020, net interest-bearing debt relative to operational EBITDA amounted to -0.4x, compared to 8.2x at the end of 2019. This improvement was due to the combination of increased earnings and reduced debt level.

At end-2020, NKT Group had total available liquidity reserves of EUR 536m, comprising cash of EUR 239m and undrawn credit facilities of EUR 297m. Group equity, including the hybrid security issued in Q3 2018, amounted to EUR 1,076m, an increase from EUR 804m at end-2019 due to the capital increases during 2020. The solvency ratio was 50%.

Net interest-bearing debt

Shareholder information

NKT A/S shares

The average daily turnover in NKT A/S shares on all trading markets was EUR 8m in 2020, compared to EUR 4m in 2019. The average daily trading volume was 350,000 shares in 2020, against 260,000 in the previous year. Nasdaq Copenhagen was the main trading market for the company's shares with 53% of the total traded volume in 2020, which was similar to the previous year. NKT A/S is a member of the Nasdaq Copenhagen Mid Cap index.

The NKT A/S share price increased from DKK 160.80 at end-2019 to DKK 271.20 at end-2020. Adjusted for dilution related to the rights issue, this equalled a return of 91%. NKT A/S did not pay dividend to shareholders in 2020.

The dividend-adjusted share price returns for the company's largest European competitors, Prysmian and Nexans, was in each case 36%. The Danish OMX C25 index, adjusted for dividends, increased by 36% in 2020.

The total share capital of NKT A/S consists of 42,976,036 shares, each with a nominal value of DKK 20, corresponding to a total nominal share capital of EUR 115m (DKK 859,520,720). In March 2020, the share capital was increased by the issue of 20,806 shares as a number of former employees exercised warrants granted under the share option programme issued in 2015.

The company completed two capital increases in May and December 2020, respectively. 4,951,106 and 10,744,009 new shares were issued. The first capital increase was a directed issue and private placement, while the second was a rights issue.

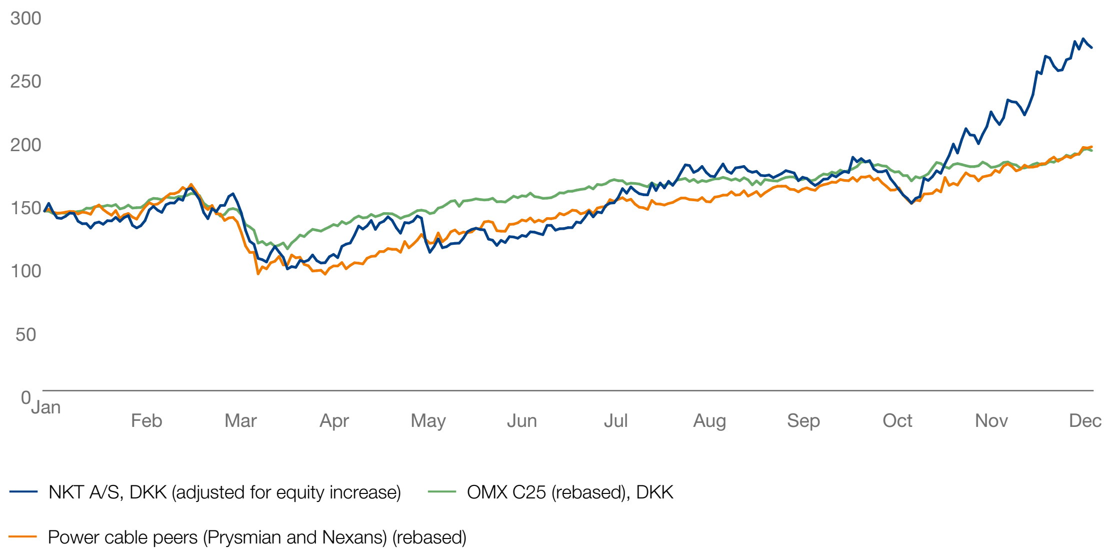
Dividend policy

NKT A/S 's dividend policy targets pay-out of approximately one third of the net result for the year, provided the capital structure allows for it. Further excess cash may be distributed as share buybacks or extraordinary dividends. No dividend payment is proposed in 2021 as the net result in 2020 was negative.

Shareholder structure

The NKT A/S share is 100% free float with no dominant shareholders. At end-2020, the company had approx. 27,400 registered shareholders, compared to approx. 23,900 at end-2019. 98% of the registered shareholders were Danish, similar to end-2019. At end-2020, 89% of the total share capital was registered by name, down from 94% at end-2019.

NKT A/S Share price



At the end of 2020, three NKT A/S investors had reported shareholdings of between 5.00–9.99%:

- ATP (Denmark)
- Kirkbi INVEST A/S (Denmark)
- Nordea Funds Ltd, Danish Branch (Finland)

NKT A/S shares held by the Board of Directors and Executive Management

The members of the Board of Directors held a total of 54,789 NKT A/S shares at the end of 2020, corresponding to a total market value of EUR 2.0m. Members of the Executive Management team owned 17,232 NKT A/S shares, equalling a market value of EUR 0.6m. As part of the long-term incentive programme, the Executive Management team has been awarded performance shares. Vesting will commence from 2021.

Persons deemed insiders and their relatives may only transact NKT A/S shares during a four-week window following the publication of financial statements provided that no inside knowledge is possessed.

Ownership of NKT A/S shares (at end-2020)

Name	# of shares
Board members	
Jens Due Olsen	48,941
Rene Svendsen-Tune	5,333
Jens Maaløe	515
Executive management	
Alexander Kara	17,232

Investor relations

NKT A/S seeks to maintain close dialogue with the market and its stakeholders by practising open, transparent and consistent communication. The aim is to ensure that:

- Timely, relevant and consistent information is provided to all IR stakeholders to form the basis of a fair valuation of the NKT share
- NKT A/S is perceived as a professional, proactive, reliable, accessible and transparent company
- Relevant IR information is shared with the Board of Directors
- Share liquidity and daily trading volume are high and a diversified shareholder base exists in terms of investment horizon, investment strategy and geographical distribution

At the release of interim and annual reports an investor presentation is conducted at a live audiocast. Financial analysts, investors, the media and other stakeholders are invited to listen in and ask questions concerning the company.

In addition, NKT A/S meets with stakeholders at some 250 annual meetings and roadshows in Denmark and internationally Private investors have an opportunity to meet the Board of Directors and the business managements at the company's AGM.

More shareholder information is available at **investors.nkt.com**

NKT A/S shares – basic data

ID code: DK0010287663
Listing: Nasdaq Copenhagen, part of the Mid Cap index
Share capital: EUR 115m (DKK 860m)
Number of shares: 43.0 million
Nominal value: DKK 20
Share classes: 1

Financial calendar 2021

25 Mar	Annual General Meeting
19 May	Interim Report, Q1 2021
17 Aug	Interim Report, Q2 2021
17 Nov	Interim Report, Q3 2021

Corporate governance

Management bodies

The management structure of the NKT Group comprises the Board of Directors, the Executive Management of the parent company NKT A/S, and the business leadership teams.

The Board of Directors

The Board of Directors consists of nine members. Six members are up for election every year at the Annual General Meeting and three members are elected by the employees for a four-year term. Five members were re-elected at the AGM in June 2020, while Karla Lindahl joined for the first time. The employee-elected members were elected in 2018 at an ordinary election of employee representatives.

Jack Ejlertsen, an employee-elected member, resigned from his employment at NKT with effect from 31 December 2020 and consequently stepped down from the Board. René Dogan, Senior Sales Manager Service at NKT, replaced him as a new employee-elected member of the Board.

The AGM-elected Board members comprise two females and four males. The three employee-elected members are males. Of the six AGM-elected members, three live in Denmark, one in Finland, one in Germany and one in Luxembourg.

Two AGM-elected Board members have served for more than 12 years and are thereby not considered independent as defined by the Danish Corporate Governance recommendations. A minimum of six ordinary Board meetings is held annually.

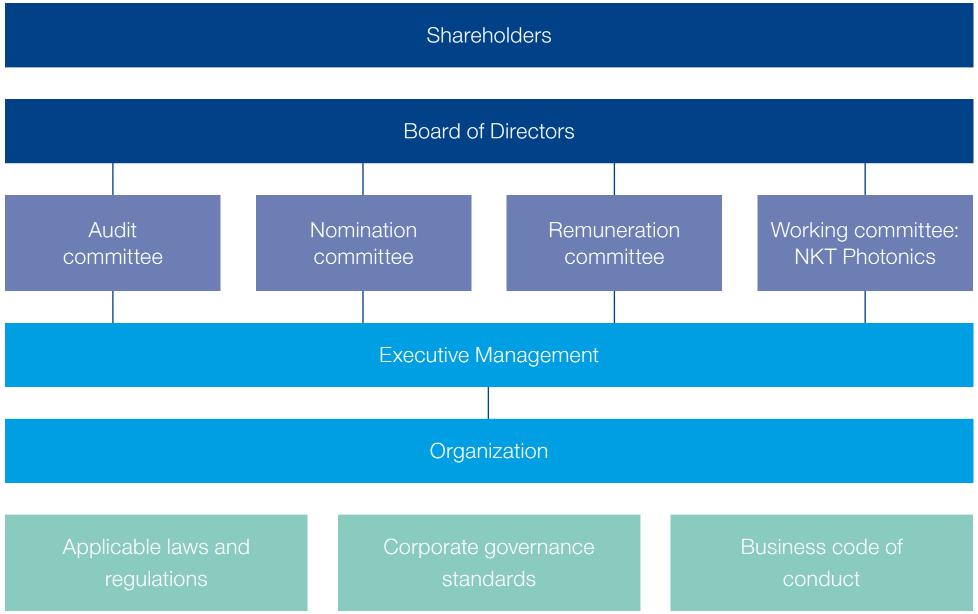
The Board of Directors represents international business experience in the areas of industry, energy, infrastructure projects, high technology, business development and financial matters, and is deemed to possess requisite competencies and seniority.

Governance structure

The President & CEOs of NKT and of NKT Photonics respectively report to the Board of Directors. The Executive Management for the parent company, NKT A/S, comprises two people; the President & CEO and the CFO of NKT.

See pages 73–75 for particulars of the Board of Directors. See pages 43 and 63 respectively for the business leadership teams.

Corporate governance framework



Committees

The Board of Directors has appointed a chairmanship and three committees: Audit, Remuneration and Nomination. The committees are appointed for one year at a time and receive special remuneration approved by the AGM.

Furthermore, there is a working committee specifically for NKT Photonics.

The Chairmanship or the full Board of Directors also act as final approvers in the evaluation of the largest high-voltage projects in NKT's Solutions business line together with the management.

NKT A/S Board committees

Committee	Members	Meetings*
Chairmanship	Jens Due Olsen (Chair), René Svendsen-Tune	N/A
Audit	Jutta af Rosenborg (Chair), Jens Maaløe, Karla Lindahl	8
Remuneration	Jutta af Rosenborg (Chair), Jens Maaløe	5
Nomination	Andreas Nauen (Chair), Jens Maaløe	4
NKT Photonics	Jens Maaløe (Chair), Jens Due Olsen	13

* Members and meetings held in the period March 2020 - March 2021. Full terms of reference for the Audit, Remuneration and Nomination Committees can be found at investors.nkt.com.

Audit Committee

The Audit Committee monitors the company's risk management, financial reporting, regulatory compliance and internal controls as defined in an annual plan, and oversees the work of the external auditors. Its principal tasks are:

- To monitor the financial reporting process and compliance with existing legislation, standards and other regulations for listed companies relating to presentation and publication of financial reporting
- To monitor whether the company's internal control and risk management systems are properly designed and function effectively
- To monitor the statutory audit of the annual financial statements
- To monitor the independence of auditors, including in particular the supply to the company of non-audit services
- To make recommendations to the Board of Directors concerning the election of auditors
- To monitor the company's legal compliance programme, including the Business Code of Conduct and whistle-blower scheme

Monitoring of internal control and risk management systems for financial reporting

The internal control and risk management systems for financial reporting are designed to ensure that the financial reporting presents a true and fair view of the company's results and financial position, without material misstatements, and in compliance with current financial legislation and accounting standards.

Framework

The Audit Committee systematically assesses material risks in relation to the financial reporting process, as well as compliance with related key internal controls. The Committee reviews the scope of the internal control system, also referred to as EuroSox, and monitors the design and the effectiveness of the internal controls on an ongoing basis.

The company's EuroSox framework is designed to reduce material risks in the financial reporting process and covers all material entities. The EuroSox framework is furthermore designed so that the key controls cover all major financial processes in the material subsidiaries.

The key controls comprise both manual and automated controls. The key controls are systematically tested in conjunction with controller visits performed by Group Finance or by external audit. In entities covered by EuroSox all key controls as well as general IT controls are tested at least once every three years.

The Audit Committee also once a year assesses the need for an internal audit function. It is currently the Committee's opinion that such a function would not be beneficial, as the present compliance and controlling structure provides an adequate level of overall compliance assurance.

Scope

In 2020, the Audit Committee focused particularly on the company's continued strengthening and extension of its internal controls and compliance framework, including the ongoing automation of key process controls.

Furthermore, the Audit Committee reviewed the company's policies and procedures related to information security, treasury and tax.

Compliance

The Audit Committee performs general supervision of compliance with policies and guidelines related to risk management and financial reporting. This covers, among other things, policies for accounting, treasury, commodity hedging, insurance, financial resources and tax. The Audit Committee also oversees the compliance programme, including the Business Code of Conduct.

The company further operates a whistle-blower scheme whereby employees and associated business partners can report irregularities. The Chairman of the Audit Committee is notified immediately of any incidents reported. In the event of incidents of a serious nature an investigation is conducted and, if substantiated, appropriate disciplinary sanctions are implemented.

Terms of reference for the Audit Committee can be found at **investors.nkt.com**

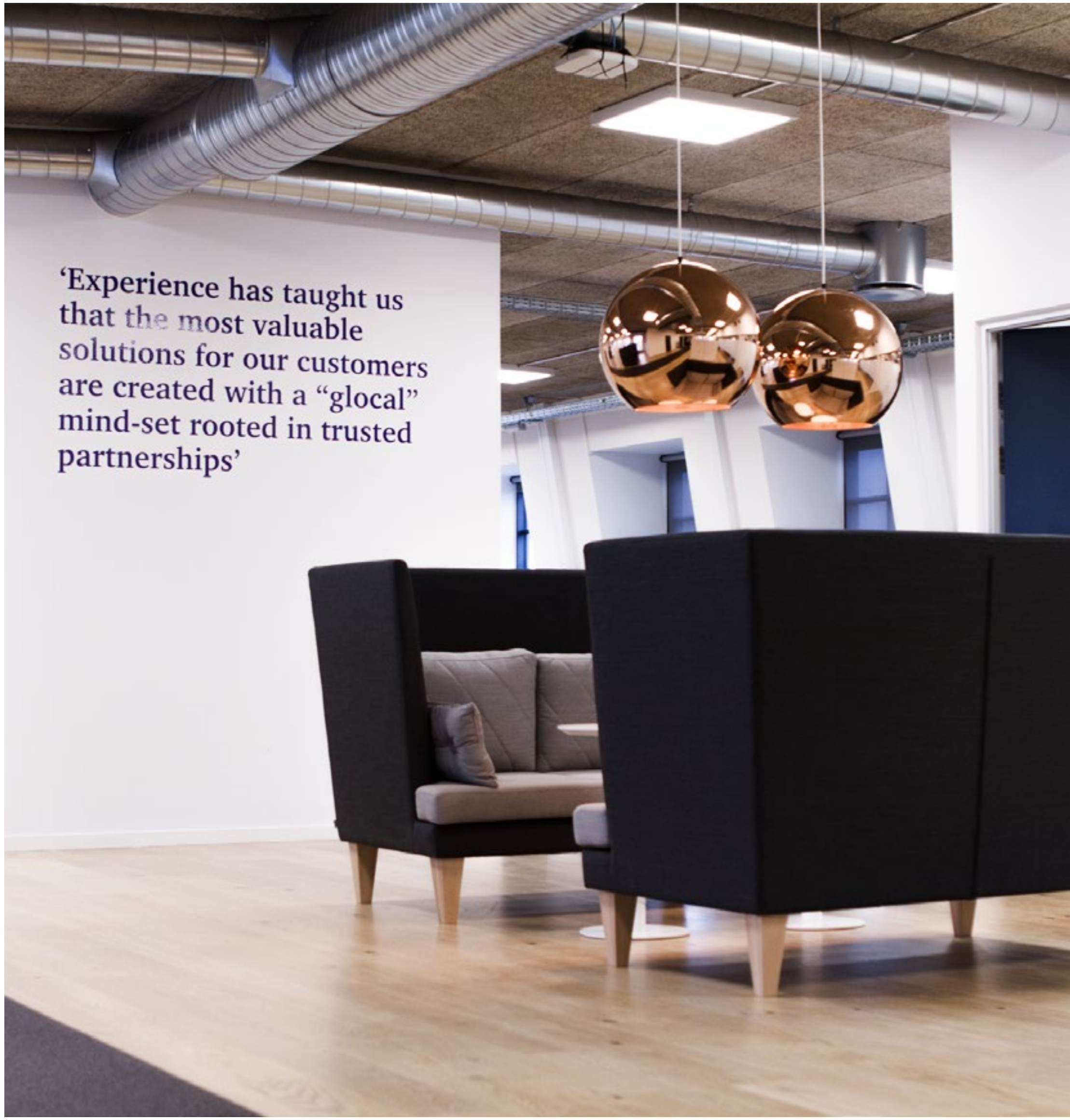
Remuneration Committee

The Remuneration Committee is responsible for establishing the remuneration policy for the Board of Directors and the Executive Management of NKT A/S, for proposing changes to the remuneration policy, and for obtaining the approval of the Board of Directors prior to seeking shareholders' approval at the AGM. The remuneration policy contains guidelines for setting and approving the remuneration for the Board of Directors and the Executive Management.

The NKT A/S Board of Directors receives a fixed salary while the Executive Management receives both a fixed salary and incentive pay. This structure ensures commonality of interest between the management and shareholders, and maintains management's motivation to achieve the company's strategic goals.

All parties must receive fair remuneration which is commensurate with the duties assigned and which represents an attractive incentive for long-term commitment.

Terms of reference for the Remuneration Committee and the remuneration policy can be found at **investors.nkt.com**



Board of Directors remuneration

At the AGM in 2021 the company will propose that the remuneration for the Board of Directors be unchanged from 2020. As in previous years, the Board of Directors will receive a base fee as well as fees for committee duties. Fees are evaluated relative to those paid by Danish and other European companies of comparable size and complexity. The AGM elected members of the Board of Directors will not participate in any of the company's incentive plans.

Remuneration of Executive Management

The remuneration of the Executive Management consists of a fixed remuneration and short-term and long-term incentive pay. The fixed remuneration is set to be competitive but not excessive. The short-term and long-term incentive pay is based on financial measures and key performance indicators that directly link to the company's vision and strategic focus.

See Section 2.3–2.4 on page 94–97 and the remuneration report published at **investors.nkt.com/corporate-governance/statutory-reports**

Nomination Committee

The Nomination Committee defines and assesses the qualifications required by the Board of Directors, the Executive Management and the business leadership teams, and initiates an annual self-assessment within the Board. Over the last year, the Nomination Committee has also been actively engaged in the selection and onboarding of the new CFO.

Self-assessments

The purpose of the annual self-assessment is to evaluate the effectiveness of the Board as well as to define competencies required within the Board of Directors, considering the contribution of the individual members, and to identify future areas of focus. The self-assessment for the current election period was performed during the autumn of 2020.

The Board of Directors also performs an annual assessment of the Executive Management covering two main areas: the interaction between the two parties, and the competencies and performance of the Executive Management. The assessment takes the form of a general discussion by the Board, after which the assessment findings are communicated by the Chairman of the Board of Directors to the Executive Management.

Target figure for the under-represented gender

The Board of Directors wishes to ensure that both genders are represented on the Board, the target being to have at least two of six members representing the underrepresented gender among members elected at the Annual General Meeting. This target was achieved for the Board of NKT A/S with the election of Karla Lindahl at the AGM in June 2020 and will remain the same for 2021. The focus on diversity and equal opportunities for both genders is described in the annual UN Global Compact Communication on Progress (COP) report. The report is available at **www.nkt.com/sustainability-report-2020.**

Terms of reference for the Nomination Committee can be found at **investors.nkt.com**

Corporate governance

As a listed company on the Nasdaq Copenhagen stock exchange, NKT A/S is subject to rules governing share issuers and corporate governance recommendations. NKT A/S fulfils its obligations in respect of the latter either by compliance or by explanation of the reason for non-compliance.

NKT A/S complies with all 47 recommendations issued by the Danish Committee on Corporate Governance in November 2017.

See **investors.nkt.com/corporate-governance/statutory-reports**

Board of Directors

Jens Due Olsen

Chairman
Born 1963, Denmark
Male
First elected in 2006
MSc. Econ 1990

René Svendsen-Tune

Deputy Chairman
Born 1955, Denmark
Male
First elected in 2016
BSc. Eng. (hon.)

Karla Lindahl

Born 1981, Finland
Female
First elected in 2020
MA in EC Competition Law 2009
Master of Laws (LL.M) 2005

	Jens Due Olsen	René Svendsen-Tune	Karla Lindahl
NKT Committees:	▪ NKT Photonics	-	▪ Audit
Other positions and directorships:	▪ Advantage Investment Partners A/S, Chairman ▪ BørneBasketFonden (non-profit foundation), Chairman ▪ KMD A/S, Deputy Chairman ▪ Nilfisk Holding A/S, Chairman ▪ NIL Technology A/S, Chairman	CEO, GN Store Nord A/S and GN Audio A/S ▪ Nilfisk Holding A/S ▪ Stokke AS, Chairman	Managing Director, KONE Finland and Baltics
NKT shares at 31 December 2020:	48,941	5,333	0
Special qualifications:	▪ International and industrial management ▪ Management of listed companies ▪ Specialist expertise in economic and financial matters	▪ International and industrial management ▪ Management of listed companies ▪ Specialist expertise in technology, service businesses and large account sales	▪ International and industrial management ▪ Experience in leading service and project businesses and operations ▪ Specialist expertise in strategy development and execution as well as competition and corporate law

	Jens Maaløe	Andreas Nauen	Jutta af Rosenborg
	Born 1955, Denmark Male First elected in 2004 MSc. E.Eng. 1979 PhD. 1983	Born 1964, Germany Male First elected in 2017 BSc. Mechanical Eng. 1991	Born 1958, Denmark Female First elected in 2015 State-Authorized Public Accountant 1992 MSc. Business Economics and Auditing 1987
NKT Committees:	▪ Remuneration ▪ Audit ▪ Nomination ▪ NKT Photonics, Chairman	▪ Nomination, Chairman	▪ Audit, Chairman ▪ Remuneration, Chairman
Other positions and directorships:	▪ Poul Due Jensens Fond, Chairman ▪ Grundfos Holding A/S, Chairman of Technology Committee ▪ Danish Technology Institute, Chairman ▪ GomSpace Group AB, Chairman ▪ Niras A/S, Chairman ▪ OMT A/S (Odense Maritime Technology)	CEO, Siemens Gamesa Renewables	▪ Nilfisk Holding A/S, Chairman of the Audit and the Remuneration Committee ▪ Standard Life Aberdeen, Remuneration and Audit Committee ▪ JPMorgan European Investment Trust plc, Chairman of the Audit Committee ▪ BBGI SICAV S.A., Chairman of the Audit Committee
NKT shares at 31 December 2020:	515	0	0
Special qualifications:	▪ International and industrial management ▪ Management of listed companies ▪ Specialist expertise in technology and technological development	▪ International and industrial management ▪ Management of listed companies ▪ Special expertise in technology and large infrastructure projects	▪ International management ▪ Management of listed companies ▪ Transformation and optimization of businesses ▪ Risk management ▪ Finance and controlling

René Dogan

Born 1982, Denmark
Male
First elected in 2018

Senior Sales Manager, NKT (Denmark) A/S

Elected by the employees

Thomas Torp Hansen

Born 1985, Denmark
Male
First elected in 2018

Production Manager, NKT Photonics A/S

Elected by the employees

Stig Nissen Knudsen

Born 1969, Denmark
Male
First elected in 2018

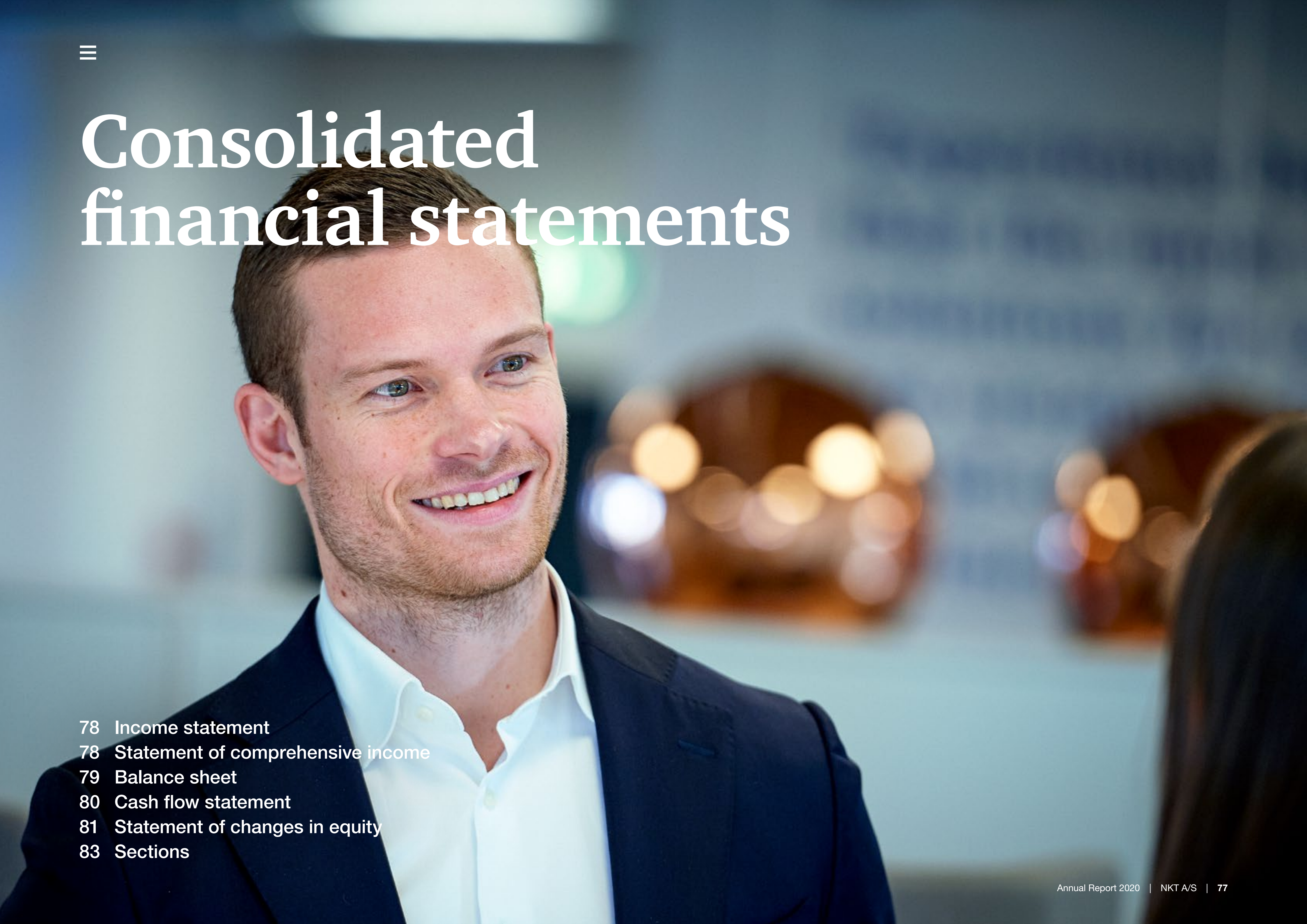
Senior Production Engineer, NKT Photonics A/S

Elected by the employees

	René Dogan	Thomas Torp Hansen	Stig Nissen Knudsen
NKT Committees:			
Other positions and directorships:			
NKT shares at 31 December 2020:	0	0	0
Special qualifications:			

Executive Management

		
	Alexander Kara CEO	**Line Fandrup** CFO
Born	Born 1961, Germany	Born 1979, Denmark
Joined	Joined NKT in 2019 MSc. Electrical Technology 1986 IMD Development Program XII 2011	Joined NKT in 2020 MSc. Business Administration and Math 2004 INSEAD Transition to General Management 2015
NKT positions:	President & CEO and Member of Executive Management 2019	CFO and Member of Executive Management 2020
Directorships:	-	-
NKT shares at 31 December 2020:	17,232	0



Consolidated financial statements

Income statement

1 January – 31 December

Amounts in EURm	Section	2020	2019
Revenue	2.1/2.2	1,470.2	1,342.4
Other operating income		12.0	10.7
Work performed by the Group and capitalized		33.1	14.0
Costs of raw materials, consumables and goods for resale		-961.4	-882.2
Staff costs	2.3/2.4	-299.6	-266.3
Other costs	2.5/6.1/7.1	-204.9	-200.9
Earnings before interest, tax, depreciation and amortization (EBITDA)		**49.4**	**17.7**
Depreciation of property, plant and equipment	3.2	-70.5	-75.1
Amortization of intangible assets	3.1	-26.8	-25.6
Earnings before interest and tax (EBIT)		**-47.9**	**-83.0**
Financial income	5.5	51.6	33.2
Financial expenses	5.5	-68.3	-45.5
Earnings before tax (EBT)		**-64.6**	**-95.3**
Tax	2.6	-9.9	19.3
Net result		**-74.5**	**-76.0**
To be distributed as follows:			
Equity holders of NKT A/S		-82.6	-84.1
Hybrid capital holders of NKT A/S		8.1	8.1
Net result		**-74.5**	**-76.0**
Basic earnings, EUR, per share (EPS)		-2.7	-3.1
Diluted earnings, EUR, per share (EPS-D)		-2.7	-3.1

The Board of Directors proposes a dividend for the year of DKK 0.0 per share (DKK 0.0 per share in 2019) for approval at the Annual General Meeting.

Statement of comprehensive income

1 January – 31 December

Amounts in EURm	2020	2019
Net result	**-74.5**	**-76.0**
Other comprehensive income		
Items that may be reclassified to income statement:		
Foreign exchange adjustment, foreign companies	25.0	-6.5
Value adjustment of hedging instruments:		
Value adjustment for the year	97.2	0.3
Transferred to costs of raw materials, consumables and goods for resale	0.0	1.6
Transferred to financial income	-0.2	0.2
Transferred to financial expenses	0.1	0.0
Tax on comprehensive income	-25.2	-0.5
Items that may not be reclassified to income statement:		
Actuarial gains/losses on defined benefit pension plans	-1.4	-6.5
Tax on actuarial gains/losses	0.5	2.0
Total other comprehensive income	**96.0**	**-9.4**
Comprehensive income for the year	**21.5**	**-85.4**
To be distributed as follows:		
Equity holders of NKT A/S	13.4	-93.5
Hybrid capital holders of NKT A/S	8.1	8.1
Comprehensive income attributable to equity holders of NKT A/S	**21.5**	**-85.4**

Balance sheet

31 December

Amounts in EURm	Section	2020	2019
Assets			
Intangible assets	3.1/3.3		
Goodwill		410.8	397.4
Trademarks, patents and licences etc.		63.5	69.6
IT software		29.8	29.9
Development projects completed		43.6	40.2
Development projects in progress		57.5	39.2
Other intangible assets under construction		21.7	17.7
Total intangible assets		**626.9**	**594.0**
Property, plant and equipment	3.2/3.3		
Land and buildings		291.8	294.5
Manufacturing plant and machinery		261.9	276.2
Fixtures, fittings, tools and equipment		48.3	47.2
Property, plant and equipment under construction, incl. prepayments		55.6	23.4
Total property, plant and equipment		**657.6**	**641.3**
Other non-current assets			
Other investments and receivables		1.0	1.9
Deferred tax	2.6	23.1	49.8
Total other non-current assets		**24.1**	**51.7**
Total non-current assets		**1,308.6**	**1,287.0**
Inventories	4.1	243.6	229.7
Receivables	4.2	333.2	224.0
Contract assets	4.3	21.3	36.7
Income tax receivable		4.6	5.0
Interest-bearing receivables		0.1	0.1
Cash at bank and in hand		239.2	6.9
Total current assets		**842.0**	**502.4**
Total assets		**2,150.6**	**1,789.4**

31 December

Amounts in EURm	Section	2020	2019
Equity and liabilities			
Equity			
Share capital	5.1	115.4	73.2
Reserves		63.1	-33.8
Retained comprehensive income		745.5	612.0
Equity attributable to equity holders of NKT A/S		**924.0**	**651.4**
Hybrid capital		152.4	152.4
Total equity		**1,076.4**	**803.8**
Non-current liabilities			
Deferred tax	2.6	40.9	31.8
Provisions and pension liabilities	3.4	67.1	70.2
Interest-bearing loans and borrowings	5.4	200.6	238.0
Total non-current liabilities		**308.6**	**340.0**
Current liabilities			
Interest-bearing loans and borrowings	5.4	12.8	11.2
Trade payables		273.2	286.3
Other liabilities		168.0	139.0
Contract liabilities	4.3	296.5	186.3
Income tax payable		2.1	1.9
Provisions	3.4	13.0	20.9
Total current liabilities		**765.6**	**645.6**
Total liabilities		**1,074.2**	**985.6**
Total equity and liabilities		**2,150.6**	**1,789.4**

Cash flow statement

1 January – 31 December

Amounts in EURm	Section	2020	2019
Earnings before interest, tax, depreciation and amortisation (EBITDA)		49.4	17.7
Non-cash operating items:			
Change in provisions, gain and loss on sale of assets, etc.		-11.7	0.2
Changes in working capital	4.4	114.5	130.3
Cash flow from operations before financial items, etc.		**152.2**	**148.2**
Financial income received		40.0	33.2
Financial expenses paid		-57.0	-45.4
Income tax paid		-3.7	-14.8
Income tax received		4.8	3.8
Cash flow from operating activities		**136.3**	**125.0**
Acquisition of businesses	6.1	0.0	-7.3
Divestment of businesses	6.1	0.0	9.5
Investments in property, plant and equipment		-65.5	-34.4
Disposal of property, plant and equipment		0.4	1.2
Intangible assets and other investments, net		-42.3	-35.8
Cash flow from investing activities		**-107.4**	**-66.8**
Free cash flow		**28.9**	**58.2**

Amounts in EURm	Section	2020	2019
Repayment of loans		-41.3	-68.1
Repayment of lease liabilities		-5.8	-5.0
Coupon payments on hybrid capital		-8.1	-8.1
Capital increase		258.6	0.0
Cash from exercise of warrants		0.3	1.7
Cash flow from financing activities		**203.7**	**-79.5**
Net cash flow for the year		**232.6**	**-21.3**
Cash at bank and in hand, 1 January		6.9	28.2
Currency adjustments		-0.3	0.0
Net cash flow for the year		232.6	-21.3
Cash at bank and in hand, 31 December		**239.2**	**6.9**

The above cannot be derived directly from the income statement and the balance sheet.

Statement of changes in equity

1 January – 31 December

Amounts in EURm	Share capital	Foreign exchange reserve	Hedging reserve	Fair value reserve	Retained compreh. income	Proposed dividends	Total	Hybrid Capital	Total equity
Equity, 1 January 2020	**73.2**	**-34.1**	**0.0**	**0.3**	**612.0**	**0.0**	**651.4**	**152.4**	**803.8**
Other comprehensive income:									
Foreign exchange translation adjustments		25.0					25.0		25.0
Value adjustment of hedging instruments:									
Value adjustment for the year			97.2				97.2		97.2
Transferred to consumption of raw materials			0.0				0.0		0.0
Tansferred to financial income			-0.2				-0.2		-0.2
Transferred to financial expenses			0.1				0.1		0.1
Actuarial gains/losses on defined benefit pension plans					-1.4		-1.4		-1.4
Tax on other comprehensive income			-25.2		0.5		-24.7		-24.7
Total other comprehensive income	**0.0**	**25.0**	**71.9**	**0.0**	**-0.9**	**0.0**	**96.0**	**0.0**	**96.0**
Net result					-82.6		-82.6	8.1	-74.5
Comprehensive income for the year	**0.0**	**25.0**	**71.9**	**0.0**	**-83.5**	**0.0**	**13.4**	**8.1**	**21.5**
Transactions with owners :									
Capital increase [1]	42.1				216.5		258.6		258.6
Coupon payments, hybrid capital							0.0	-8.1	-8.1
Exercise of warrants	0.1				0.2		0.3	0.0	0.3
Share based payment					0.3		0.3	0.0	0.3
Total transactions with owners in 2020	**42.2**	**0.0**	**0.0**	**0.0**	**217.0**	**0.0**	**259.2**	**-8.1**	**251.1**
Equity, 31 December 2020	**115.4**	**-9.1**	**71.9**	**0.3**	**745.5**	**0.0**	**924.0**	**152.4**	**1,076.4**

[1] In 2020 the capital was increased twice, in May and December respectively, for a total net proceed of EUR 258,6 million after deducting directly attributable costs related to raising the capital. The cost directly related to the capital increases was EUR 9 million. For more information see section 5.1.

Statement of changes in equity

1 January – 31 December

Amounts in EURm	Share capital	Foreign exchange reserve	Hedging reserve	Fair value reserve	Retained compreh. income	Proposed dividends	Total	Hybrid Capital	Total equity
Equity, 1 January 2019	**72.8**	**-27.6**	**-1.6**	**0.3**	**699.3**	**0.0**	**743.2**	**152.4**	**895.6**
Other comprehensive income :									
Foreign exchange translation adjustments		-6.5					-6.5		-6.5
Value adjustment of hedging instruments:									
Value adjustment for the year			0.3				0.3		0.3
Transferred to consumption of raw materials			1.6				1.6		1.6
Tansferred to financial income			0.2				0.2		0.2
Actuarial gains/losses on defined benefit pension plans					-6.5		-6.5		-6.5
Tax on other comprehensive income			-0.5		2.0		1.5		1.5
Total other comprehensive income	**0.0**	**-6.5**	**1.6**	**0.0**	**-4.5**	**0.0**	**-9.4**	**0.0**	**-9.4**
Net result					-84.1	0.0	-84.1	8.1	-76.0
Comprehensive income for the year	**0.0**	**-6.5**	**1.6**	**0.0**	**-88.6**	**0.0**	**-93.5**	**8.1**	**-85.4**
Transactions with owners :									
Coupon payments, hybrid capital							0.0	-8.1	-8.1
Exercise of warrants	0.4				1.3		1.7	0.0	1.7
Total transactions with owners in 2019	**0.4**	**0.0**	**0.0**	**0.0**	**1.3**	**0.0**	**1.7**	**-8.1**	**-6.4**
Equity, 31 December 2019	**73.2**	**-34.1**	**0.0**	**0.3**	**612.0**	**0.0**	**651.4**	**152.4**	**803.8**

Sections

Significant judgements and estimates

Significant judgements and accounting estimates made by Management are included in the sections to which they relate with the purpose to increase legibility.

Sensitivity

Sensitivity analyses often accompany significant judgements and accounting estimates, and are included in the sections to which they relate with the purpose to increase legibility.

Accounting policy

Accounting policies are included in the sections to which they relate in order to facilitate understanding of the contents and the accounting treatment applied. Accounting policies not relating directly to individual sections are stated in Section 1.1.

Section 1 – Basis for preparation

This section describes the applied reporting framework as well as changes in the accounting policies.

This section provides an overall description of the accounting policies applied in our consolidated financial statements. A more detailed description of the accounting policies is presented in the specific sections. New and amended IFRS standards and interpretations, and key estimates and judgements are discussed in detail in Section 1.2 'Implementation of new and amended accounting standards and interpretations' and 1.3 'Significant estimates and judgements', respectively.

1.1 General accounting policies

NKT A/S is a public limited company domiciled in Denmark. The Annual Report for the period 1 January – 31 December 2020 comprises both the consolidated financial statements for NKT A/S and its subsidiaries (NKT Group) and separate financial statements for the parent company.

The 2020 Annual Report for NKT Group was prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and Danish disclosure requirements for listed companies.

This Annual Report has been reviewed and approved by the Board of Directors and executive management on 24 February 2021. The Annual Report will be presented for approval by the shareholders at the Annual General Meeting on 25 March 2021.

Basis for preparation

The Annual Report is presented in EUR rounded to the nearest EUR 1,000,000 with one decimal. The Annual Report is prepared according to the historical cost principle with the exception of assets and liabilities related to derivatives and financial instruments measured at fair value through profit or loss. The accounting policies described in the individual sections have been applied consistently during the financial year and for the comparative figures. For standards implemented prospectively the comparative figures are not restated.

Principles of consolidation

The consolidated financial statements comprise the financial statements of the Parent Company (NKT A/S) and the individual subsidiaries' financial statements prepared according to NKT Group's accounting policies. Subsidiaries are fully consolidated from the date of acquisition, being the date on which NKT obtains control, until the date that such control ceases. All intercompany balances, income and expenses, unrealized gains and losses and dividends resulting from intercompany transactions are eliminated in full.

Foreign currency translation

Transactions in foreign currencies are initially recognized in the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate at the reporting date. All adjustments are recognized in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date, when the fair value is determined. The assets and liabilities of foreign subsidiaries are translated into EUR at the rate of exchange prevailing at the reporting date, and their income statements are translated at average exchange rates. Exchange rate adjustments arising on translation are recognized in other comprehensive income. On disposal of a foreign subsidiary, the component of other comprehensive income relating to that subsidiary is recognized in the income statement.

Definition of materiality

IFRS contains extensive disclosure requirements. The specific disclosures required according to IFRS are stated in the Annual Report unless the disclosures are considered irrelevant or immaterial for financial decisions made by the users of these financial statements.

Alternative performance measures (APMs)

The consolidated financial statement includes financial performance measures that are not defined according to IFRS.

These measures are considered to provide valuable information to stakeholders and Management. Since other companies might calculate these differently from NKT Group, they may not be comparable to the measures applied by other companies. These financial measures should therefore not be considered a replacement for performance measures as defined under IFRS, but rather as supplementary information. Alternative performance measures are defined in Section 7.4 in more detail and some are reconciled to IFRS measures in Section 2.1.

Going concern

As part of the preparation of this Annual Report, the Board of Directors and Executive Management has considered whether the financial statements can be presented on a 'going concern' basis. The conclusion, based on future prospects, considering identified uncertainties and risks, expectations of future cash flows, existence of credit facilities, etc. is that, at the time of the approval of this Annual Report, the financial headroom is sufficient to manage the level of activity expected in 2021 for the NKT Group.

1.2 Implementation of new and amended accounting standards and interpretations

New standards, interpretations and amendments adopted by NKT Group

NKT Group has adopted all new or amended standards (IFRS) and interpretations (IFRIC) as adopted by the EU and which are effective for the financial year 1 January – 31 December 2020.

- Amendments to the References to the Conceptual Framework in IFRS standards
- Amendments to IAS 1 and IAS 8 on the Definition of Material
- Amendments to IFRS 7, IFRS 9 and IAS 39 on the Interest Rate Benchmark Reform – Phase 1
- Amendments to IFRS 3: Definition of a Business
- Amendments to IFRS 16 on COVID-19-related lease concessions;

None of the new or amended standards and interpretations has had material impact on recognition and measurement in the Annual Report.

New standards, interpretations and amendments not yet adopted by NKT Group

IASB has issued the following new or amended accounting standards and interpretations, which are not mandatory for reporting periods ending at 31 December 2020 and have not been early adopted by NKT Group:

- IFRS 17 Insurance Contracts
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current, deferred to 1 January 2023
- Amendments to IFRS 3 Business Combinations, Reference to the Conceptual Framework
- Amendments to IAS 16 Property, Plant and Equipment, Proceeds before intended use
- Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent assets, Onerous Contracts – Costs of fulfilling a contract
- Amendments to IFRS 4 Insurance Contracts – deferral of IFRS 9
- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, Interest Rate Benchmark Reform – Phase 2

These standards and interpretations, not yet endorsed by the EU, will be implemented as they become mandatory. The standards and interpretations are not expected to have a material impact on NKT Group in the current or future reporting periods.

Section – Basis for preparation

1.3 Significant estimates and judgements

Significant estimates and judgements

When preparing the Annual Report, Management makes accounting judgements in applying the accounting policies, which form the basis for the recognition and measurement of assets, liabilities and disclosures provided.

Significant estimates regarding future developments are regularly reassessed based on historical experience and other factors, which Management assesses to be reliable, but which, by their nature, are associated with uncertainty and unpredictability. Significant estimates and judgements are predominantly applied in relation to recognition of revenue from construction contracts, impairment of goodwill and assessing the value of deferred tax assets. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise, but the assumptions are considered reasonable under the circumstances.

Revenue from Construction contracts

At contract inception management has assessed, whether the contract fulfills the criteria for revenue recognition over time. Based on the fact that the cables provided in these projects are customized with no alternative use and NKT has an enforceable right to payment for work performed, it is management's assessment, that all larger cable projects fulfill the criteria for revenue recognition over time. Revenue from Construction contracts are measured based on Management's estimate of earnings on a project-by-project basis and includes a risk provision based on the risk profile of each project. Assessing the future earnings and risks related to each of these complex projects is subject to a large degree of uncertainty. Revenue recognized in the year from construction contracts and the associated risks is presented in Section 2.2.

Impairment of goodwill

Impairment test of goodwill is performed, when there is indication of impairment, and at least annually. The impairment test is based on the expectation, that the present value of future cash flows from the respective cash-generating units, which the goodwill and net assets are allocated to, exceed the book value. As the projected cash flows are related to a relatively long period, the uncertainty related to the risk of errors in the projections is reflected in the chosen discount rate.

Based on the increased backlog from projects won during the year, the certainty of the projected cash flows increased compared to previous years and as the discount rate has not changed materially, no impairment on goodwill was recognized in 2020. Further details regarding the assumptions and estimates used in the impairment test as well as sensitivities are provided in Section 3.3.

Deferred tax assets

Management's estimates when considering how much of the deferred tax assets related to tax losses carried forward shall be recognized, is to assess to what extent taxable income will be created in the foreseeable future, that can be expected to be offset by the deferred tax asset. The recognized deferred tax asset is based on the expected positive income in the foreseeable future. The assessment and assumptions behind the recognition is further discussed in section 2.6.

Management also exercise judgement, when considering and measuring risk provisions for ongoing or potential disputes. Section 7.3 Contingent liabilities discusses this matter in more details. Further risks and Risk management are discussed in the 'Risk management' section of the Management review and in Section 5.6.

Accounting estimates and judgements which may entail a risk of material adjustments are listed in the table below.

Significant accounting estimate or judgement		Estimate/judgement
2.2 Revenue	Determine recognition method for projects (PoC)	Judgement
4.2 Construction contracts	Valuation of construction contracts	Estimate
2.6 Tax	Valuation of deferred tax assets	Judgement and estimate
3.3 Impairment of assets	Estimate the value-in-use of intangible and tangible long-term assets	Estimate
7.3 Contingent liabilities	Determine recognition and measurement of obligations	Judgement and estimate

Section 2 – Profit for the year

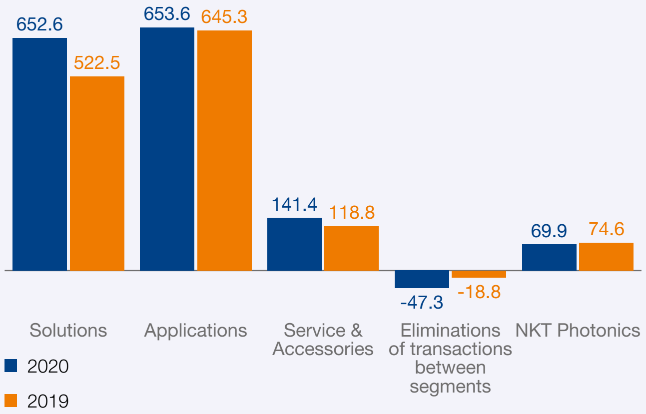
This section relates to profit for the year, including revenue, segment information, staff costs, share-based payments, research and development costs and tax.

In 2020, NKT realized organic growth of 15.1% and revenue in market prices of EUR 1,402.5m. Organic growth was impacted by a postive development in Solutions of 25.8% as a result of the increased level of high-voltage project activity, 2.9% in the Applications business and 14.5% in Service & Accessories mainly due to growth in the Service sustainable business and increased production capacity in Accessories. Operational EBITDA was EUR 56.7m and the operational EBITDA margin, in std. metal prices, was 5.2%. Compared to last year, operational EBITDA increased by EUR 41.6m, reflecting higher activity in Solutions and increased earnings in Applications. Net profit was negatively impacted by temporary increases in deferred tax liabilities further explained in section 2.6.

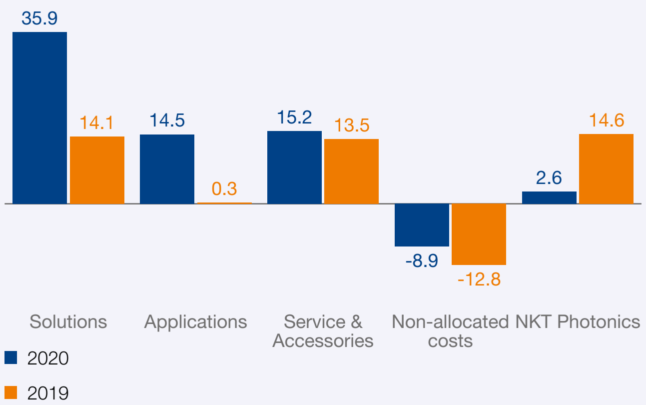
NKT Photonics realized organic growth of -5.6% and revenue of EUR 69.9m. The performance was negatively impacted by the consequences of the covid-19 pandemic. EBITDA was EUR 2.6m and the EBITDA margin was 3.7%. The customer mix and temporary yield inefficiencies associated with a shift to high-volume customers have also impacted profitability and margins negatively in 2020. Furthermore, NKT Photonics continuously invested in future growth opportunities in anticipation of attractive market opportunities in the years ahead.

Key developments

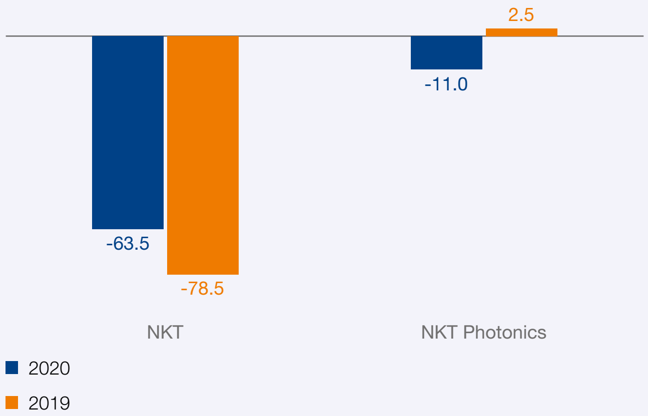
Revenue in market prices (Amounts in EURm)



Operational EBITDA (Amounts in EURm)



Net results (Amounts in EURm)



Section – Profit for the year

2.1 Segment information

2020

Amounts in EURm	Solutions	Appli-cations	Service & Acces-sories	Non allocated	Inter-segment transact.	Total NKT	NKT Photonics	Inter-segment transact.	NKT Group
Income statement									
Revenue (market prices)	652.6	653.6	141.4	-	-45.1	1,402.5	69.9	-2.2	1,470.2
Adjustment of market prices to std. metal prices	-74.1	-259.9	-0.1	-	18.6	-315.5	-	-	-315.5
Revenue (std. metal prices)	578.5	393.7	141.3	-	-26.5	1,087.0	69.9	-2.2	1,154.7
Costs and other income, net (excl. one-off items)	-616.7	-639.1	-126.2	-8.9	45.1	-1,345.8	-67.3	2.2	-1,410.9
Operational EBITDA - segment result	**35.9**	**14.5**	**15.2**	**-8.9**	**-**	**56.7**	**2.6**	**-**	**59.3**
Depreciation, amortization and impairment	-64.2	-14.7	-4.7	-1.6	-	-85.2	-12.1	-	-97.3
Operational EBIT	**-28.3**	**-0.2**	**10.5**	**-10.5**	**-**	**-28.5**	**-9.5**	**-**	**-38.0**
Working capital	**-196.8**	**40.2**	**13.2**	**-21.1**	**-**	**-164.5**	**27.4**	**-**	**-137.1**

2019

Amounts in EURm	Solutions	Appli-cations	Service & Acces-sories	Non allocated	Inter-segment transact.	Total NKT	NKT Photonics	Inter-segment transact.	NKT Group
Income statement									
Revenue (market prices)	522.5	645.3	118.8	-	-18.4	1,268.2	74.6	-0.4	1,342.4
Adjustment of market prices to std. metal prices-	-66.9	-256.2	-2.1	-	2.0	-323.2	-	0.1	-323.1
Revenue (std. metal prices)	455.6	389.1	116.7	-	-16.4	945.0	74.6	-0.3	1,019.3
Costs and other income, net (excl. one-off items)	-508.4	-645.0	-105.3	-12.8	18.4	-1,253.1	-60.0	0.4	-1,312.7
Operational EBITDA - segment result	**14.1**	**0.3**	**13.5**	**-12.8**	**-**	**15.1**	**14.6**	**-**	**29.7**
Depreciation, amortization and impairment	-67.5	-15.1	-4.8	-3.4	-	-90.8	-9.9	-	-100.7
Operational EBIT	**-53.4**	**-14.8**	**8.7**	**-16.2**	**-**	**-75.7**	**4.7**	**-**	**-71.0**
Working capital	**-167.1**	**17.5**	**10.4**	**-7.1**	**-**	**-146.3**	**28.2**	**-**	**-118.1**

Section – Profit for the year

2.1 Segment information – continued

2020

Amounts in EURm	Total NKT	NKT Photonics	NKT Group
Income statement			
Operational EBITDA	56.7	2.6	59.3
One-off items included in EBITDA	-9.9	-	-9.9
EBITDA	46.8	2.6	49.4
Depreciation, amortization and impairment	-85.2	-12.1	-97.3
EBIT	-38.4	-9.5	-47.9
Financial items, net	-11.5	-5.2	-16.7
EBT	-49.9	-14.7	-64.6
Tax	-13.6	3.7	-9.9
Net result	**-63.5**	**-11.0**	**-74.5**

2019

Amounts in EURm	Total NKT	NKT Photonics	NKT Group
Income statement			
Operational EBITDA	15.1	14.6	29.7
One-off items included in EBITDA	-12.0	-	-12.0
EBITDA	3.1	14.6	17.7
Depreciation, amortization and impairment	-90.8	-9.9	-100.7
EBIT	-87.7	4.7	-83.0
Financial items, net	-11.6	-0.7	-12.3
EBT	-99.3	4.0	-95.3
Tax	20.8	-1.5	19.3
Net result	**-78.5**	**2.5**	**-76.0**

§ Accounting policy

Segment information
The segment information is based on internal management reporting and is presented in accordance with the Group's accounting policies.

Segment income and expenses and segment working capital comprise those items that are directly attributable to the individual segment and those items that can be reliably allocated to it. Other items are shown as non-allocated.

The reportable segments are generally referred to as business lines. The business lines consist of Solutions (high-voltage power cable solutions), Applications (low and medium-voltage power cables), Service & Accessories (asset management services for onshore and offshore power cables and power cable accessories) and NKT Photonics (optical fiber and laser technology). For further details please refer to the Management Review section of each business line.

The Board of Directors assesses the operating results of the business lines separately to enable decisions concerning allocation of resources and measurement of performance.

Inter-segment transactions are performed on market terms and no single customer accounts for more than 10% of the revenue.

Other operating income
Other operating income comprises items of a secondary nature relative to the operations of the Group, including grant schemes, reimbursements and gains on sale of non-current assets, adjustments of earn-out and negative goodwill on acquisition of subsidiaries.

Gains on disposal of tangible and intangible assets are determined as the selling price less selling costs and the carrying amount at the time of sale.

Change in inventories of finished goods and work in progress
Change in inventories of finished goods and work in progress comprises changes in these items which correspond to staff costs and other costs charged to the income statement during the year and which relate directly or indirectly to the cost of the items stated in the balance sheet.

Work performed by the Group and capitalized
Work performed by the Group and capitalized comprises income which corresponds to staff costs and other costs charged to the income statement during the year and which relate directly or indirectly to the capitalized cost of non-current assets of own manufacture.

Raw materials, consumables and goods for resale
Costs of raw materials, consumables and goods for resale refer to purchases and changes during the year in inventory levels, including shrinkage, waste production and any write-downs for obsolescence.

Other costs
Other costs comprise external costs relating to production, sale and administration, as well as losses on disposal of tangible and intangible assets. Losses on disposal of tangible and intangible assets are determined as the selling price less selling costs and the carrying amount at the time of sale. Write-downs of receivables from sales are also included. □

2.1 Segment information – continued

Balance sheet	2020 Total NKT	2020 NKT Photonics	2020 Inter-segment transact.	2020 NKT Group	2019 Total NKT	2019 NKT Photonics	2019 Inter-segment transact.	2019 NKT Group
Assets								
Non-current assets								
Goodwill	385.5	25.3	-	410.8	372.2	25.2	-	397.4
Other intangible assets	173.5	42.6	-	216.1	159.5	37.1	-	196.6
Property, plant and equipment	638.0	19.6	-	657.6	621.6	19.7	-	641.3
Other investments and receivables	0.9	0.1	-	1.0	0.8	1.1	-	1.9
Deferred tax	22.5	0.6	-	23.1	49.0	0.8	-	49.8
Current assets								
Inventories	225.1	18.5	-	243.6	211.2	18.5	-	229.7
Receivables (incl. tax receivables)	313.0	25.6	-0.8	337.8	201.6	28.0	-0.6	229.0
Contract assets	20.6	0.7	-	21.3	36.7	-	-	36.7
Interest-bearing receivables	108.7	3.7	-112.3	0.1	99.3	11.2	-110.4	0.1
Cash at bank and in hand	237.8	1.4	-	239.2	6.0	0.9	-	6.9
Segment assets	**2,125.6**	**138.1**	**-113.1**	**2,150.6**	**1,757.9**	**142.5**	**-111.0**	**1,789.4**
Equity and liabilities								
Equity	1,080.1	-3.7	-	1,076.4	796.4	7.4	-	803.8
Non-current liabilities								
Deferred tax	37.8	3.1	-	40.9	27.4	4.4	-	31.8
Provisions and pension liabilities	66.2	0.9	-	67.1	67.2	3.0	-	70.2
Interest-bearing loans and borrowings	191.6	112.1	-103.1	200.6	234.4	101.4	-97.8	238.0
Current liabilities								
Interest-bearing loans and borrowings	14.6	7.4	-9.2	12.8	16.1	7.7	-12.6	11.2
Trade payables and other liabilities	426.9	15.1	-0.8	441.2	408.2	17.7	-0.6	425.3
Contract liabilities	294.5	2.0	-	296.5	185.9	0.4	-	186.3
Income tax payables	1.8	0.3	-	2.1	1.7	0.2	-	1.9
Provisions	12.1	0.9	-	13.0	20.6	0.3	-	20.9
Segment equity and liabilities	**2,125.6**	**138.1**	**-113.1**	**2,150.6**	**1,757.9**	**142.5**	**-111.0**	**1,789.4**

Section – Profit for the year

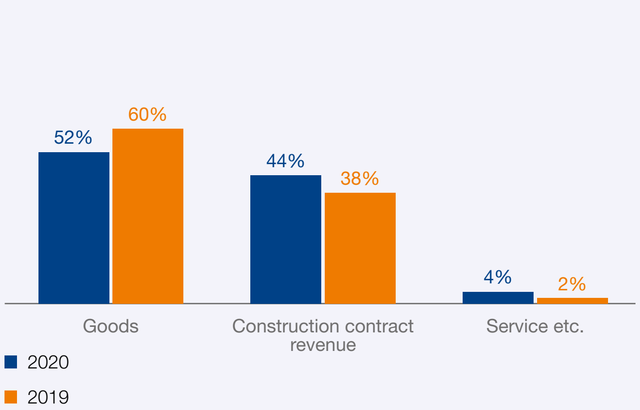
2.2 Revenue

Revenue composition

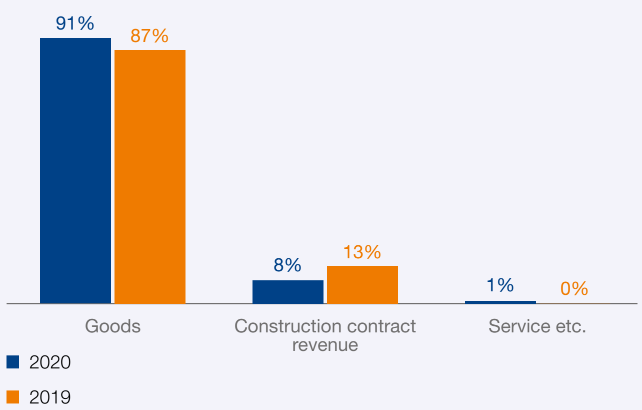
NKT Group generates revenue from sale of complete high voltage cable solutions for both onshore and offshore projects, low- and medium voltage power cables, service agreements for both on- and offshore high voltage power cables and accessories for medium and high voltage power cables. In addition to the mentioned revenue streams, NKT Group generates revenue from activities within laser products in the Photonics segment.

The composition of revenue in 2020 shows no major changes compared to 2019. Please see business reviews in the Management review for further information.

NKT



NKT Photonics



Geographical information, revenue

Amounts in EURm	2020	2019
Germany	451.1	381.1
UK	264.0	197.8
Poland	126.9	112.3
Sweden	126.5	120.1
Norway	109.7	62.3
Denmark	78.9	58.2
Czech Republic	56.8	65.4
Netherlands	37.2	91.4
Other	219.1	253.8
Total	**1,470.2**	**1,342.4**

Significant judgements

Cable projects are to a certain degree measured based on management judgement in terms of when to recognize revenue and how to calculate the revenue in terms of stage-of-completion and estimated profit on each project. The estimates include a risk provision, which is based on an assessment of the specific risks that each project is exposed to.

The stage-of-completion is based on costs incurred against estimated total project costs. In essence, the total project costs are therefore to a large extent based on estimates.

Assumptions for the recognition of revenue over time regarding larger cable projects are determined contract by contract.

Control is transferred as the project progresses, based on assumptions such as:

- Deliveries being approved on an ongoing basis
- NKT Group's ability to provide products according to specification and the risk that the cable is rejected
- Customer takes over risk and legal title to the cable installation on an on-going basis, and
- Milestone payments from the customer.

Section – Profit for the year

2.2 Revenue – continued

Timing of revenue streams from the sale of construction contracts, goods and services

Amounts in EURm	Solutions	Appli-cations	Service & Accessories	Inter-segment transactions	Total NKT	NKT Photonics	Inter-segment transactions	Total Group
2020								
Revenue at a point in time:								
Goods	35.4	653.6	88.2	-29.8	747.4	63.6	-2.2	808.8
Services etc.	17.1	0.0	19.6	-4.6	32.1	0.5	0.0	32.6
Revenue transfered over time:								
Construction contracts	600.1	0.0	33.6	-10.7	623.0	5.8	0.0	628.8
Total	**652.6**	**653.6**	**141.4**	**-45.1**	**1,402.5**	**69.9**	**-2.2**	**1.470.2**
2019								
Revenue at a point in time:								
Goods	47.2	645.3	76.8	-9.0	760.3	65.2	-0.4	825.1
Services etc.	5.5	0.0	26.0	-9.4	22.1	0.0	0.0	22.1
Revenue transfered over time:								
Construction contracts	469.8	0.0	16.0	0.0	485.8	9.4	0.0	495.2
Total	**522.5**	**645.3**	**118.8**	**-18.4**	**1,268.2**	**74.6**	**-0.4**	**1,342.4**

Management expects that around 20% of the revenue on uncompleted contracts as of 31 December 2020 will be recognized in 2021. The remaining 80% of the revenue will be recognized from 2022–2025.

Section – Profit for the year

2.2 Revenue – continued

Projects

Revenue from the sale of cable projects accounted for as construction contracts comprises sale of onshore and offshore highly customized cables in Solutions, delivery of highly customized spare cables in Service and larger projects in NKT Photonics.

Projects are usually significant in amount, have a long lead time affecting the financial statements of more reporting periods and have a high degree of project management. Each project is normally considered one performance obligation as each project comprise highly interrelated and interdependent physical assets and services, such as production, installation and project management.

Depending on the contract structure, the performance obligation may consist of more than one contract. Cable projects are often sold as fixed price contracts and revenue from these are therefore recognized over time by applying the percentage of completion (PoC) cost-to-cost method.

Payment terms of a cable project contract usually comprise the following payments:

- down payment from the customer at contract inception,
- progress payments, linked to project milestones,
- final payment upon completion and customer acceptance.

NKT Group will usually obtain payment guarantees to minimize counter party risk during the execution of cable projects.

Sale of products

Sale of products relates to the sale of smaller less customized cable projects, standardized cables and equipment. Small cable projects with little or no customization usually have a short lead time of less than one year. Each delivered product is considered one performance obligation. Most of the products are sold at a fixed price and revenue is usually recognized at the point in time when the control of the products transfers to the customers, usually upon delivery.

Payment terms for small cable projects usually follow the payments described above under cable projects.

For standardized products, NKT Group is usually entitled to payment upon delivery, and payment terms vary by market but are usually short.

Service contracts

Service contracts comprise various service elements to support power cable efficiency and prevent or mitigate power cable failures and can include up to 365/24 hours support. Service delivered according to the contracts is considered as one performance obligation delivered over time. Revenue is accordingly recognized over the life of the contract. NKT Group is either entitled to payment once the service has been provided or on a periodic basis.

Spare parts and other repair work contracts are determined as one performance obligation. The transaction price is usually variable, depending on the produced output, and revenue is recognized over time, using the cost-to-cost method. In case of significant uncertainties related to measuring the revenue reliably, revenue is recognized according to payments. NKT Group is entitled to payment once the work or spare parts are delivered.

Providing new highly customized spare cables is defined as one performance obligation. The transaction price is usually fixed and revenue is typically recognized over time using the percentage of completion (PoC) cost-to-cost method.

The payment pattern for spare cables is similar to the pattern for cable projects described above and NKT Group will usually obtain payment guarantees to minimize the risk during the execution of the cable project.

§ Accounting policy

Revenue from construction contracts with customers with a high degree of individual customization and no alternative use, are recognized as revenue over time, provided that NKT Group has secured an enforceable right to payment for work performed at any time. The revenue therefore corresponds to the sales price of work performed during the year (the percentage-of-completion method).

Revenue from sale of goods for resale and finished goods is recognized in the income statement when control of the goods has transferred to the buyer, normally at delivery, and it is probable that the income will be received.

Revenue from services that include service packages and extended warranties relating to products and contracts is recognized concurrently with the supply of those services.

Revenue is measured at the fair value of the expected consideration excluding VAT and taxes charged on behalf of third parties.

In determining the transaction price, revenue is reduced by probable penalties and other claims and discounts that are payments to the customers. The transaction price is further adjusted for any variable elements of the transaction price. The variable amount is estimated at contract inception and revisited throughout the contract period. Variable income is recognized as revenue when it is highly probable that a reversal will not occur.

The geographical disclosure of revenue is based on the country of delivery.

See Section 4.3 for further information concerning construction contracts.

Section – Profit for the year

2.3 Staff costs

Amounts in EURm	2020	2019
Wages and salaries	240.5	210.0
Social security costs	42.8	40.7
Defined contribution plans	15.0	14.1
Defined benefit plans	1.0	1.0
Share-based payments, NKT A/S (parent company)	0.3	0.5
Total	**299.6**	**266.3**
NKT	260.2	239.3
NKT Photonics	39.3	27.0
Average number of full-time employees	3,800	3,671
NKT	3,390	3,299
NKT Photonics	410	372

In 2020, staff costs in NKT Group increased by 12,5%, and the average number of full time employees increased by 3.5%. In NKT, the average numbers of FTEs increased by 3% and staff cost by 9%, mainly driven by the better performance in 2020 despite the COVID-19 pandemic. NKT Photonics increased average number of FTEs by 10% while staff costs increased by 46%. The staff cost was mainly impacted by the increased number of employees, and higher bonus accrual as the performance was better in 2020 and by comparison to 2019 the effect of the reversal of accrual for Management's long term incentive program in 2019.

In NKT Group, most employees are covered by pension schemes, primarily in the form of defined contribution-based plans managed by independent pension funds.

NKT Group's defined benefit plans, primarily relating to the activities in Germany, are recognized at the present value of the actuarially measured obligations. If a plan is not fully covered by plan assets, a plan liability is recognized in the balance sheet. Expenses relating to pension benefits are recognized as staff costs in the income statement. Actuarial gains or losses are recognized in other comprehensive income, EUR 1.4m (EUR -6.5m in 2019), see note 3.4 for more information.

Remuneration to Board members 2020

		Committees					
Amounts in EURt	Base remuneration	Audit	Nomination	Remuneration	NKT Photonics	Total remuneration 2020	Total remuneration 2019
Total remuneration 2020	**482**	**46**	**17**	**20**	**20**	**585**	**578**

2.3 Staff costs – continued

Executive Management remuneration

Remuneration of Executive Management comprise fixed salary, short and long term bonus programs and other customary benefits. Long term bonus program consist of share-based payments programs. The accounting for share-based payments is presented in details in note 2.4.

The ordinary notice period for the former CEO, Michael Lyng, was 18 months, corresponding to EUR 2m, an amount that was paid in 2019 and 2020. The former CEO raised additional claims based on an interpretation of a change of control clause and LTI compensation amongst others. NKT disagreed and the former CEO initiated arbitration proceedings. The arbitration resulted in a verdict of an additional payment to Michael Lyng of EUR 0.7m of the claimed amount of EUR 1.2m.

Remuneration to Executive Management

Amounts in EURt	2020	2019
Salary and pension	1,209	1,129
Bonus	1,081	243
Pension	59	71
Long-term incentive	63	29
Other benefits	120	97
Total	**2,532**	**1,569**

Remuneration to Executive Management increased in 2020 compared to 2019, mainly due to 2020 representing a full year for the CEO, as well as higher CEO bonus due to improved performance. Further the former CFO received a cash bonus of EUR 0.3m as part of a one-time bonus program related to the demerger year 2017.

§ Related parties

The Company has no related parties holding control.

The Company's related parties comprise the NKT Group Leadership Team and their close family members.

Related parties also include businesses in which the aforementioned have material interests.

§ Accounting policy

Staff costs comprise wages and salaries, remuneration, pensions, etc., and share-based payment for the company's employees, including Group Management. The Board of Directors does not receive share-based payment.

Wages and salaries, social security contributions, leave and sick leave, bonuses and non-monetary benefits are recognized in the financial year in which services are rendered by the employee. When NKT provides long-term employee benefits, the costs are accrued to match the rendering of services.

Termination benefits are recognized when an agreement has been reached between NKT and the employee and no future service is rendered by the employee in exchange for the benefits.

Section – Profit for the year

2.4 Share based payment

Long-term incentive programs for Executive Management and Group Leadership Team

At the dsicretion of the Board of Directors, the Executive Management, the Group Leadership Team (GLT) and select employees may be awarded performance shares once a year, representing a conditional right to receive shares after a three-year performance period at nil payment. The performance shares vest, subject to continued employment and the achievement of certain performance targets over a three-year period.

The decision to award performance shares as a long-term incentive plan is made by the Board of Directors each year after recommendation from the Remuneration Committee. The Board of Directors may at their discretion decide to make cash awards in a given year instead of awarding performance shares.

For more information on the grant of performance shares, refer to the Group's Remuneration Report 2020 available on the website.

In 2020, a new performance share program was awarded to 17 participants comprising 84.330 performance shares of which 28.731 shares was granted to the Executive Management. The vesting period is 3 years. The program contains two key performance targets, one relating to operational EBITDA, and one relating to Total Shareholder Return (TSR). The total market value at award date was EUR 1.1m.

In 2019, a performance share program was awarded to 15 participants comprising 106,447 shares with a 3-year vesting period. The program contains two key performance targets, one relating to operational EBITDA, and one relating to Total Shareholder Return (TSR). Of the shares granted, 33,284 shares were granted to the Executive management. The total market value at award date was EUR 0.9m. The EBITDA target is not expected to be met, and only costs relating to the TSR share of the program is recognized.

Performance shares outstanding	Executive management	Other employees	Total
Performance shares outstanding, 1 January 2020	61,963	90,919	152,882
Shares granted during the year	28,731	55,599	84,330
Shares lapsed during the year	-54,395	-27,418	-81,813
Performance shares outstanding, 31 December 2020	**36,299**	**119,100**	**155,399**
Performance shares outstanding, 1 January 2019	28,679	22,043	50,722
Shares granted during the year	33,284	73,163	106,447
Shares lapsed during the year	0	-4,287	-4,287
Performance shares outstanding, 31 December 2019	**61,963**	**90,919**	**152,882**

The weighted average remaning contractual life of performance shares at the end of the period was 1.6 years (1.9 years in 2019).

In 2018, a 3-year performance share program was granted to eight participants. The market value at launch was EUR 0.7m and comprised 50,722 shares of which 28,679 was granted to the Executive management. The targets for the program related to EBITDA, RoCE and Total Shareholder Return (TSR). No targets were met and no shares will be awarded.

Cost relating to share-based payments in 2020 was EUR 0.3m (2019: EUR 0.5m). Remaining value to be expensed relating to current programs is EUR 1.0m (EUR 0.7m in 2019).

Assumptions

Determining the value of each PSP granted under the LTI program requires the use of a model for the calculation. The value is calculated based on a number of assumptions including expected dividend payout during the vesting period, the volatility of NKTs share price (usually measured over a two year period), risk free interest rate and expected vesting period, usually 30-36 months. Apart from the expected dividend payout, which may vary in terms of actual subsequent payout, none of assumptions listed have a material impact on the value of the PSP's to be distributed over the vesting period.

2.4 Share based payment – continued

Warrants

Up until 2015, an incentive plan was in place for NKT A/S employees that awarded entitlement to subscribe for NKT A/S shares at a price based on the market price at the grant date, plus interest calculated from grant date to exercise date. The Board of Directors, empowered by a mandate from the Annual General Meeting, approved the basis for calculation and allocation of share-based incentive plans.

In all cases, condition of exercise is three years' employment. In 2020, the remaining 20,806 shares were exercised. The average share price at exercise was 139.32 DKK (EUR 16.22).

The exercise periods are determined as two weeks after publication of the company's Annual Report and two weeks after publication of the Interim Reports. Each warrant grants entitlement to subscribe for one share of a nominal value of DKK 20 at the exercise price of DKK 91.3. Dividend payments after 1 January 2019 and until the date when the shares are received are deducted from the exercise price.

		Exercise price DKK	Total
Outstanding warrants 2020:	Warrants, 1 January 2020		20,806
	Exercised	91.3	-20,806
	31 December 2020		0
Outstanding warrants 2019:	Warrants, 1 January 2019		154,552
	Exercised	91.3	-133,746
	31 December 2019		20,806

§ Accounting policy

The NKT Group's incentive plans include share-based payments which contain both internal business performance measures and external market return measures. At the grant date the value of services received in exchange for share-based payments are measured at the fair value and a similar amount is recognized in equity. The fair value of share-based payments is estimated using a valuation model that takes into account the terms and conditions upon which granting took place.

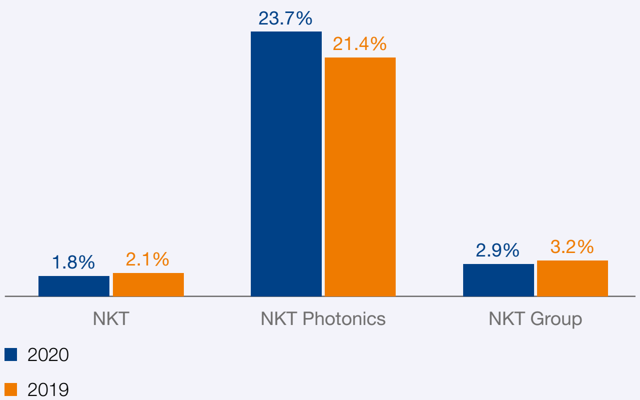
During the vesting period, the costs related to the plans are recognized as staff costs in the income statement. For the internal business performance elements of the plans, costs are recognized over the vesting period based on the number of shares expected to vest, whereas for the market return elements, costs are recognized over the vesting period disregarding any changes in the number of shares expected to vest.

Section – Profit for the year

2.5 Research and development

	NKT		NKT Photonics		NKT Group	
Amounts in EURm	2020	2019	2020	2019	2020	2019
Research and development costs - staff costs	5.4	6.2	9.8	11.0	15.2	17.2
Research and development costs - other costs	20.4	20.9	6.8	5.0	27.2	25.9
Total research and development costs	25.8	27.1	16.6	16.0	42.4	43.1
Recognized as follows:						
Expensed in the income statement	7.0	11.0	6.4	9.3	13.4	20.3
Capitalized in the balance sheet	18.8	16.1	10.2	6.7	29.0	22.8
	25.8	27.1	16.6	16.0	42.4	43.1

Research and development ratio (% of revenue)



High-voltage power cables projects are typically complex and call for ongoing investments in research and development. In NKT, the research and development spend was EUR 25.8m in 2020, down from EUR 27.1m in 2019. In percentage of revenue, this corresponds to 1.8% against 2.1% in 2019. The research and development cost was mainly driven by the on-going qualification of DC technology taking place in the Cologne factory and further development of DC technology taking place in Karlskrona.

The research and development cost for NKT Photonics remained at the same level as in the previous year. The ratio to revenue increased slightly due to the decreased 2020 revenue.

§ Accounting policy

Research cost are expensed in the income statement as they occur.

Clearly defined and identifiable development projects for which the technical feasibility, adequacy of resources and a potential future market can be demonstrated, and where it is intended to manufacture, market or utilize the project, are recognized as intangible assets provided the cost can be reliably determined, and provided there is also adequate certainty that the future earnings or net selling prices can cover the carrying amount as well as the development costs necessary to finalize the project. Other development costs are expensed in the income statement as incurred.

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

On completion of the development work, development projects are amortized on a straight-line basis over their estimated useful life from the date the asset is available for use. The amortization period is usually 3–10 years. The amortization base is reduced by any impairment losses.

Section – Profit for the year

2.6 Tax

Tax Approach

NKT Group complies with the tax legislation of the countries in which it operates and seeks to pay the right amount of tax in the countries where it creates value.

NKT Group only uses business structures that are driven by commercial consideration and have the genuine substance.

NKT Group does not operate in tax havens. In accordance with NKT Group's tax policy, any future operations in tax havens will be purely of commercial reasons.

NKT Group believes in collaboration and transparency regarding its tax matters and actively pursues opportunities to engage with tax authorities and other relevant stakeholders with the purpose of building trust through collaboration and openness.

NKT Group realized earnings before tax (EBT) of EUR -64.6m (EUR -95.3m in 2019), which resulted in a reported tax rate of -15.3% (20.2% in 2019).

The reported tax rate of -15.3% was primarily impacted by unrecognized deferred tax asset in Denmark and Germany of EUR 31.7m relating to tax losses. Further, a deferred tax liability of EUR 11.9m relating to timing differences on recognition of revenue has been recognized in Germany.

For 2021, the underlying tax rate is expected to be around 28%, excluding deferred tax and prior year adjustments.

In 2020, NKT Group received a net amount of EUR 1.1m in corporate income tax compared to paying a net amount of EUR 11.0m in 2019. 2019 was impacted by payments related to prior years.

See 'Statement of changes in equity' for details of tax related to the individual items in 'Other comprehensive income'.

Earnings realized in NKT Group's Danish companies resulted in payable corporate tax of EUR 0.0m in 2020 (EUR 0.0m in 2019), as the Danish Group realized negative taxable income.

Amounts in EURm	2020	2019
Tax recognized in the income statement		
Current tax	1.1	2.8
Current tax, adj. prior years	-1.5	12.4
Deferred tax	13.8	-13.1
Deferred tax, adj. prior years	-3.5	-21.4
	9.9	-19.3
Tax rate for the year	-15.3%	20.2%
Reconciliation of tax:		
Calculated 22.0% tax on earnings before tax	-14.2	-21.0
Tax effect of:		
Foreing tax rates relative to Danish tax rate	-4.6	-4.6
Non-taxable income/non-deductible expenses, net	2.0	-6.0
Adjustment for previous years	-5.0	-9.0
Value adjustment of tax assets	31.7	21.3
	9.9	-19.3

Amounts in EURm	2020	2019
Deferred tax, 1 January, net	18.0	-18.6
Foreign exchange adjustment	-0.8	0.6
Tax recognized in other comprehensive income	-24.7	1.5
Deferred tax recognized in income statement	-10.3	34.5
Transferred to payable tax	0.0	0.0
Deferred tax, 31 December, net	-17.8	18.0
Recognized deferred tax:		
Deferred tax assets, 31 December	23.1	49.8
Deferred tax liabilities, 31 December	-40.9	-31.8
Deferred tax, 31 December, net	-17.8	18.0

Amounts in EURm	2020	2019
Specification on deferred tax assets and liabilities:		
Intangible assets	-18.1	-17.2
Tangible assets	-17.9	-21.1
Other non-current assets	1.6	6.1
Current assets	-44.3	75.5
Non-current liabilities	4.0	0.3
Current liabilities	5.4	-73.8
Tax losses	126.2	88.4
Valuation allowance, unrecognized tax assets	-77.2	-44.5
Other	2.5	4.3
Deferred tax, 31 December, net	-17.8	18.0

Section – Profit for the year

2.6 Tax – continued

Significant estimates

The measurement of deferred tax assets and liabilities is based on the corporate tax rate applicable in the years when the assets and liabilities are expected to be utilized. The measurement of the tax assets is based on budgets and estimates for the coming years, which by nature are subject to uncertainty. As a result, there can be a substantial difference between the expected use of the tax asset and actual use of the tax asset related to previous years in the consolidated income statement.

The majority of the deferred tax assets relate to NKT Group's German tax unit. The utilization of the German tax asset is depending on a successful turnaround of the high-voltage business. The tax losses carried forward from the German Tax unit increased from EUR 176.0m in 2019 to 268.5 EUR in 2020. The total deferred tax value amounts to EUR 85.9m. NKT Group has recognized a tax asset hereof of EUR 17.5m at year-end.

The tax losses carried forward at end-2020 in the Danish tax unit was EUR 58.4m which lead to a deferred tax asset of EUR 12.8m. NKT Group has recognized a tax asset hereof of EUR 5.3m (EUR 5.7m in 2019) at year-end, assuming continued joint taxation with NKT Photonics.

The tax losses carried forward at end-2020 in the Swedish tax unit sums up to EUR 129.7m which lead to a deferred tax asset of EUR 26.7m (EUR 19.8m in 2019), which was fully offset against a deferred tax liability.

NKT Group's total net deferred tax liabilty amounted to EUR 17.8m (deferred tax asset of EUR 18.0m in 2019) at end-2020. The development mainly relates to deferred tax liability related to hedge accounting recognized in other comprehensive income and deferred tax liability related to timing differences in revenue recognition in Germany.

Management judgement regarding deferred tax assets and provision for uncertain tax positions

Deferred tax assets relating to tax losses carried forward are recognized when Management assesses that these can be utilized in a foreseeable future. The assessment is performed at the reporting date considering local tax legislation and Management's business plans. Planned changes to capital structure are included in the assessment.

As the NKT Group conducts business around the world, tax and transfer pricing disputes with local tax authorities may occur. When assessing the expected outcome of these possible disputes, NKT Group applies IFRIC 23 'Uncertainty over Income Tax Treatments' and methods directed herein when making provisions for uncertain tax positions. As this is an assessment, the actual obligations may deviate and will depend on the result of litigations and settlements with the tax authorities. Any taxes relating to tax disputes are included in 'Income tax receivables', 'Income tax payables' and 'Deferred tax'.

Accounting policy

Current income tax

Tax for the period, consists of the year's current tax, change in deferred tax and adjustments related to previous years. Tax for the period is recognized in the income statement including the effect of coupon payments on the hybrid capital. Tax relating to other items are recognized in other comprehensive income.

Current tax payable and receivable is recognized in the balance sheet as tax estimated on taxable income for the year, adjusted for tax on taxable income for previous years and for tax paid on account.

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. However, deferred tax is not recognized on temporary differences relating to buildings and goodwill that for tax purposes do not qualify for depreciation and amortization, respectively, nor on other items where temporary differences – except for acquisitions – arose at the acquisition date without influencing either net earnings or taxable income. Where alternative taxation rules can be applied to determine the tax base, deferred tax is measured according to Group Management's planned use of the assets or settlement of the liabilities, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are recognized under other non-current assets at their expected utilization value within the foreseeable future, by offset against tax on future income, or by offset against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and tax liabilities are offset if the company has a legal right to offset current tax assets and liabilities and intends to settle current tax assets and liabilities on a net basis or to realize the assets and liabilities simultaneously.

Deferred tax is adjusted for the elimination of unrealized intra-Group profits and losses.

Section 3 – Non-current assets and liabilities

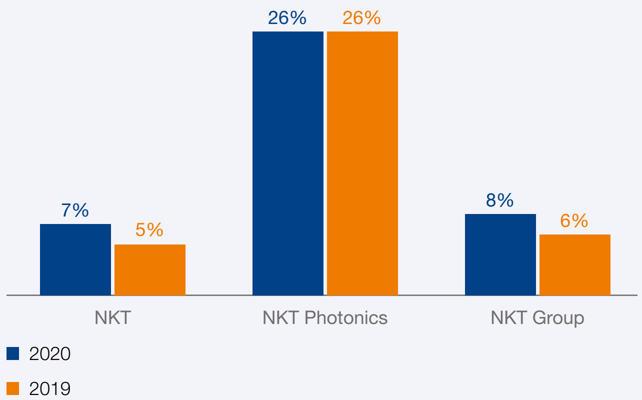
This section covers NKT Group's investments in non-current assets that form a basis for the Group's operations, and non-current liabilities arising as a result thereof. The non-current assets comprise mainly goodwill, investment in manufacturing plant and machinery and land and buildings. The non-current liabilities in this section are regarded as non interest-bearing and comprise employee pension benefits and provisions. Interest-bearing liabilities are covered in Section 5.

NKT Group is a relatively capital-intensive company. A certain level of investment in the fixed asset base is required each year to ensure efficient production and a minimum of downtime. As expected, NKT's investment ratio was higher than 2019 due to the large high-voltage orders received. The majority of the Group's non-current assets stem from the acquisition of ABB HV Cables AB in 2017.

NKT Photonics has a high level of investment due to its scientific nature and development of high-tech products. Investments are mainly related to research and development and production equipment. The investment ratio for 2020 was at the same level as 2019.

Key developments

Investment ratio (Additions in % of revenue)



Geographical information, property, plant and equipment and intangible assets

Amounts in EURm	2020	2019
Sweden	761.3	739.0
Germany	272.5	241.8
Norway	91.5	97.4
Denmark	46.1	43.2
Other	113.1	113.9
Total	**1,284.5**	**1,235.3**

Section – Non-current assets and liabilities

3.1 Intangible assets

Investment in NKT of EUR 30.0m was EUR 4.5m higher than 2019 (EUR 25.5m), mainly driven by investment in IT and development projects.

In NKT Photonics the high level of investment in 2020 related to development activities.

Breakdown of additions of intangible assets for the business units:

Amounts in EURm	2020	2019
NKT	30.0	25.5
NKT Photonics	12.3	13.8
Total	**42.3**	**39.3**

§ Accounting policy

Goodwill
Goodwill is initially recognized in the balance sheet at cost. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortized.

The carrying amount of goodwill is allocated to NKT Group's cash-generating units at the acquisition date. The identification of cash-generating units is based on the managerial structure and internal financial control. As a result of the integration of acquisitions in the existing NKT Group, and identification of operating segments based on the presence of segment managers, Group Management finds that the smallest cash-generating units to which the carrying amount of goodwill can be allocated during testing for impairment are the reportable segments (Section 2.1 Segment information).

Other intangible assets
Development projects are described in Section 2.5.

IT software, trademarks, patents and licences are measured at cost less accumulated amortization and impairment losses. IT software, trademarks, patents and licences are amortized on a straight-line basis over the remaining patent or contract period or the useful life, whichever is the shorter.

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

Trademarks, patents and licences, etc.	3 –15 years
IT software	3 – 8 years
Development projects	3 –10 years

Section – Non-current assets and liabilities

3.1 Intangible assets – continued

Amounts in EURm	Goodwill	Trademarks, patents and licences etc.	IT software	Development projects completed	Development projects in progress	Other intangible assets under construction	Total Intangible assets
Cost, 1 January 2019	402.5	103.5	31.7	59.9	41.0	30.6	669.2
Addition through business combinations	1.7	0.0	0.0	0.0	0.0	0.0	1.7
Additions	0.0	0.1	3.6	1.4	21.4	12.8	39.3
Disposals	0.0	-0.3	-1.8	-0.7	0.0	0.0	-2.8
Transferred between classes of assets	0.0	10.3	27.2	18.7	-23.5	-25.8	6.9
Exchange rate adjustments	-5.5	-6.2	0.0	0.3	0.3	0.1	-11.0
Costs, 31 December 2019	**398.7**	**107.4**	**60.7**	**79.6**	**39.2**	**17.7**	**703.3**
Amortisation and impairment, 1 January 2019	-1.3	-23.8	-22.6	-32.3	0.0	0.0	-80.0
Amortization for the year	0.0	-9.3	-9.2	-7.1	0.0	0.0	-25.6
Disposals	0.0	0.3	1.8	0.0	0.0	0.0	2.1
Transferred between classes of assets	0.0	-6.2	-0.7	0.0	0.0	0.0	-6.9
Exchange rate adjustments	0.0	1.2	-0.1	0.0	0.0	0.0	1.1
Amortisation and impairment, 31 December 2019	**-1.3**	**-37.8**	**-30.8**	**-39.4**	**0.0**	**0.0**	**-109.3**
Carrying amount, 31 December 2019	**397.4**	**69.6**	**29.9**	**40.2**	**39.2**	**17.7**	**594.0**
Cost, 1 January 2020	398.7	107.4	60.7	79.6	39.2	17.7	703.3
Additions	0.0	0.1	1.5	1.0	28.0	11.7	42.3
Disposals	0.0	-9.2	-5.2	-14.2	0.0	0.0	-28.6
Transferred between classes of assets	0.0	0.8	4.7	12.7	-10.6	-7.6	0.0
Exchange rate adjustments	13.4	2.5	0.3	1.2	0.9	-0.1	18.2
Costs, 31 December 2020	**412.1**	**101.6**	**62.0**	**80.3**	**57.5**	**21.7**	**735.2**
Amortisation and impairment, 1 January 2020	-1.3	-37.8	-30.8	-39.4	0.0	0.0	-109.3
Amortization for the year	0.0	-8.2	-6.9	-11.7	0.0	0.0	-26.8
Disposals	0.0	9.2	5.2	14.2	0.0	0.0	28.6
Transferred between classes of assets	0.0	-0.7	0.2	0.5	0.0	0.0	0.0
Exchange rate adjustments	0.0	-0.6	0.1	-0.3	0.0	0.0	-0.8
Amortisation and impairment, 31 December 2020	**-1.3**	**-38.1**	**-32.2**	**-36.7**	**0.0**	**0.0**	**-108.3**
Carrying amount, 31 December 2020	**410.8**	**63.5**	**29.8**	**43.6**	**57.5**	**21.7**	**626.9**

For more information regarding the impairment tests performed, please refer to Section 3.3.

Section – Non-current assets and liabilities

3.2 Property, plant and equipment

In NKT, the addition of EUR 74.1m reflected the investment in production facilities to be able to produce the orders received in the year.

In NKT Photonics, the decreased level of investment in 2020 compared to 2019 was due to the opening of the Boston facility in 2019.

Amounts in EURm	2020	2019
NKT	74.1	31.2
NKT Photonics	5.6	6.5
Total	**79.7**	**37.7**

Amounts in EURm	Land and buildings	Manufacturing plant and machinery	Fixtures, fittings, tools and equipment	Property, plant and equipment under construction, incl. prepayments	Total property, plant and equipment
Cost, 1 January 2019	338.1	597.6	120.6	23.5	1,079.8
Additions through business combinations	2.6	0.0	3.9	0.0	6.5
Additions	5.5	3.3	3.2	25.7	37.7
Additions from the application of IFRS 16 Leases	36.9	0.0	0.0	0.0	36.9
Disposals	-2.5	-8.1	-2.4	-0.1	-13.1
Transferred between classes of assets	6.6	35.6	-1.8	-24.4	16.0
Exchange rate adjustments	-2.3	-1.0	-0.1	-0.5	-3.9
Cost, 31 December 2019	**384.9**	**627.4**	**123.4**	**24.2**	**1,159.9**
Depreciation and impairment, 1 January 2019	-71.1	-294.0	-68.7	-0.8	-434.6
Depreciation for the year	-15.1	-46.9	-13.1	0.0	-75.1
Transferred between classes of assets	-6.1	-16.4	3.5	0.0	-19.0
Disposals	2.0	6.5	2.1	0.0	10.6
Exchange rate adjustments	-0.1	-0.4	0.0	0.0	-0.5
Depreciation and impairment, 31 December 2019	**-90.4**	**-351.2**	**-76.2**	**-0.8**	**-518.6**
Carrying amount, 31 December 2019	**294.5**	**276.2**	**47.2**	**23.4**	**641.3**
Cost, 1 January 2020	384.9	627.4	123.4	24.2	1,159.9
Additions	6.5	13.2	3.4	56.6	79.7
Disposals	-1.9	-20.5	-15.9	0.0	-38.3
Transferred between classes of assets	2.1	14.2	8.4	-24.7	0.0
Exchange rate adjustments	4.9	1.9	1.6	0.3	8.7
Cost, 31 December 2020	**396.5**	**636.2**	**120.9**	**56.4**	**1,210.0**
Depreciation and impairment, 1 January 2020	-90.4	-351.2	-76.2	-0.8	-518.6
Depreciation for the year	-15.7	-42.6	-12.2	0.0	-70.5
Transferred between classes of assets	-0.1	-0.7	0.8	0.0	0.0
Disposals	1.9	20.1	15.7	0.0	37.7
Exchange rate adjustments	-0.4	0.1	-0.7	0.0	-1.0
Depreciation and impairment, 31 December 2020	**-104.7**	**-374.3**	**-72.6**	**-0.8**	**-552.4**
Carrying amount, 31 December 2020	**291.8**	**261.9**	**48.3**	**55.6**	**657.6**

Regarding impairment test, please refer to Section 3.3.

Section – Non-current assets and liabilities

3.2 Property, plant and equipment – continued

Right-of-use assets are recognised as follows:

	Land and buildings	Manu-facturing plant and machinery	Fixtures, fittings, tools and equipment	Total
Cost, 1 January 2019	0.0	0.0	0.0	0.0
Additions from application of IFRS 16	36.9	0.0	0.0	36.9
Addition through business combinations	2.6	0.0	0.0	2.6
Addition for the year	3.3	0.0	0.0	3.3
Depreciation of right of use assets	-5.3	0.0	0.0	-5.3
Exchange rate adjustments	-0.3	0.0	0.0	-0.3
The carrying amount of right-of-use assets, 31 December 2019	**37.2**	**0.0**	**0.0**	**37.2**
Cost, 1 January 2020	37.2	0.0	0.0	37.2
Addition for the year	4.9	8.5	0.8	14.2
Depreciation of right of use assets	-6.2	-0.3	-0.1	-6.6
Exchange rate adjustments	0.5	0.0	0.0	0.5
The carrying amount of right-of-use assets, 31 December 2020	**36.4**	**8.2**	**0.7**	**45.3**

Amounts recognized in the income statement, EURm

Amounts in EURm	2020	2019
Costs relating to other immaterial leases including short term and low value leases, recognized in the income statement	8.4	8.3

Lease liabilities and interests relating to recognized lease contracts are included in Section 5.4 and 5.5 respectively. Future minimum lease payments relating to leases not recognized in the balance sheet amount to EUR 15.2m (EUR 12.2m in 2019).

Section – Non-current assets and liabilities

3.2 Property, plant and equipment – continued

§ Accounting policy

Land and buildings, manufacturing plant and machinery, fixtures, fittings, tools and equipment and other property, plant and equipment, are measured at cost less accumulated depreciation and impairment losses.

The cost comprises the purchase price and any costs directly attributable to the acquisition until the asset is ready for use. The cost of self-constructed assets comprises costs of materials, components, subcontractors and wages. The cost is supplemented by the present value of estimated liabilities related to dismantling and removing the asset and restoring the site on which the asset was utilized.

Subsequent costs, e.g. relating to replacement of parts of an item of property, plant and equipment, are recognized in the carrying amount of the asset if it is likely that the costs will result in future economic benefits for the Group. The carrying amount of the replaced parts is derecognized in the balance sheet and recognized in the income statement. All other costs relating to ordinary repair and maintenance are recognized in the income statement as incurred.

If individual parts of an item of property, plant and equipment have different useful lives, they are depreciated separately. Depreciation is effected on a straight-line basis over the expected useful life of the assets/components, as follows:

Buildings	10 – 50 years
Manufacturing plant and machinery	4 – 20 years
Fixtures, fittings, tools and equipment	3 – 15 years
Vessel	20 years

Land is not depreciated.

The basis of depreciation is calculated according to the residual value less impairment losses. The residual value is determined at the acquisition date and reviewed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

When changing the depreciation period or the residual value, the effect on the depreciation is recognized prospectively as a change in accounting estimates.

Property, plant and equipment under construction and prepayments are measured at cost. When ready for use, the asset is transferred to the relevant category and depreciation commences.

Leases

NKT Group leases a number of production facilities, office buildings, cars, forklifts, IT and other office equipment. Contracts relating to leased equipment are usually made for a fixed period, wheras lease contracts for buildings in some instances include an option to extend the lease. NKT Group recognizes leases on the balance sheet as right-of-use assets, with a corresponding lease liability. The lease liability is equal to the discounted value of all future lease payments including extensions where relevant.

Payments related to short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. Low-value assets mainly comprise minor buildings, cars, forklifts, IT-equipment and other office equipment.

When assessing the life of the leases, NKT Group considers the non-cancellable lease term and options to extend the lease where NKT Group is reasonably certain to extend. The lease period of offices is assessed to be approximately 3 – 10 years and for production facilities 5 – 10 years. For other assets the lease term is equal to the non-cancelable lease period and extensions are not considered. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Liabilities are measured as the present value of the remaining lease payments, discounted using the implicit borrowing rate in the contracts if available or NKT Group's incremental borrowing rate. This rate is determined as the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

NKT has no leases where the rent is variable depending on revenue etc. Some contracts are exposed to future increases in variable lease payments based on an index or rate, which are included in the lease liability when they take effect.

The finance cost related to lease payments is charged to the income statement over the lease period in order to produce a constant periodic rate of interest on the remaining balance of the liability for each period. □

Section – Non-current assets and liabilities

3.3 Impairment test

Result of annual impairment test

At 31 December 2020, the carrying amount of goodwill, other intangible assets and tangible assets were tested for impairment. The impairment test showed no impairment for 2020 (no impairment in 2019).

Cash-generating units

Cash-generating units in NKT Group are Solutions (high-voltage power cable solutions), Applications (low and medium voltage power cables), Service & Accessories (asset management services for onshore and offshore power cables and Production of cable accessories) and NKT Photonics (optical fiber and laser technology), these being the lowest level of cash-generating units as defined by management.

The definition of cash-generating units is based on the smallest identifiable group of assets that together generate cash inflows from continued use and which are independent of the cash flows from other assets or groups of assets. The definition of cash-generating units complies with the managerial structure and the internal financial reporting in NKT Group.

For impairment test purposes, tangible assets and intangible assets are allocated to the respective cash-generating units.

Significant estimates

Goodwill

Goodwill has been allocated to the cash-generating units according to the split presented above.

The goodwill level in Applications was immaterial and the assumptions for the impairment test of goodwill are not described any further for this CGU. The carrying amount of Goodwill was as follows:

Amounts in EURm	2020	2019
Solutions	329.1	317.4
Applications	6.2	6.4
Service & Accessories	50.2	48.4
NKT Photonics	25.3	25.2
	410.8	397.4

Key Assumptions

The recoverable amount is based on a value-in-use calculation. For all cash-generating units, the calculation uses cash flow projections (budget period) based on financial budget for 2021 and financial forecasts for 2022–2026, hence a 6 year budget period. Significant parameters in these estimates are revenue growth, EBITDA margin, discount rate, working capital and growth expectations for the terminal period.

The discount rate has been revised for each cash-generating unit to reflect the latest market assumptions for the risk-free rate based on a 5-year German government bond, the equity risk premium and the cost of debt. 2020 was a special year and for that reason two changes has been applied. Due to the current negative interest rate, the interest rate has been normalised for the terminal period, increasing this to a positive interest rate expected in the future. Due to the negative impact from COVID-19 on NKT Photonics, and the corresponding uncertainty surrounding the long-term impact from COVID-19, NKT Photonics has further increased the discount rate in the terminal period by 0.5% to cater for this specific uncertainty.

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 cash-generating units operate. The expected long-term growth rate was reduced in 2019 and has been reduced further in 2020 to reflect the lower risk free rate for Solutions and Service & Accessories. NKT Photonics still expect higher than average growth in the future compared to other companies in the Laser industry.

Investments reflect both maintenance and expectations of organic growth. Based on the high order intake in Solutions, investments are high in the first two budget years before being normalized over the budget period 2021–2026. For the terminal period, the investments are expected to be slightly higher than the depreciations to support the growth expected.

Group Management determines, as illustrated on the following page, the expected annual growth rate in the budget period, the expected margins based on historical experience and the assumptions about expected market developments.

3.3 Impairment test – continued

Key assumptions 2020

Cash-generating unit	Average EBITDA margin in budget period	Annually average revenue growth rate in budget period	Discount rate after tax - budget period	Discount rate before tax - budget period	Average Working capital ratio in budget period	Growth rate in terminal period	Discount rate after tax - terminal period	Discount rate before tax - terminal period
Solutions	11.4%	13.7%	8.0%	11.0%	-21.3%	1.5%	8.8%	12.1%
Service & Accessories	13.6%	4.2%	7.5%	10.2%	11.5%	1.0%	8.3%	11.3%
NKT Photonics	19.0%	11.2%	8.5%	11.1%	21.0%	3.0%	9.0%	11.7%

Key assumptions 2019

Cash-generating unit	Average EBITDA margin in budget period	Annually average revenue growth rate in budget period	Discount rate after tax - budget period	Discount rate before tax - budget period	Average Working capital ratio in budget period	Growth rate in terminal period	Discount rate after tax - terminal period	Discount rate before tax - terminal period
Solutions	12.4%	13.3%	8.0%	10.1%	-11.3%	2.0%	8.0%	10.1%
Service & Accessories	10.8%	6.1%	7.5%	9.1%	6.1%	2.0%	7.5%	9.1%
NKT Photonics	23.2%	12.3%	8.5%	10.9%	20.7%	3.0%	8.5%	10.9%

The discount rate has been split in two based on the rationality described on the previous page.

Solutions

In 2020, Solutions was awarded several new High-Voltage cable projects ending the year with a record high backlog, which ensure a high level of activity during the budget period. Given the continued growth, the renewable power generation is an important driver in the attractive outlook for the high-voltage market and is expected to ensure a continuously high level of activity for many years to come. NKT views Europe as its largest market and expects this market to provide significant growth opportunities in the future, projects are also expected to come to the market in the USA and Asia.

Assessing the future awards to NKT is by nature subject to uncertainty, and the value-in-use calculation of the Solution CGU is very sensitive to changes in the actual share awarded to NKT in future projects, however the large backlog does provide higher certainty regarding the future revenue and earnings.

Service & Accessories

The market for servicing power cables is growing as the number of cables increase. 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 interest in service agreements, leading to an expected growth in line with the megatrends of the power cable market. While the market is expected to increase, the timing of and the number of cable repairs vary, and it is still expected that results will fluctuate accordingly. For Accessories, delivering components for power cable systems, the market is equally expected to increase in the coming years and NKT expect to be able to reach even more markets over the coming years to accommodate increased production capacity, development of products increase the possibility to cater for the higher demand for components.

NKT Photonics

NKT Photonics operates in the laser industry within three segments: Medical & Life Science, Industrial and Aerospace & Defense. When assessing the prospects of their market, NKT Photonics is still expecting growth rates above the average growth for the general laser industry.

Section – Non-current assets and liabilities

3.3 Impairment test – continued

Sensitivity

Sensitivity to changes in assumptions:
The sensitivity analysis is based on the assumption that NKT will be awarded its fair share of the future projects. It is Management's assessment that likely changes in the key assumption will not cause the carrying amount of goodwill to exceed the recoverable amount. However, to show the headroom between the carrying amount and the recoverable amounts, a sensitivity analysis has been included, with focus on discount rate, long-term growth rate and EBITDA in terminal period.

Assumptions for calculating value in use

	Discount rate after tax, terminal period		Growth rate in terminal period	
Cash-generating units	2020	2019	2020	2019
Solutions	8.8%	8.0%	1.5%	2.0%
Service & Accessories	8.3%	7.5%	1.0%	2.0%
NKT Photonics	9.0%	8.5%	3.0%	3.0%

Assumptions can change as follows before the value in use equals the carrying amount

	Discount rate after tax terminal period		Growth rate in terminal period		Change in EBITDA in terminal period	
Cash-generating units	2020	2019	2020	2019	2020	2019
Solutions	9.6%	8.5%	-1.1%	1.4%	-8.9%	-6.7%
Service & Accessories	20.4%	14.5%	-26.3%	-9.9%	-62.4%	-51.5%
NKT Photonics	11.7%	12.9%	-2.7%	-3.9%	-25.5%	-27.0%

Section – Non-current assets and liabilities

3.3 Impairment test – continued

The recoverable amount per cash-generating unit exceeded the carrying amount of goodwill, other intangible assets and other assets allocated to the cash-generating unit with the following amounts at 31 December:

	Headroom in EURm	
Cash-generating units	**2020**	**2019**
Solutions	84	72
Service & Accessories	109	104
NKT Photonics	63	100

The value-in-use calculations for each cash-generating unit are sensitive to the future cash flows and earnings which by nature is subject to uncertainty.

§ **Accounting policy**

Goodwill, intangible assets with indefinite useful lives and development projects are tested at least annually for impairment, and furthermore when a trigger event occurs which could indicate a potential impairment.

The carrying amount of goodwill is tested for impairment together with the other non-current assets in the cash-generating unit to which goodwill is allocated and written down to the recoverable amount over the income statement if the carrying amount is higher. The recoverable amount is generally computed as the present value of the expected future net cash flows from the business or activity (cash-generating unit) to which goodwill is allocated.

Other non-current assets

The carrying amount of other non-current assets is tested when a trigger event occurs which could indicate a potential impairment. If such an indication occurs, the recoverable amount of the asset is determined. The recoverable amount is the fair value of the asset less anticipated cost of disposal, or its value-in-use, whichever is the higher. The value-in-use is calculated as the present value of expected future cash flows from the asset or the cash-generating unit of which the asset is part.

Recognition of impairment loss in the income statement

Impairment is recognized if the carrying amount of an asset or a cash-generating unit exceeds the respective recoverable amount thereof. The impairment is recognized in the income statement under depreciation and impairment. Impairment of goodwill is recognized in a separate line item in the income statement.

Impairment of goodwill is not reversed. Impairment of other assets is reversed in the event of changes having taken place in the conditions and estimates on which the impairment calculation was based. Impairment is only reversed if the new carrying amount of the asset does not exceed the carrying amount that would have applied after amortization if the asset had not been impaired. □

Section – Non-current assets and liabilities

3.4 Provisions and pension liabilities

Amounts in EURm	Guarantee/ Warranty provision	Restructuring provision	Other provisions	Provision for pensions and other long term employee benefits, net value	Total provisions and pension liabilities
Provisions, 1 January 2020	9.7	2.1	23.7	55.6	91.1
Provisions made during the year	1.5	0.6	15.8	3.1	21.0
Used/paid during the year	-0.2	-0.1	-8.8	-1.8	-10.9
Reversed during the year	-7.5	-2.3	-11.4	0.0	-21.2
Exchange rate adjustment	0.0	0.0	0.1	0.0	0.1
Provisions, 31 December 2020	**3.5**	**0.3**	**19.4**	**56.9**	**80.1**
Provisions are recognized in the balance sheet as:					
Non-current liabilities	1.1	0.0	9.1	56.9	67.1
Current liabilities	2.4	0.3	10.3	0.0	13.0
	3.5	**0.3**	**19.4**	**56.9**	**80.1**

Total provisions in NKT Group decreased by net EURm 11m in 2020, which was mainly related to release of waranty provisons and various other provisions in Solutions.

Of the addition to provision for pension liabilities, EUR 1.4m was actuarial losses recognized in other comprehensive income. The provision for pensions also include other long term benefits relating to anniversary bonuses etc., EUR 1.8m (EUR 1.1m in 2019). At the end of 2020, there were no plan assets to be offset in the present value of the obligation.

Actuarial assumptions applied in the calculation of the present value of the obligation	2020	2019
Discount rate	0.7%	1.0%
Future salary increases	3.0%	3.0%
Future pension increases	2.0%	2.0%

Sensitivity analysis

The table below shows the sensitivity of the liability to changes in key assumptions for the measurement of the liability at the balance sheet date. The analysis is based on the changes in the applied key assumptions considered reasonably likely provided the other parameters in the calculation are unchanged.

Amounts in EURm	2020	2019
0.5% point increase in discount rate	-4.0	-4.0
0.5% point decrease in discount rate	4.5	4.5

3.4 Provisions and pension liabilities – continued

§ Accounting policy

Provisions are recognized when the Group has a legal or a constructive obligation as a result of events arising at or before the balance sheet date and it is likely that there may be an outflow of resources embodying economic benefits to settle the obligation.

The amount recognized as a provision is Management's best estimate of the amount required to settle the obligation.

When measuring provisions, the costs required to settle the obligation are discounted if they significantly affect the measurement of the liability. A pre-tax discount rate is applied that reflects the current market interest rate and the specific risks relating to the obligation. The addition of interests on provisions are recognized in the income statement under financial expenses.

Warranty provisions are recognized in connection with the sale of goods and services based on the level of warranty expenses incurred in previous years. Contingent warranty commitments are recognized in connection with business combinations.

Restructuring costs are recognized under liabilities when a detailed, formal restructuring plan is announced to the affected parties on or before the balance sheet date.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the Group's unavoidable costs for meeting its contractual obligations.

Provisions for dismantling production installations and restoring rented facilities when vacated are measured at the present value of the expected clearance and closure obligation at the balance sheet date. The provision is based on existing encumbrances and estimated cost discounted to present value. Specific risks considered to attach to the obligation are included in the estimated costs. A discount rate is applied which reflects the current market interest rate. The obligations are included as they occur and continuously adjusted to reflect changed requirements and price levels, etc. The present value of the costs is included in the cost of the relevant tangible assets and depreciated accordingly. The addition of interests on provisions are recognized in the income statement under financial expenses.

For the Group's defined benefit plans, an annual actuarial calculation (the Projected Unit Credit Method) of the present value of future benefits payable under the plan is provided. The present value is determined based on assumptions about the future development in variables such as salary levels, interest rates, inflation and mortality. The present value is determined only for benefits earned by employees from their employment within the Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under pension liabilities.

Pension expenses for the year are recognized in the income statement based on actuarial estimates and financial expectations at the start of the year. Differences between calculated interest on plan assets and the realized values at the end of the year are designated actuarial gains or losses and recognized in other comprehensive income.

If a pension plan constitutes a net asset, the asset, is only recognized if it offsets cumulative actuarial losses or future refunds from the plan, or if it will lead to reduced future payments to the plan.

Other long-term employee benefits included in the provision, such as anniversary bonuses, are similarly recognized by an actuarial calculation. Actuarial gains and losses are recognized in other comprehensive income. □

Section 4 – Working capital

NKT Group's working capital represents the assets and liabilities necessary to support the day-to-day operations. Working capital is defined as current assets less current liabilities, excluding interest-bearing items and provisions.

Composition and drivers

NKT Group's operations are by definition highly capital-intensive as the manufacture of power cables involves a high proportion of raw materials such as copper and aluminium. Furthermore, working capital is volatile in Solutions, but to some extent predictable, and large sums may be tied up for lengthy periods as payments are linked to production stages and general contract terms.

The Group's working capital is only to a minor degree impacted by NKT Photonics.

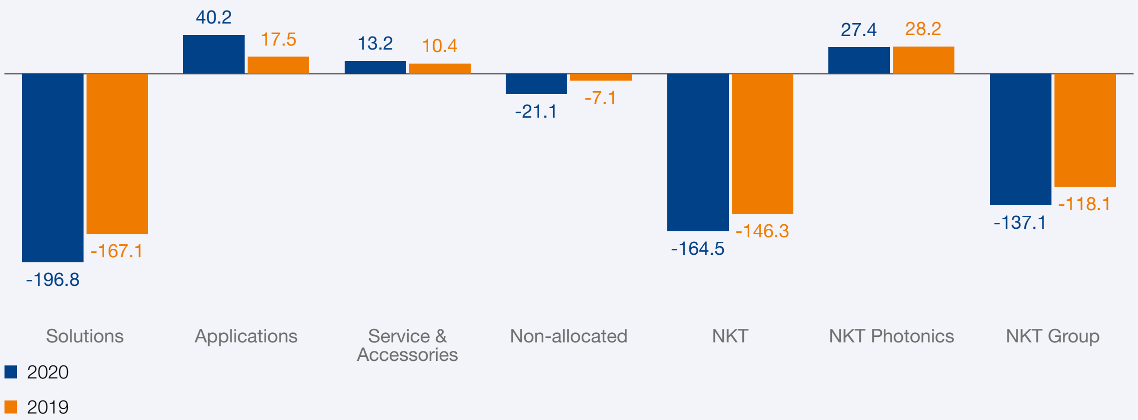
NKT improved its working capital position by EUR 18.2m from EUR -146.3m at end 2019 to EUR -164.5m at end 2020. This was driven by a positive development in construction contracts in Solutions due to payments from various projects offset by increased inventory level in Applications.

In NKT Photonics working capital decreased compared to last year mainly as a result of reduction in trade receivables.

Amounts in EURm	2020	2019
Solutions	-196.8	-167.1
Applications	40.2	17.5
Service & Accessories	13.2	10.4
Non-allocated	-21.1	-7.1
NKT	**-164.5**	**-146.3**
NKT Photonics	27.4	28.2
NKT Group	**-137.1**	**-118.1**

Key developments

Working capital (Amounts in EURm)



Section – Working capital

4.1 Inventories

NKT Group carries inventory to support their operations. Continuous efforts are made to maintain inventory at a low level, while maintaining a high level of customer service through short lead times.

NKT increased slightly compared to last year driven by Applications.

NKT Photonics inventory level is at the same level as 2019.

Amounts in EURm	2020	2019
Raw materials, consumables and goods for resale	107.6	89.2
Work in progress	61.1	62.7
Finished goods	74.9	77.8
Inventories, 31 December	243.6	229.7
NKT	225.1	211.2
NKT Photonics	18.5	18.5
Write-down of inventories, 1 January	18.5	14.1
Write-down of inventories for the year, expensed in the income statement	10.3	7.5
Disposals from sales	-0.8	-2.6
Scrapping	-6.2	-0.5
Write-down of inventories, 31 December	21.8	18.5

§ Accounting policy

Inventories are measured at cost in accordance with the FIFO method or at a weighted average. If the net realizable value is lower than cost, inventories are written down to this lower value.

Raw materials, consumables and goods for resale are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at costs, which comprises costs of raw materials, consumables, direct wages/salaries and production overheads. Production overheads include indirect materials and wages/salaries, as well as maintenance and depreciation of production machinery, buildings and equipment, along with costs for production administration and management. In the case of qualifying assets, specific and general borrowing costs directly relating to production of the relevant asset are recognized in the costs.

The net realizable value of inventories is calculated as the sales amount less costs of completion and costs incurred in effecting the sale, and is determined taking into account marketability, obsolescence and development in expected sales price. □

Section – Working capital

4.2 Receivables

In NKT Group, receivables comprise trade and other receivables from external companies, other receivables from derivative financial instruments and prepayments. Receivables are measured at amortized cost, which in all material respects corresponds to fair value and nominal value.

In NKT Group, total receivables increased EUR 114.8m from EUR 224.0m in 2019 to EUR 333.2m in 2020. The increase was mainly driven by an increase of EUR 88.1m in the derivative financial instruments due to increased commodity prices.

Impairment on trade receivables amounted to 1% of trade receivables down from 3% in 2019. For further information on credit risks, please see Section 5.6.

Amounts in EURm	2020	2019
Trade receivables	161.2	141.6
Other receivables incl. derivative financial instruments	146.1	62.1
Prepayments	25.9	20.3
Receivables	333.2	224.0
Of which receivables falling due later than 12 months from the balance sheet date	1.3	0.0

Development in trade receivables provision

Amounts in EURm	2020	2019
Trade receivables, gross	165.0	147.4
Impairment of receivables:		
Impairment, 1 January	5.8	3.5
Exchange rate adjustment	0.0	0.3
Impairment losses for the year included in the income statement in 'Other costs'	2.1	2.5
Reversal of impairment losses for the year included in income statement in 'Other costs'	-3.9	-0.5
Realized impairment losses during the year	-0.2	0.0
Impairment, 31 December	3.8	5.8
Trade receivables, net	161.2	141.6

For receivables, the expected credit losses are based on the historical credit losses combined with forward-looking information in macroeconomic factors effecting the credit risk. In 2020 credit losses recognized in the income statements count for 0.1% of total revenue. The expected loss rates are updated at every reporting date.

§ Accounting policy

Trade receivables are at initial recognition measured at their transaction price less allowance for expected credit losses over the lifetime of the receivable and are subsequently measured at amortized cost adjusted for changes to the expected credit losses. Expected credit losses at initial recognition are calculated for portfolios of receivables that share credit risk characteristics and is based on historical experience and, when applicable, adjusted for factors that are specific to the debtors and general economic conditions. The portfolios are primarily based on the debtor's domicile and credit rating in accordance with NKT Groups credit risk management policy, see Section 5.6.

When there is an indication of impairment, expected credit losses are calculated at individual level and when there are no reasonable expectations of recovering, the receivable is written off in part or entirely.

The allowances for expected credit losses and write-offs for trade receivables are recognized in the income statement as Other costs.

Section – Working capital

4.3 Contract assets and Liabilities

Contract assets and liabilities comprise trade receivables from external sales (see Section 4.2), construction contracts, prepayments related to construction contracts, prepayments from customers and deferred income.

Amounts in EURm	2020	2019
Trade receivables, Section 4.2	161.2	141.6
Construction contracts	21.3	36.7
Total contract assets	**182.5**	**178.3**
Construction contracts:		
Contract value of work in progress	1,960.8	1,399.5
Progress billings	-2,192.4	-1,540.2
	-231.6	**-140.7**
Construction contracts are recognized as follows:		
Recognized as assets	21.3	36.7
Recognized as liabilities	-252.9	-177.4
	-231.6	**-140.7**
Construction contracts	252.9	177.4
Prepayments regarding construction contracts	37.7	1.0
Other prepayments from customers	5.9	7.9
Total contract liabilities	**296.5**	**186.3**

Amounts in EURm	2020	2019
Construction contracts, 1 January	**36.7**	**72.7**
Increase from the measure of progress on construction contracts	12.8	9.4
Transferred from Construction assets at the beginning of the year to receivables	-28.5	-44.7
Exchange rate adjustments	0.3	-0.7
Construction contracts, 31 December	**21.3**	**36.7**
Contract liabilities, 1 January	**186.3**	**145.4**
Revenue recognised, included in construction contract liabilities in the beginning of the year	-125.2	-63.9
Prepayments received, not recognised as revenue in the year, project in progress	229.7	105.3
Prepayments relating to projects not commenced	1.1	0.0
Prepayments from customers relating to product sales	0.5	-0.9
Exchange rate adjustments	4.1	0.5
Contracts liabilities, 31 December	**296.5**	**186.3**
The transaction price allocated to performance obligations not yet satisfied is expected to be recognised as follows:		
Within 0-1 year	143.9	140.7
Within 1-5 years	152.6	45.6
After 5 years	0.0	0.0
	296.5	**186.3**

Construction contracts (assets) comprise the sales value of work performed, where NKT Group does not yet possess an unconditional right to payment, as the work performed has not been approved by the customer. Construction contracts (liabilities) comprise contractual unconditional invoicing for work not yet performed.

Section – Working capital

4.3 Contract assets and Liabilities – continued

Significant estimates

Construction contracts are measured based on management judgement in terms of stage-of-completion and estimated profit on a project-by-project approach to estimate the expected selling prices which affect the value recognized in the balance sheet. The estimate includes a risk provision, which is based on an assessment of the specific risk that each project is exposed to.

Therefore, the recognition of revenue and related contract assets and liabilities are subject to uncertainty. Management's estimates are based on the most likely outcomes of the projects.

Accounting policy

Construction contracts

Construction contracts are measured at the selling price of the work performed less progress billings and anticipated losses. Construction contracts are characterized by a high degree of customization in the design of the cables produced. It is furthermore a requirement that before commencement of the work, a binding contract is signed that will result in a fine or compensation in case of subsequent cancellation.

The contract value is measured according to the stage-of-completion at the balance sheet date and total expected income from the contract. The stage-of-completion is determined on the basis of an assessment of the work performed, calculated as the ratio of expenses incurred compared to total anticipated expenses on the contract concerned.

When it is probable that the total contract costs will exceed the total contract revenue, the anticipated loss on the contract is immediately recognized as an expense and a provision.

When income and expenses on a construction contract cannot be determined reliably, the contract value is measured as the costs incurred which are likely to be recoverable.

Where the contract value of work performed exceeds progress billings and anticipated losses, the excess is recognized under contract receivables. If progress billings and anticipated losses exceed the value of work performed, the deficit is recognized in contract liabilities.

Prepayments from customers are recognized under contract liabilities.

Costs relating to sales work and securing contracts are recognized in the income statement as incurred unless they are directly attributable to a specific contract and it is probable at the time that the costs are occurred that the contract will materialize. In this case a contract asset is recognized.

When there is an indication of impairment, expected credit losses are calculated at individual level and when there are no reasonable expectations of recovering the amount due, the receivable is written off in part or entirely.

The allowances for expected credit losses and write-offs for trade receivables are recognized in the income statement as Other costs.

4.4 Changes in working capital in cash flow

Amounts in EURm	2020	2019
Inventory	-16.0	-3.4
Trade receivables and other receivables	-12.0	46.9
Contract assets and contract liabilities	125.3	74.0
Trade payables and other liabilities	17.2	12.8
Total	**114.5**	**130.3**

The above cannot be derived directly from the balance sheet.

Section 5 – Capital structure and financial risk management

This section covers the NKT Group's capital structure, financial items, and financial risk management.

The NKT Group's overall policy is to maintain a capital structure that supports the strategic goals to deliver value and profitable growth.

The NKT Group aims to be perceived as a company with an investment grade credit profile and therefore strives to maintain a capital structure within defined targets for solvency (ratio of minimum 30%) and operational EBITDA leverage (ratio up to 1.0x). In November 2020, the leverage ratio target was lowered from 1.5x to 1.0x. The company is targeting a more robust capital structure as NKT will become a relatively larger project dependent business due to the planned investments in the Solutions business line during 2020-2022 with large-scale complex projects and potentially large fluctuations in cash flows.

In periods where the capital structure targets are satisfied, NKT Group cash flows are used for shareholder distributions, or value adding investments or acquisitions. The company's dividend policy targets pay-out of approximately one third of net result for the year, provided the capital structure allows for it. Further excess cash may be distributed as share buybacks or extraordinary dividends. If not, cash flows are prioritized to repay debt.

At end-2020 the solvency ratio was 49% and the leverage ratio (Net interest-bearing debt relative to Operational EBITDA) was -0.4x. The debt reduction in 2020 was primarily driven by the two completed capital increases. No dividend payment is proposed in 2021 as the net result in 2020 was negative.

Key developments in 2020

NET INTEREST-BEARING DEBT (NIBD) AT YEAR-END

EUR -25.9m

Decrease of EUR 268.1m compared to 2019

AVERAGE FUNDING RATE (EXCL. HYBRID CAPITAL)

2.6%

Up from 2.4% in 2019

AVAILABLE LIQUIDITY RESOURCES

EUR 536m

Up from EUR 267m in 2019

Section – Capital structure and financial risk management

5.1 Share capital

NKT A/S' share capital consists of shares with a nominal value of DKK 20 each. No shares carry special rights. NKT A/S' Articles of Association specify no limits in respect of ownership or voting right, and Group Management is unaware of any agreements in this regard.

Distribution of dividend to shareholders of NKT A/S has no tax consequences for the company.

At end-2020, NKT A/S did not hold any treasury shares (no treasury shares in 2019).

Number of DKK 20 shares	2020	2019
Shares, 1 January	27,260,115	27,126,369
Increase in capital by exercise of warrants	20,806	133,746
Issue of new shares	15,695,115	0
Shares, 31 December	42,976,036	27,260,115

§ Accounting policy

Dividend is recognized as a liability at the date of adoption at the Annual General Meeting (declaration date). Proposed dividend payments for the year are disclosed as a separate item under equity. Interim dividend is recognized as a liability at the date when the decision to pay such dividend is made. Acquisition costs, consideration received, and dividends relating to treasury shares, are recognized directly in retained comprehensive income in equity.

In order to strengthen the capital structure and ensure the financing of the production expansion demanded by the backlog as described in page 6 in the management review, NKT have undertaken two capital increases in May and December 2020, comprising 15,695,115 shares at an average price of EUR 17.05. Costs relating to the two increases was EUR 9.0m for a total net proceed of EUR 258.6m.

Three mandates have been issued by the shareholders at the General Meeting in relation to the Group's capital structure:

1. The share capital may, by resolution of the Board of Directors, be increased by issue of shares to a maximum nominal amount of DKK 256m in the period until 30 April 2025. With the increases in 2020, The remaining amount of the authorization is thus DKK 41,119,820.

2. For the period until 31 March 2021 the Board of Directors is authorized to arrange for acquisition of the Company's own shares up to a nominal value of 10% of the share capital.

3. In the period until 30 April 2025 loans may be raised against bonds or debt instruments in one of several transactions with a right for the lender to convert this claim to shares, each of a nominal value of DKK 20, up to a maximum nominal amount of DKK 128m (6.4 million new shares). This mandate is equally to capped to DKK 41,119,820 due to the capital increases in 2020.

5.2 Earnings per share

Amounts in EURm	2020	2019
Profit attributable to equity holders	-82.6	-84.1
Weighted average number of ordinary shares adjusted for the effect of dilution	30,846,489	27,137,515
Basic earnings per share, EUR	-2.7	-3.1
Diluted earnings per share, EUR	-2.7	-3.1

There has been no transactions between the balance sheet date and the date of publication of this Annual Report, that have significantly changed the number of shares or potential shares in NKT A/S.

Section – Capital structure and financial risk management

5.3 Hybrid capital

Hybrid capital comprise issued bonds from September 2018 of EUR 150m, which is subordinated to other creditors.

The hybrid security bears a coupon of 5.375% until the first call date on 12 September 2022 after which the coupon resets to the 4-year EUR swap rate prevailing at that time plus 10.225%. It has a final maturity on 12 September 3018. Coupon payments may at the discretionary decision of NKT A/S be deferred and ultimately any deferred coupons outstanding in 3018 will be cancelled. However, deferred coupon payments become payable if NKT A/S decides to pay dividends to shareholders. Coupon payments are also recognized in equity.

Significant judgements

The issued EUR 150m callable subordinated capital securities due in 3018 are accounted for as a hybrid capital reserve in equity. The classification is based on the special characteristics of the hybrid bond, where the bondholders are subordinate to other creditors, and NKT A/S may defer and ultimately decide not to pay the coupon.

As the principal of the securities ultimately falls due in 3018, its discounted fair value is zero due to the terms of the securities. Therefore, a liability of zero has been recognized in the balance sheet, and the full amount of the proceeds have been recognized as equity. Coupon payments are recognized in the statement of cash flows in the same way as dividend payments within financing activities.

Accounting policy

Hybrid capital is treated in accordance with the rules on compound financial instruments based on the characteristics of the bonds. The notional amount, which constitutes a liability, is recognized at present value, and equity has been increased by the difference between the net proceeds received and the present value of the discounted liability. The part of the hybrid capital that is accounted for as a liability is measured at amortized cost. The carrying amount, amount to nil on initial recognition and due to the 1,000-year term of the hybrid capital, amortization charges will only have an impact on the income statement for the years at the end of the 1,000-year term of the hybrid capital.

Coupon payments are accounted for as dividends and are recognized directly in equity when the obligation to pay arises. The obligation to pay coupon payments is at the discretion of Group Management and deferred coupon lapses upon maturity of the hybrid capital. Coupon payments are recognized in the statement of cash flows in the same way as dividend payments within financing activities.

On redemption of the hybrid capital, the payment will be distributed between liability and equity, applying the same principles as used when the hybrid capital was issued. The difference between the payment on redemption and the net proceeds received on issue is recognized directly in equity as the debt portion of the existing hybrid issues will be nil during the first part of the life of the hybrid capital.

On the date on which the Board of Directors decides to exercise an option to redeem the hybrid capital, the part of the hybrid capital that will be redeemed will be reclassified to loans and borrowings. The reclassification will be made at the market value of the hybrid capital at the date the decision is made. Following the reclassification, coupon payments and exchange rate adjustments will be recognized in the income statement as financial income or expenses.

Section – Capital structure and financial risk management

5.4 Net interest-bearing debt and maturity of financial liabilities

Net interest-bearing debt

Net interest-bearing debt at end-2020 was EUR -25.9m. This corresponded to a net debt decrease of EUR 268.1m compared to end-December 2019. The net interest-bearing debt consisted of gross debt of EUR 213.4 m and cash and interest-bearing receivables of EUR 239.3m.

In addition to the hybrid security mentioned in Section 5.3 and Revolving Credit Facility (RCF), NKT Group has mortgage debt of EUR 159.7m.

It is Group Management's opinion, that the financial headroom is sufficient to manage the level of activity expected in 2021 for the NKT Group.

Amounts in EURm	2020	2019
Net interest-bearing debt comprises:		
Non-current loans	200.6	238.0
Current loans	12.8	11.2
Interest-bearing debt, gross	213.4	249.2
Interest-bearing receivables	0.1	0.1
Cash at bank and in hand	239.2	6.9
Net interest-bearing debt	-25.9	242.2

Net interest-bearing debt includes debt related to capitalized lease contracts of EUR 46.1m. Of this amount, EUR 39.0m was recognized as non-current, and EUR 7.1m as current debt respectively. In 2020, payments relating to capitalized lease contracts amounted to EUR 7.7m (EUR 6.4m in 2019), of which EUR 5.8m was installments on the debt (EUR 5.0m in 2019) and the remaining amount, EUR 1.9m (EUR 1.4m in 2019), was interest expenses recognized in financial items in the income statement.

Changes in current loans, non-current loans and lease liabilities

Amounts in EURm	1. Jan. 2020		Changes in leases – no cash	Changes from cash flow	Effect of changes in exchange rates	Total 31 Dec. 2020
Current and non-current loans [1]	249.2		2.7	-41.3	2.8	213.4

Amounts in EURm	1. Jan. 2019	IFRS 16 effect 1 Jan.	New leases	Changes from cash flow	Effect of changes in exchange rates	Total 31 Dec. 2019
Current and non-current loans [1]	276.6	36.9	3.3	-68.1	0.5	249.2

[1] Current and non-current loans includes leasing liabilities

5.4 Net interest-bearing debt and maturity of financial liabilities – continued

Maturity of Group financial liabilities

Amounts in EURm	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
2020							
Interest-bearing loans and borrowings[1]	12.8	19.4	13.6	18.0	17.5	132.1	213.4
Hereof leasing liabilities	*7.1*	*6.7*	*6.3*	*3.9*	*2.7*	*19.4*	*46.1*
Trade payables	273.2						273.2
Prepayments	5.9						5.9
Derivative financial liabilities	13.3						13.3
Other payables	154.7						154.7
Total	**459.9**	**19.4**	**13.6**	**18.0**	**17.5**	**132.1**	**660.5**
2019							
Interest-bearing loans and borrowings[1]	15.7	15.9	63.1	21.5	19.2	163.4	298.8
Hereof leasing liabilities	*6.0*	*4.8*	*3.7*	*3.0*	*1.9*	*18.2*	*37.6*
Trade payables	286.3						286.3
Prepayments	7.9						7.9
Derivative financial liabilities	15.7						15.7
Other payables	123.3						123.3
Total	**448.9**	**15.9**	**63.1**	**21.5**	**19.2**	**163.4**	**732.0**

[1] Interest bearing loans and borrowings includes leasing liabilities recognized in the balance sheet, but not short term and low value leases, these are specified in note 3.2.

The items in the table to the left do not include interest. The forward contracts are recognized at fair value and the discount element is considered insignificant because of short maturity. Interest-bearing loans and borrowings are consequently recognized in the balance sheet at the amounts stated above.

Interest-bearing loans and borrowings are predominantly based on floating interest rates and are measured at amortized cost. The carrying amount therefore corresponds in all material aspects to fair value and nominal value.

§ Accounting policy

Interest-bearing loans and borrowings are recognized at the amount of proceeds received at the date of borrowing, net of transaction costs paid. In subsequent periods the financial liabilities are measured at amortized cost using ‘the effective interest method’, and the difference between the proceeds and the nominal value is therefore being recognized in the income statement under financial expenses over the term of the loan.

Interest-bearing loans and borrowings also include the capitalized residual lease obligations on finance leases measured at amortized cost. □

Section – Capital structure and financial risk management

5.5 Financial items

	Financial income		Financial expenses		Net financial items	
Amounts in EURm	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Interest etc. relating to financial assets/liabilities measured at amortized cost	0.6	1.3	-14.0	-11.4	-13.4	-10.1
Interest expenses on leases	0.0	0.0	-1.9	-1.4	-1.9	-1.4
Total interest	**0.6**	**1.3**	**-15.9**	**-12.8**	**-15.3**	**-11.5**
Foreign exchange gains/losses	26.2	14.6	-29.3	-13.4	-3.1	1.2
Gains/loss on derivative financial instruments	24.8	17.3	-23.1	-19.3	1.7	-2.0
Total currency gains/losses	**51.0**	**31.9**	**-52.4**	**-32.7**	**-1.4**	**-0.8**
Total financial items	**51.6**	**33.2**	**-68.3**	**-45.5**	**-16.7**	**-12.3**

§ Accounting policy

Financial income comprises interest, dividends, gains on securities, receivables and transactions denominated in foreign currencies, amortization of financial assets, and allowances under the Danish tax prepayment scheme, etc. Positive changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included.

Financial expenses comprise interest, payables and transactions denominated in foreign currencies, amortization of financial liabilities and surcharges under the Danish tax prepayment scheme, etc. Negative changes in the fair value of derivative financial instruments not designated as hedging arrangements are also included. □

5.6 Financial risks and financial instruments

Financial risk management policy

NKT is exposed to and manages several financial risks due to its operations, investments and financing activities. As a matter of policy, NKT does not actively speculate in financial risks.

The risk management policy is managed by Group Treasury. The general principle is that all known risks are hedged, though with acceptance of an open position within a defined threshold. The risk thresholds are defined to provide NKT with sufficient risk protection while giving Group Treasury some room for adjustment.

NKT uses financial instruments, such as forwards, swaps, interest rate caps, and options to hedge exposures relating to currency, interest rates, and commodities. At the end of 2020 and 2019 no option contracts were active.

The financial risks are divided into:
1. Currency risks
2. Interest rate risks
3. Raw material price risks
4. Credit risks
5. Liquidity risks

Currency risks

With presence in several countries NKT is exposed to currency risks that may have considerable influence on the income statement and balance sheet. Currency risks refer to the risks of losses (or opportunities for gains) resulting from changes in currency rates. Currency risks arise through transactions, financial assets, and liabilities denominated in currencies other than the functional currency of the individual businesses. Quantification and identification of existing and anticipated currency risks are the responsibility for the individual businesses, while the actual hedging is executed by Group Treasury.

As a basic principle, the hedging of currency risk is not performed for net assets (equity) in foreign subsidiaries. Gains and losses relating to unhedged net assets in foreign subsidiaries are accounted directly in other comprehensive income. For the most significant investments in foreign currency (SEK, CHF, CZK, and PLN), a rate of exchange which is 10% lower than the year-end 2020 exchange rate would reduce NKT A/S' equity by EUR 74.4m, compared to EUR 72.8m in 2019.

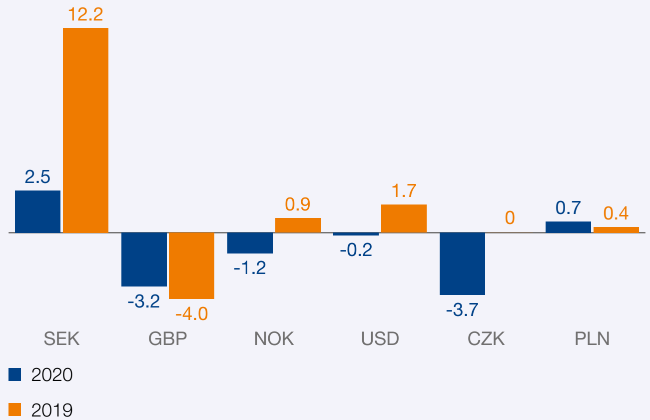
Significant currency risks relating to receivables and payables are hedged to the functional currency of the businesses. Balances with credit institutions are mainly denominated in DKK and EUR and do, therefore, not result in a significant currency risk for the Group.

The principal currency exposure relates to sales and purchases in currencies other than the functional currency of the businesses. Hedging of these currency risks is based on assessments of the likelihood of the future transaction being performed and whether the associated currency risk is significant.

Expected cash flows with significant currency risk are hedged as they become known. Currency risks from project-related sales are considered on an individual basis. The fair value of the effective part of the hedge is recognized in other comprehensive income on a continuous basis. The table below shows net outstanding forward exchange hedging contracts at 31 December for NKT which are used for and fulfil the conditions for hedge accounting of future transactions.

The fair value of the total portfolio of currency hedge contracts will impact other comprehensive income if currency rates change. The effect on earnings before tax of a 10% increase in selected currency rates is shown in the table.

Sensitivity analysis on earnings before tax with 10% change in currency rate (Amounts in EURm)



As NKT currently only uses forwards and spots to hedge the FX risks, the likelihood of inefficiency is very low. Changes in the fair value of the hedging instrument should therefore offset changes in the hedged item. All currency hedges are expected to be 100% effective, as the size and maturity of the hedging instrument should match the underlying.

The tables on the following page show net outstanding forward exchange hedging contracts at 31 December for NKT A/S, which are used for and fulfil the conditions for hedge accounting of future transactions.

Section – Capital structure and financial risk management

5.6 Financial risks and financial instruments – continued

Cash flow hedges related to main currencies

Local currency		Average exchange rate[1] 31/12/2020	Average exchange rate[1] 31/12/2019	Notional value Local currency in mio. 31/12/2020	Notional value Local currency in mio. 31/12/2019	Notional value EURm 31/12/2020	Notional value EURm 31/12/2019	Fair value EURm 31/12/2020	Fair value EURm 31/12/2019
SEK	**Buy**								
	Less than 1 year	0.0948	0.0944	695.85	1,808.40	65.98	170.70	2.8	0.9
	More than 1 year	0.0926	0.0939	351.04	1,559.00	32.50	146.30	2.1	0.5
	Sell								
	Less than 1 year	0.0953	0.0944	770.00	1,553.40	73.37	146.60	-2.8	-0.9
	More than 1 year		0.0935		516.20		48.30		-0.5
USD	**Buy**								
	Less than 1 year	0.9660	0.8576	0.12	67.30	0.12	57.70	0.0	1.7
	More than 1 year		0.8874		0.20		0.20		0.0
	Sell								
	Less than 1 year	0.8152	0.8348	2.00	49.10	1.63	41.00	0.0	-2.4
	More than 1 year	0.7992	0.7724	0.18	0.20	0.14	0.20	0.0	0.0
GBP	**Buy**								
	Less than 1 year		1.1337		29.40		33.30		1.3
	More than 1 year		1.1599		1.20		1.40	0.0	0.0
	Sell								
	Less than 1 year	1.1110	1.1014	28.09	61.20	31.20	67.40	0.2	-4.6
	More than 1 year	1.1321	1.0957	0.78	6.40	0.88	7.00	0.0	-0.5
NOK	**Buy**								
	Less than 1 year	0.1022	0.0990	6.00	83.50	0.61	8.30	0.0	0.1
	More than 1 year		0.0978		6.00		0.60		0.0
	Sell								
	Less than 1 year	0.0926	0.1016	140.00	2.70	12.97	0.30	-0.3	0.0
	More than 1 year								

[1] EUR/Local currency

5.6 Financial risks and financial instruments – continued

Cash flow hedges related to main currencies

Local currency		Average exchange rate[1] 31/12/2020	Average exchange rate[1] 31/12/2019	Notional value Local currency in mio. 31/12/2020	Notional value Local currency in mio. 31/12/2019	Notional value EURm 31/12/2020	Notional value EURm 31/12/2019	Fair value EURm 31/12/2020	Fair value EURm 31/12/2019
CZK	**Buy**								
	Less than 1 year	0.0322		0.76		0.02			0.0
	More than 1 year		0.0371		9.50		0.40		0.0
	Sell								
	Less than 1 year	0.0375		995.00		37.32		-0.5	0.0
	More than 1 year		0.0376		8.80		0.30		0.0
PLN	**Buy**								
	Less than 1 year	0.2221	0.2341	30.00	15.00	6.66	3.50	-0.1	0.0
	More than 1 year								0.0
	Sell								
	Less than 1 year								0.0
	More than 1 year								0.0
	Cash flow hedges reported as assets							**12.1**	**0.1**
	Cash flow hedges reported as iabilities							**10.7**	**4.7**

[1] EUR/Local currency

Interest rate risks

Interest rate risks refer to the influence of changes in market interest rates on future cash flows concerning interest-bearing assets and liabilities.

At year-end, NKT A/S' net interest-bearing debt was EUR -25.9m. By comparison, at year-end 2019 NKT A/S' net interest-bearing debt was EUR 242.2m.

At year-end, an interest rate hedge of EUR 120m was in place in the form of an interest rate cap with a strike of 0% maturing in June 2021. An interest rate hedge of EUR 50m was also in place in form of an interest rate swap with a fixed rate of -0.2175 maturing in June 2025.

As of end-2020, the market values of the interest rate derivatives were in total EUR -0.2m (EUR -0.3m in 2019).

Based on interest rates as of end-2020, a 1%-point rise in market interest rate would decrease pre-tax financial expenses by EUR 2.3m.

Section – Capital structure and financial risk management

5.6 Financial risks and financial instruments – continued

Raw material price risks

Raw material price risks primarily relate to metals and plastics used in the cable production. When changes in raw material prices cannot be transferred to customers, NKT uses financial instruments to hedge the price risks.

Exposures and hedging of current and expected future raw material risks are managed by the businesses based on adopted guidelines.

NKT hedge raw material via London Metal Exchange, and changes in the fair value of the hedging instrument offset overall changes in the value of the underlying raw material because the reference prices are the same for the hedging instrument and the hedge item, i.e. the hedge effectiveness is considered 100%. Thus, the fair value of the hedging instrument forms the basis for recognizing any hedge ineffectiveness. Only the hedge for plastic, which is hedged via gas-oil is done via a proxy hedge. Ineffectiveness because of differences in changes between gas-oil and plastic are considered to be insignificant.

As at 31 December 2020, NKT A/S had current financial hedging instruments relating to future raw material supplies of a value of EUR 548m (EUR 209m in 2019) with a positive fair value of EUR 90.1m (positive value of EUR 6.2m in 2019).

It is estimated that, all other things being equal, a 10% increase in raw material prices would influence NKT's other comprehensive income by around EUR 54.8m for forward transactions for raw material supplies at 31 December 2019 (EUR 14.4m in 2019).

The fair value of the effective part of the hedge is recognized on a continuous basis in other comprehensive income as hedge of future cash flows and transferred to the same item as the hedged item in the income statement when the hedged transaction materializes. The impact of ineffectiveness on the income statement was negligible during the year.

The tables below gives an overview of the cash flow hedges related to raw materials.

Cash flow hedges related to raw materials

		Average rate EUR/ton		Notional value EURm		Fair value EURm	
Commodity		31/12/2020	31/12/2019	31/12/2020	31/12/2019	31/12/2020	31/12/2019
Copper	**Buy**						
	Less than 1 year	4,947	5,241	98.7	120.7	27.7	6.0
	More than 1 year	5,355	5,057	369.2	27.7	66.5	2.0
	Sell						
	Less than 1 year	4,975	5,314	11.4	27.9	-4.0	-1.3
	More than 1 year						
Lead	**Buy**						
	Less than 1 year	1,564	1,762	18.9	14.5	0.7	-0.2
	More than 1 year	1,582	1,712	10.4	8.4	0.5	-0.1
	Sell						
	Less than 1 year	1,564	1,745	1.4	1.4	-0.1	-0.1
	More than 1 year						
Aluminium	**Buy**						
	Less than 1 year	1,486	1,748	3.2	2.2	0.3	-0.2
	More than 1 year	1,533		3.5		0.3	
	Sell						
	Less than 1 year		1,567		3.1		-0.1
	More than 1 year						
Gas-Oil	**Buy**						
	Less than 1 year	423	517	1.3	2.5	-0.2	0.1
	More than 1 year	385	501	11.1	0.6	-0.7	0.0
	Sell						
	Less than 1 year						
	More than 1 year						
	Cash flow hedges reported as assets					**93.2**	**16.9**
	Cash flow hedges reported as iabilities					**2.4**	**10.7**

Section – Capital structure and financial risk management

5.6 Financial risks and financial instruments – continued

Credit risks

NKT's credit risks relate partly to receivables and cash at bank and in hand, and partly to derivative financial instruments with positive fair value. The maximum credit risk attached to financial assets correspond to the values recognized in the balance sheet.

NKT has no material risks relating to a single customer or partner. NKT's policy for acceptance of credit risks entails ongoing monitoring and credit rating of important customers and other partners. NKT obtains prepayments or bank guarantees from customers when considered needed. Thus, insurance cover and similar measures to hedge receivables are rarely applied as NKT historically has had only few material losses.

Liquidity risks

It is NKT Group's policy to maintain adequate liquidity resources to implement planned operating activities and to be able to operate effectively in the event of unforeseen fluctuations in liquidity. NKT Group's liquidity resources consist of cash, cash equivalents and undrawn committed credit facilities

At end-2020, NKT Group's total available liquidity resources amounted to EUR 535.9m compared to EUR 266.8m in 2019.

The EUR 300m RCF matures in September 2022, while the mortgage loan portfolio matures in 2032 and 2033.

The RCF is the only financing instrument subject to financial covenants. These include agreed remedies in the form of security over NKT Photonics and the vessel NKT Victoria.

NKT Group's financing contains change of control clauses which comes into effect if a shareholder or shareholder group gains control over NKT A/S or if NKT A/S is no longer listed at Nasdaq Copenhagen.

Liquidity resources

Amounts in EURm	2020	2019
Committed facilities (>3 years)	0.0	0.0
Committed facilities (1-3 years)	300.0	300.0
Committed facilities (<1 year)	0.0	5.9
Total commited facilities	300.0	305.9
Uncommitted facilities	0.0	0.0
Total facilities	**300.0**	**305.9**
Cash	239.2	6.9
Utilized facilities	-3.3	-46.0
Liquidity recources	**535.9**	**266.8**

Fair values

Financial instruments measured at fair value in the balance sheet are designated as belonging to one of the following three categories (the 'fair value hierarchy'):

Level 1: Listed prices (unadjusted) in active markets for identical assets and liabilities

Level 2: Input, other than listed prices on Level 1, which is observable for the asset or liability either directly (as prices) or indirectly (derived from prices)

Level 3: Input for the asset or liability which is not based on observable market data (non-observable input)

Financial instruments measured at fair value consist of derivative financial instruments. The fair value at 31 December 2020 and 2019 of NKT Group's forward transactions are measured in accordance with Level 2 as the fair value is based on official exchange rates and forward rates at the balance sheet date.

Categories of financial instruments

Amounts in EURm	2020	2019
Financial assets		
Measured at amortized cost:		
Receivables	228.0	206.9
Contract assets	21.3	36.7
Interest-bearing receivables	0.1	0.1
Measured at fair value through profit/loss:		
Other investments and receivables	1.0	1.9
Cash at bank and in hand	239.2	6.9
Derivative financial instruments	105.2	17.1
Financial liabilities		
Measured at amortized cost:		
Trade payables and other liabilities	427.9	409.6
Interest-bearing loans and borrowings	213.4	249.2
Measured at fair value through profit/loss:		
Derivative financial instruments	13.3	15.7

Section – Capital structure and financial risk management

5.6 Financial risks and financial instruments – continued

Cash flow hedge reserve

Amounts in EURm	Foreign exchange risk hedging	Interest rate risk hedging	Commodity risk hedging	Total
Balance at 31 December 2019	**-4.3**	**-0.2**	**4.5**	**0.0**
Gain/(loss) arising from changes in fair value of hedging instruments during the period	6.5	0.1	94.0	100.6
Income tax related to gains/(losses) recognized in other comprehensive income during the period	-1.2	0.0	-25.0	-26.2
(Gain)/loss reclassified to profit or loss - hedged items have affected profit or loss	-2.0	0.0	0.0	-2.0
(Gain)/loss reclassified to profit or loss - forecast transaction no longer expected to occur		0.0	0.0	0.0
Income tax related to amounts reclassified to profit or loss	0.4	0.0	0.0	0.4
Cumulative (gain)/loss transferrred to initial carrying amount of hedged items	0.2	0.0	-1.7	-1.5
Income tax related to amounts transferred to initial carrying amount of hedged items	0.0	0.0	0.6	0.6
Balance at 31 December 2020	**-0.4**	**-0.1**	**72.4**	**71.9**

Section 6 – Group structure

6.1 Acquisition and divestment of businesses

Acquisitions

There were no acquisitions in 2020.

On 1 December 2019, NKT Group acquired the ABB technology consulting business within chemistry, material, applied mechanics and electrical testing in Västerås, Sweden. The main financial impact of the transaction encompassed recognizing goodwill of EUR 1.7m and tangible non-current assets of EUR 6.5m, of which EUR 2.6m related to a leased building, where a similar lease liability was recognized.

In Q2 2019 NKT Photonics paid EUR 1.8m related to the acquisition of OneFive.

Divestments

There were no divestments in 2020.

On 1 February 2019, NKT Group divested its railway cable activities to the Swedish company Elcowire Group AB. The financial impact of the transaction was immaterial and resulted in a one-off accounting gain of EUR 6.4m recognized in Other income.

Section – Group structure

6.2 Group companies

Group companies	Domicile
NKT Group	
Denmark	
NKT Cables Group A/S	Denmark
NKT (Denmark) A/S	Denmark
NKT Ultera A/S	Denmark
NKT Invest A/S	Denmark
Europe	
NKT Group GmbH	Germany
NKT Verwaltungs GmbH	Germany
NKT GmbH & Co. KG	Germany
NKT GmbH, Nordenham	Germany
VGK1 GmbH	Germany
Zweite NKT GmbH	Germany
ThiNKT digital GmbH	Germany
NKT s.r.o.	Czech Republic
NKT (Ibérica) S.L.	Spain
NKT (Sweden) AB	Sweden
NKT HV Cables AB	Sweden
NKT HVC Holding AB	Sweden
NKT HV Cables Holding AB	Sweden

Group companies	Domicile
NKT Group (continued)	
Europe (continued)	
NKT AS	Norway
NKT HVC AS	Norway
NKT (U.K.) Ltd.	UK
NKT HVC Ltd.	UK
NKT S.A.	Poland
NKT (Netherlands) B.V.	Netherlands
NKT HVC B.V.	Netherlands
NKT HV Cables GmbH	Switzerland
NKT Lithuania, UAB	Lithuania
America	
NKT, Inc	US
Middle East	
NKT Middle East DMCC	Dubai
Asia/Pacific	
NKT Pty Ltd	Australia
NKT South Asia Private Limited	India

Group companies	Domicile
NKT Photonics Group	
Denmark	
NKT Photonics A/S	Denmark
Europe	
NKT Photonics GmbH	Germany
NKT Photonics Technology GmbH	Germany
Advanced Laserdiode Systems A.L.S. GmbH	Germany
NKT Photonics Switzerland GmbH	Switzerland
NKT Photonics Holding Ltd.	UK
NKT Photonics Ltd.	UK
NKT Photonics AB	Sweden
America	
LIOS Technology Inc.	US
NKT Photonics Inc.	US
Asia/Pacific	
NKT Photonics (Zhenzhen) Co., Ltd.	China
Fianium Asia Ltd.	Hong Kong

Equity shares are wholly owned.

Companies without material interest and dormant companies are omitted from the list.

Section 7 – Other notes

7.1 Fees to auditor elected at the Annual General Meeting

Amount in EURm	2020	2019
Deloitte :		
Statutory audit	1.1	0.9
Other assurance	0.3	0.1
Other services	0.2	0.1
Total	**1.6**	**1.1**

NKT Group's auditor fees increased from EUR 1.1m in 2019 to EUR 1.6m in 2020 driven by higher cost related to statutory audit and non-audit services predominantly related to review and assurance in connection with the capital increase.

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounts to EUR 0.3 million (EUR 0.1 million in 2019) and predominantly consists of services in relation to Q3 review and capital increase, issuance of various assurance reports as well as advisory services.

7.2 Events after the balance sheet date

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

7.3 Contingent assets and liabilities and pledges

Significant judgements

The NKT Group is a party to various disputes and inquiries from authorities whose outcome is not expected to materially affect profit for the year and the financial position. In connection with disposal of companies in previous years, guarantees have been provided which are not expected to materially affect on profit for the year. Further, NKT is a party to various insurance claims whose outcome is still uncertain and not recognized in the financial statement at the balance sheet day.

NKT Group is jointly liable for Danish corporate taxes on dividend, interest and royalties together with Nilfisk up until the demerger in October 2017.

In a few cases the NKT Group's foreign companies are subject to special tax schemes to which certain conditions are attached. As at 31 December 2020 these conditions were complied with.

Guarantees

As part of our commercial activities NKT has provided guarantees mainly relating to high-voltage projects, which is to cover for the risk relating to our performance inherent in such projects, the quality and delays.

At 31 December 2020 the value of issued guarantees was EUR 991.8m (EUR 644.3m in 2019). At the balance sheet date none of the issued guarantees are expected to materialize.

Pledges

Non-current assets with carrying amount of EUR 332.4m (EUR 359.3m in 2019) have been pledged as security for mortgage loans and the revolving credit facility of total EUR 161.8m (EUR 211.8m in 2019).

Amounts in EURm	2020	2019
Carrying amount of assets pledged as collateral for credit institutions:		
Land and buildings	215.9	216.8
Plant and machinery	120.2	135.1
NKT Photonics net assets	-3.7	7.4
Total	**332.4**	**359.3**
Liabilities related to pledged assets	161.8	211.8

Accounting policy

Contingent liabilities

Disclosures for contingent assets and liabilities and when they must be recognized is derived from evaluations of the expected outcome of the individual issues. These evaluations are based on legal opinions of the agreements contracted, which in significant instances also include opinions obtained from external advisors, including lawyers.

Assets are recognized when it is virtually certain that the issue will have a positive outcome for the company. A liability is recognized when it is likely that, at the balance sheet date, there will be an outflow from the Group's financial resources and when the liability can be reliably stated. If this is not the case, the matter is disclosed in the sections to the financial statements. Decisions relating to such situations may in future accounting periods lead to realized gains or losses that may differ significantly from the recognized amounts or disclosures.

Section – Other notes

7.4 Definitions

The Group operates with the following performance measures which are calculated in accordance with the Danish Finance Society's guidelines:

Performance measures defined by IFRS:

1. **Earnings, EUR per outstanding share (EPS)** – Earnings attributable to equity holders of NKT A/S relative to average number of outstanding shares.

2. **Diluted earnings, EUR per outstanding share (EPS)** – Earnings attributable to equity holders of NKT A/S relative to average number of outstanding shares, including the dilutive effect of outstanding share programmes.

Further the group presents the following performance measures not defined according to IFRS (non-GAAP measures) in the Annual Report:

3. **Revenue at standard metal prices** – Revenue at standard metal prices for copper and aluminium is set at EUR/tonne 1,550 and EUR/tonne 1,350 respectively.

4. **Organic growth** – Revenue growth (standard metal price) as a percentage of prior-year adjusted revenue (standard metal price). Organic growth is a measure of growth, excluding the impact of exchange rate adjustments and divestments. For acquisitions a pro forma revenue for the prior year is included in the calculation.

5. **One-off items** – Consist of non-recurring income and cost related to acquisitions, divestments, integration, restructuring, severance and other one-time items.

6. **Operational earnings before interest, tax, depreciation and amortization (Oper. EBITDA)** – Earnings before interest, tax, depreciation and amortization (EBITDA) excluding one-off items.

7. **Operational earnings before interest and tax (Oper. EBIT)** – Earnings before interest and tax excluding one-off items.

8. **Net interest-bearing debt** – Cash and interest-bearing receivables less interest-bearing debt. Specified in Section 5.4. Hybrid capital is not included in net interest-bearing debt.

9. **Capital employed** – Group equity plus net interest-bearing debt.

10. **Working capital** – Current assets minus current liabilities (excluding interest-bearing items and provisions).

11. **Net interest-bearing debt relative to operational EBITDA** – Comparative figures are calculated as operational EBITDA.

12. **Solvency ratio (equity as a percentage of total assets)** – Equity incl. hybrid capital as a percentage of total assets.

13. **Return on capital employed (RoCE)** – Operational EBIT as a percentage of average of the last five quarters of capital employed.

14. **Equity value, EUR per outstanding share** – Equity attributable to equity holders of NKT A/S per outstanding share at 31 December. Dilution effect of outstanding share programmes is excluded.

Financial ratios

Gearing	$\frac{\text{Net interest-bearing debt x 100}}{\text{Group equity}}$
Solvency ratio	$\frac{\text{Equity x 100}}{\text{Total assets}}$
Return on Capital Employed (RoCE)	$\frac{\text{Operational EBIT}}{\text{Average last five quarters of capital employed}}$
Earnings Per Share (EPS)	$\frac{\text{Earnings attr. to equity holders of NKT A/S}}{\text{Average number of shares outstanding}}$
Earnings Per Share Diluted (EPS-D)	$\frac{\text{Earnings attr. to equity holders of NKT A/S}}{\text{Diluted average number of shares}}$
Book Value Per Share (BVPS)	$\frac{\text{Equity}}{\text{Number of shares}}$

Parent company financial statements

Income statement

1 January – 31 December

Amounts in EURm	Section	2020	2019
Other costs	2	-1.9	-2.0
Earnings before interest and tax (EBIT)		**-1.9**	**-2.0**
Financial income	3	80.3	27.6
Financial expenses	4	-42.0	-17.1
Earnings before tax (EBT)		**36.4**	**8.5**
Tax	5	-6.1	0.5
Net result		**30.3**	**9.0**
To be distributed as follows:			
Equity holders of NKT A/S		22.2	0.9
Hybrid capital holders of NKT A/S		8.1	8.1
Net result		**30.3**	**9.0**

Statement of comprehensive income

1 January – 31 December

Amounts in EURm	2020	2019
Net result	**30.3**	**9.0**
Other comprehensive income:		
Items that may be reclassified to income statement:		
Foreign exchange adjustment	3.0	0.0
Value adjustment of hedging instruments	0.1	0.0
Total comprehensive inccome	**33.4**	**9.0**

Balance sheet

31 December

Amounts in EURm	Section	2020	2019
Assets			
Investment in subsidiaries	6	401.2	400.9
Receivables from subsidiaries		1,022.8	871.8
Deferred tax	5	0.4	0.4
Total non-curent assets		**1,424.4**	**1,273.1**
Receivables from subsidiaries		0.3	0.1
Other receivables		101.4	4.4
Cash at bank and in hand		175.2	0.0
Total current assets		**276.9**	**4.5**
Total assets		**1,701.3**	**1,277.6**

31 December

Amounts in EURm	Section	2020	2019
Equity and liabilities			
Share capital		115.4	73.2
Foreign exchange reserve		0.3	-2.7
Hedging reserve		-0.2	-0.3
Retained comprehensive income		1,181.4	942.2
Equity attributable to equity holders of NKT A/S		**1,296.9**	**1,012.4**
Hybrid security	8	152.4	152.4
Total equity		**1,449.3**	**1,164.8**
Interest-bearing loans and borrowings		62.2	31.6
Total non-current liabilities		**62.2**	**31.6**
Payables to subsidiaries		74.1	75.0
Trade payables and other liabilities		115.7	6.2
Total current liabilities		**189.8**	**81.2**
Total liabilities		**252.0**	**112.8**
Total equity and liabilities		**1,701.3**	**1,277.6**

Cash flow statement

1 January – 31 December

Amounts in EURm	Section	2020	2019
Earnings before interest and tax (EBIT)		-1.9	-2.0
Changes in working capital		7.2	6.4
Cash flow from operations before financial items		**5.3**	**4.4**
Financial income received		59.2	27.6
Financial expenses paid		-21.0	-17.1
Income tax paid		-1.1	3.6
Cash flow from operating activities		**42.4**	**18.5**
Change in loans to/from subsidiaries		-148.7	59.4
Cash flow from investing activities		**-148.7**	**59.4**
Repayment/increase of loans		30.7	-71.5
Coupon payments on hybrid capital		-8.1	-8.1
Capital increase		258.6	0.0
Cash from exercise of warrants		0.3	1.7
Cash flow from financing activities		**281.5**	**-77.9**
Net cash flow for the year		**175.2**	**0.0**
Cash at bank and in hand, 1 January		0.0	0.0
Net cash flow for the year		175.2	0.0
Cash at bank and in hand, 31 December		**175.2**	**0.0**

The above cannot be derived directly from the income statement and the balance sheet.

Statement of changes in equity

1 January – 31 December

Amounts in EURm	Share capital	Foreign exchange reserve	Hedging reserve	Retained compreh. income	Proposed dividends	Total	Hybrid Capital	Total equity
Equity, 1 January 2019	**72.8**	**-2.7**	**-0.3**	**940.0**	**0.0**	**1,009.8**	**152.4**	**1,162.2**
Net result				0.9		0.9	8.1	9.0
Comprehensive income for the year	**0.0**	**0.0**	**0.0**	**0.9**	**0.0**	**0.9**	**8.1**	**9.0**
Transactions with the owners:								
Coupon payments, hybrid capital						0.0	-8.1	-8.1
Exercise of warrants	0.4			1.3		1.7		1.7
Total transactions with owners in 2019	**0.4**	**0.0**	**0.0**	**1.3**	**0.0**	**1.7**	**-8.1**	**-6.4**
Equity, 31 December 2019	**73.2**	**-2.7**	**-0.3**	**942.2**	**0.0**	**1,012.4**	**152.4**	**1,164.8**
Equity, 1 January 2020	**73.2**	**-2.7**	**-0.3**	**942.2**	**0.0**	**1,012.4**	**152.4**	**1,164.8**
Other comprehensive income:								
Other comprehensive income for the year		3.0	0.1			3.1		3.1
Total other comprehensive income	**0.0**	**3.0**	**0.1**	**0.0**	**0.0**	**3.1**	**0.0**	**3.1**
Net result				22.2		22.2	8.1	30.3
Comprehensive income for the year	**0.0**	**3.0**	**0.1**	**22.2**	**0.0**	**25.3**	**8.1**	**33.4**
Transactions with the owners:								
Capital increase [1]	42.1			216.5		258.6		258.6
Coupon payments, hybrid capital						0.0	-8.1	-8.1
Exercise of warrants	0.1			0.2		0.3		0.3
Share based payment				0.3		0.3		0.3
Total transactions with owners in 2020	**42.2**	**0.0**	**0.0**	**217.0**	**0.0**	**259.2**	**-8.1**	**251.1**
Equity, 31 December 2020	**115.4**	**0.3**	**-0.2**	**1,181.4**	**0.0**	**1,296.9**	**152.4**	**1,449.3**

[1] In 2020 the capital was increased twice, in May and December respectively, for a total net proceed of EUR 258,6 million after deducting directly attributable costs related to raising the capital. The cost directly related to the capital increases was EUR 9 million. For more information see section 5.1 in the Consolidated Financial Statements.

Section 1-12

NKT A/S (parent company) operates as a holding company for the Group's activities and undertakes the tasks related thereto. For description of the enterprise's activities, etc., please refer to the Group Management's review.

1 Accounting judgements and estimates

Estimation uncertainty

Determining the carrying amount of certain assets and liabilities requires estimates of how future events will influence the value of these assets and liabilities at the balance sheet date. Estimates that are significant for the financial reporting for the parent company are made by establishing indication of impairment and reversal of write-down on investments in subsidiaries. The estimates used are based on assumptions which by Group Management are considered to be reliable, but which by nature are uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise.

Furthermore, the company is subject to risks and uncertainties which may lead to actual results differing from these estimates.

Particularly, risks relating to the NKT Group are included in the sections to the consolidated financial statements and sections on risk management in the Business units sections.

Accounting estimates

When preparing the financial Statements for NKT A/S, a number of accounting estimates are made that affect the profit (loss) and balance sheet. Estimates are regularly reassessed by management on the basis of historical experience and other relevant factors.

If there is any indication that the carrying amount of shares or receivables in a subsidiary is higher than future estimated earnings in that entity, we test for impairment. The recoverable amount is calculated based on significant estimates and assumptions related to the future earnings of that company. No impairment was recorded in 2020.

2 Fees to auditor elected at the Annual General Meeting

Amount in EURm	2020	2019
Deloitte:		
Statutory audit	0.1	0.1
Other assurance	0.2	0.0
Other services	0.1	0.0
	0.4	**0.1**

3 Financial income

Amounts in EURm	2020	2019
Interest from subsidiaries	53.5	16.7
Foreign exchange gains	12.5	6.4
Gains on derivative financial instruments	14.3	4.5
	80.3	**27.6**

4 Financial expenses

Amounts in EURm	2020	2019
Interest, etc. relating to financial liabilities measured at amortised cost	-8.5	-4.6
Interest to subsidiaries	-0.8	-1.5
Loss on derivative financial instruments	-22.0	-5.2
Foreign exchange losses	-10.7	-5.8
	-42.0	**-17.1**

5 Tax

Amount in EURm	2020	2019
Current tax	-6.1	-0.8
Deferred tax	0.0	1.3
Tax for the year	-6.1	0.5
Reconciliation of tax:		
Tax at 22,0% of earnings before tax	-8.0	-1.9
Tax effect:		
Adjustments for previous years	0.1	0.6
Non-deductable expenses	1.8	1.8
	-6.1	0.5

Amount in EURm	2020	2019
1. January	0.4	-0.9
Deferred tax	0.0	1.3
Tax recognised in other comprehensive income	0.0	0.0
Transferred to tax receivable	0.0	0.0
31 December	0.4	0.4
Deferred tax relates to:		
Tax losses / gains within joint taxation scheme	0.4	0.4
	0.4	0.4

Section 1-12

6 Investments in subsidiaries

Amount in EURm	2020	2019
Cost, 1 January	443.9	443.9
Addition from share-based payments	0.3	0.0
Cost, 31 December	444.2	443.9
Impairment, 1 January	-43.0	-43.0
Exchange rate adjustments	0.0	0.0
Cost, 31 December	-43.0	-43.0
Book value, 31 December	**401.2**	**400.9**

Subsidiaries	Domicile	2020	2019
NKT Cables Group A/S	Brøndby, Denmark	100%	100%
NKT Photonics A/S	Birkerød, Denmark	100%	100%
NKT Invest A/S	Brøndby, Denmark	100%	100%

7 Payables to credit institutions and other liabilities

Payables to credit institutions are predominantly subject to floating interest rates and measured at amortized cost. The carrying amount therefore in all material respects corresponds to fair value and nominal value.

Other payables are measured at amortized cost, which in all material respects corresponds to fair value and nominal value.

Changes in current loans, non-current loans and lease liabilities

Amounts in EURm	1. Jan. 2020	Changes from cash flow	Effect of changes in exchange rates	Total 31 Dec. 2020
Current and non-current loans	31.6	30.6	0.0	62.2

Amounts in EURm	1. Jan. 2019	Changes from cash flow	Effect of changes in exchange rates	Total 31 Dec. 2019
Current and non-current loans	102.9	-68.1	-3.2	31.6

Section 1-12

8 Financial risk, financial instruments and management

Management of capital structure at NKT A/S (parent company) is performed for the Group as a whole and no operational targets or policies are therefore established independently for the parent company. See Section 5.6 to the consolidated financial statements and the sections 'Risk management' in the Business units sections.

In order to strengthen the capital structure and ensure the financing of the production expansion demanded by the backlog as described in page 6 in the management review, NKT have undertaken two capital increases in May and December 2020, comprising 15,695,115 shares at an average price of EUR 17.05. Costs relating to the two increases was EUR 9.0m for a total net proceed of EUR 258.6m.

NKT A/S has in September 2018 issued bonds of EUR 150m accounted for as hybrid capital reserve under equity. For more information refer to section 5.3 in the consolidated financial statements.

Categories of financial instruments:

Amounts in EURm	2020	2019
Financial Assets		
Measured at amortized cost:		
Receivables from subsidiaries	1,022.8	871.9
Other receivables	0.5	0.4
Measured at fair value through profit/loss:		
Derivative financial instruments	100.9	4.0
Financial liabilities		
Measured at amortized cost:		
Interest-bearing loans and borrowings	62.2	31.6
Payables to subsidiaries	74.1	75.0
Trade payables and other liabilities	9.2	1.1
Measured at fair value through profit/loss:		
Derivative financial instruments	106.5	5.0

Maturity of financial liabilities:

Amounts in EURm	Less than 1 year	2-3 years	More than 3-4 years	5 years	Total
2020					
Interest-bearing loans and borrowings	0.0	62.2	0.0	0.0	62.2
Payables to subsidiaries	74.1	0.0	0.0	0.0	74.1
Trade payables and other liabilities	115.7	0.0	0.0	0.0	115.7
	189.8	**62.2**	**0.0**	**0.0**	**252.0**
2019					
Interest-bearing loans and borrowings	0.0	31.6	0.0	0.0	31.6
Payables to subsidiaries	75.0	0.0	0.0	0.0	75.0
Trade payables and other liabilities	6.2	0.0	0.0	0.0	6.2
	81.2	**31.6**	**0.0**	**0.0**	**112.8**

Section 1-12

9 Contingent liabilities

The parent company is taxed jointly with all Danish subsidiaries. As an administration company, the parent company is liable with the other companies in the joint taxation scheme for Danish corporate taxes on dividend, interest and royalties within the joint taxation group (incl. Nilfisk until October 2017). Any adjustments to the taxable joint taxation income may increase the amount for which the parent company is liable. The parent company is further liable for VAT under the joint registration with NKT (Denmark) A/S.

In addition to the guarantees for subsidiaries of EUR 3,070.3m (2019: EUR 593.8m), the parent company has issued guarantees related to various commercial activities. However, it is not possible to assess the amount of these contingent liabilities.

Amounts in EURm	2020	2019
Guarantees for subsidiaries	3,070.3	593.8
Liability in respect of subsidiaries credit facilities under the cash pool	344.6	178.0

The shares in NKT Photonics A/S with a carrying amount of EUR 28m has been pledged as collateral for the revolving credit facility with NKT A/S as described in section 7.2 in the consolidated financial statement

10 Related parties

In addition to the comments in Section 3.2 and Section 3.3 to the consolidated financial statements the parent company's related parties comprise subsidiaries with their affiliated undertakings. The Company's subsidiaries and their affiliated undertakings can be found in Section 7.2 to the consolidated financial statements. No related parties have control over the Company. Transactions with affiliated undertakings comprised the following:

Amounts in EURm	2020	2019
Transactions with subsidiaries:		
Interest received, net	52.7	15.2
Paid joint tax contribution, net	-1.1	-0.7
Receivables, non-current	1,022.8	871.8
Receivables, current	0.3	0.1
Payables	74.1	75.0
Management fee	-1.3	0.0
Hedging	-16.0	4.5

Section 1-12

11 Accounting policies

The annual financial statements for the parent company are included in the Annual Report in pursuance of the requirements of the Danish Financial Statements Act.

The annual financial statements for the parent company are prepared in accordance with International Financial Reporting Standards adopted by the EU and additional Danish disclosure requirements for annual reports for listed companies.

Changes to accounting policies

The changes, as described in the consolidated financial statements, have not influenced recognition and measurement in the financial statements of the parent company in 2020. See the description of the changes in Section 1.2 to the consolidated financial statements.

Description of accounting policies

In relation to the accounting policies described for the financial statements of the Group (see Section 1.1 to the consolidated financial statements), the accounting policies of the parent company differ in the following:

Foreign currency translation

Translation adjustment of balances considered part of the total net investment in subsidiaries that have a functional currency other than DKK are recognized in the annual financial statements for the parent company under financial items in the income statement.

Dividend from investments in subsidiaries

Dividends from investments in subsidiaries are recognized in the income statement of the parent company in the year the dividends are declared. If the dividend distributed exceeds the comprehensive income of the subsidiaries in the period the dividend is declared, an impairment test is performed.

Investments in subsidiaries

Investments in subsidiaries are measured at acquisition costs. If there is indication of impairment, impairment testing is carried out as described in the accounting policies for the consolidated financial statements. Where the carrying amount exceeds the recoverable amount it is written down to the recoverable amount.

Tax

The parent company is jointly taxed with all Danish subsidiaries within the NKT Group. NKT A/S (parent company) is the administration company for the joint taxation and consequently settles all payments of tax with the tax authorities. Joint taxation contributions to/from subsidiaries are recognized under income tax related to net profit. Tax payable and tax receivable are stated under current assets/liabilities. Joint tax contributions payable and receivable, respectively, are recognized separately in the balance sheet. Companies that use tax losses in other companies pay joint taxation contributions to the parent company equivalent to the tax base of the tax losses utilized. Companies whose tax losses are used by other companies receive joint taxation contributions from the parent company equivalent to the tax base of the tax losses utilized (full absorption).

References to sections in the consolidated financial statements
The following sections in the consolidated financial statements provide further information:

- Accounting standards issued but not yet effective – see Section 1.2 to the consolidated financial statements.
- Share capital – see Section 5.1 to the consolidated financial statements.
- Events after the balance sheet date – see Section 7.2 to the consolidated financial statements.

Statements

Group Management's statement

The Board of Directors and the Executive Management have today considered and adopted the Annual Report of NKT A/S for the financial year 1 January – 31 December 2020.

The Annual Report has been prepared in accordance with International Financial Reporting Standards which have been adopted by the EU, and Danish disclosure requirements for listed companies.

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

We also find that the Management's review provides a fair statement of developments in the activities and financial situation of the Group, financial results for the period, the general financial position of the Group, and a description of major risks and elements of uncertainty faced by the Group.

We recommend that the Annual Report be approved at the Annual General Meeting.

Brøndby, 24 February 2021

Executive Management

Alexander Kara
President & CEO

Line Andrea Fandrup
CFO

Board of Directors

Jens Due Olsen
Chairman

René Svendsen-Tune
Deputy Chairman

Jutta af Rosenborg

Andreas Nauen

Jens Maaløe

Karla Lindahl

Thomas Torp Hansen*

Stig Nissen Knudsen*

René Dogan*

* Employee-elected member

Independent auditor's report

To the shareholders of NKT A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of NKT A/S for the financial year 01.01.2020 - 31.12.2020, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as for the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2020, and of the results of their operations and cash flows for the financial year 01.01.2020 - 31.12.2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our audit book comments issued to the Audit Committee and the Board of Directors.

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 consolidated financial statements and the parent financial statements* section of this auditor's report. We are independent of the Group 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.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

We were appointed auditors of NKT A/S for the first time on 21.03.2013 for the financial year 2013. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 8 years up to and including the financial year 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 01.01.2020 - 31.12.2020. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of construction contracts

Refer to notes 1.3, 2.2, 4.2, 4.3 and 5.6 in the consolidated financial statements.

Significant judgements are required by Management in determining stage of completion and estimating profit on each project, including assessment of provisions for specific project risks. Minor changes in the stage of completion and specific project risks can have a significant impact on the valuation and recognition of construction contracts and income for the year.

Accordingly, the valuation of construction contracts especially relating to high voltage offshore contracts is considered to be a key audit matter.

How the matter was addressed in the audit

Based on our risk assessment, we have assessed the relevant internal controls for construction contracts primarily relating to contract acceptance, change orders, monitoring of project development, costs incurred and estimation of costs to complete and assessment of specific project risks.

We obtained from Management an overview of the Group's construction contracts at 31 December 2020 relating to high voltage offshore contracts covering both in progress contracts as of year-end and contracts completed during the year. Based on assessed project risks and materiality, we selected a sample of contracts where we obtained the underlying contracts, including change orders, original budget and any changes made to original budgets, including estimates of costs to complete, project reports and overview of the risk register and corresponding risk provision, where deemed relevant by us.

For the selected contracts, we assessed and challenged Management's assumptions for determining stage of completion with due consideration to its assessment of project risks and risk provisions and estimated profit/loss through interviews with project controllers, project management, legal department and management representatives as well as our understanding and assessment of the contract terms, associated project risks, including valuation of change orders under discussion with customers and final acceptance. Additionally, we attended project steering committee meetings at which project performance, cost to complete and project risk register, including likelihood of the risk materialising, were discussed and assessed in detail.

For the selected completed contracts, we performed retrospective reviews of assessment of project risk and development and utilisation of risk provisions to assess the completeness and accuracy of Management's assumptions applied throughout the contract period.

Impairment test of non-current assets
Refer to notes 1.1, 3.1, 3.2 and 3.3 in the consolidated financial statements.

The recoverable amount of non-current assets in the Group's high voltage power cable business (Solutions) is dependent on the expected increase in operational EBITDA and that the operational EBITDA level can be sustained in the long term. The determination of recoverable amount for Solutions is based on the value-in-use derived from future free net cash flow based on budgets and the strategy for the coming years and free net cash flows from the terminal period. Significant judgement is required by Management in determining value-in-use, including cash flow projections based on financial budgets for 2021 and financial forecasts for 2022-2026, and growth rate in the terminal period and the discount rate to be applied.

Accordingly, the carrying value of non-current assets for Solutions is considered to be a key audit matter.

How the matter was addressed in the audit
Based on our risk assessment, we have obtained and evaluated Management's determination of future cash flow forecasts for Solutions and the underlying process by which they were drawn up, including the mathematical accuracy of the valuation models applied and agreeing future growth, investments and margin assumptions to the latest Board approved budget for 2021 and financial forecasts for 2022-2026. We used our valuation specialists to assist us in evaluating the appropriateness of key market-related assumptions in Management's valuation models, including discount rates and terminal growth rates. We assessed and challenged key assumptions applied in Management's future forecasts of growth, investments and margins included in the cash flow forecasts.

In assessing the level of headroom at Solutions level we performed downside sensitivity analyses around the key assumptions, using a range of higher discount rates, lower terminal growth rates and lower EBITDA levels.

Valuation of deferred tax assets
Refer to notes 1.1 and 2.6 in the consolidated financial statements.

The valuation of deferred tax assets is based on an assessment of the recoverable value of tax losses carried forward as well as the part of deductible temporary tax differences expected to be utilised within a foreseeable future. Significant judgement is required by Management in determining the recoverable value, including projections of future taxable income, based on financial budgets for 2021 and financial forecasts for 2022-2025.

Accordingly, the valuation of deferred tax assets is considered to be a key audit matter.

How the matter was addressed in the audit
Based on our risk assessment, we have, in assessing the valuation of deferred tax assets, obtained and evaluated Management's expectations of generating future taxable profits in the foreseeable future, especially in Germany and Denmark, and the underlying process by which they were drawn up, including the mathematical accuracy of the models, and agreeing future growth and margin assumptions to the latest Board approved budget for 2021 and financial forecasts for 2022-2025 as well as the expected related utilisation of the deferred tax asset. We assessed and challenged the reasonableness of Management's determination of expected future taxable profits in the light of Management's plans for improving the operational results in Germany and Denmark.

In assessing the valuation of deferred tax assets, we performed downside sensitivity analysis around the key assumptions by using a range of lower growth rates and margins.

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent 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 consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent 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 consolidated financial statements and the parent 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.

Management's responsibilities for the consolidated financial statements and the parent financial statements
Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Parent'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 consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and these parent 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 consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent'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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 24.02.2021

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