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NKT

Som dirigent:

Christian Lundgren

Annual Report 2019

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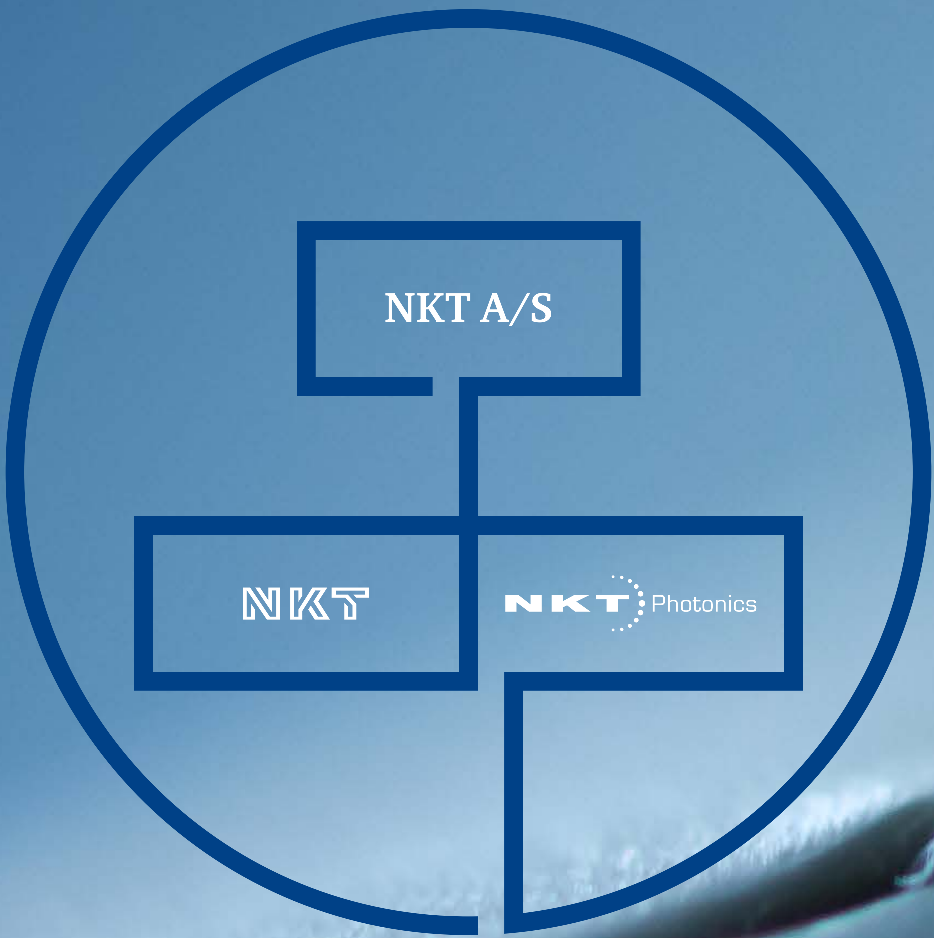
NKT's annual statutory sustainability report is available at: www.nkt.com/sustainability-report-2019

Company structure of NKT A/S

NKT A/S was founded in 1891 and has been listed on the Danish stock exchange since 1898. Today, it 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.



Letters from the Chairman and CEOs

"We have the competencies and technologies that coupled with improved market conditions will increase profitability"

Paving the way for improved financial performance

In 2019, our overall focus was to secure future growth. In NKT, our power cable business, we mainly worked to strengthen the business to deliver increased profitability in the years ahead. In NKT Photonics, our value maximization strategy was twofold: We continued commercializing the company and we initiated a review to assess strategic alternatives, which is ongoing.

Our earnings were in line with our communicated expectations in 2019. Admittedly, the overall profitability of our power cable business was too low, however it is our firm expectation that improved market conditions combined with internal improvements will result in improved financial performance. This was also reflected in the improvement in our share price.

Furthermore, we have made investments to take part in the green transformation of the world's energy supply and it is our view that this will also develop into an attractive investment for our shareholders.

NKT – growth supported by green transformation

Sustainability and climate change dominated the political agenda in 2019. NKT is already well positioned to support the global transition towards renewable energy. As a technology-leading provider, NKT delivers power cable solutions for offshore wind farms and large interconnector projects facilitating that green energy can reach the consumer. It is encouraging to note that not only was NKT rewarded several high-voltage cable contracts in 2019 to support the green transformation, also demand for our technologies and solutions is expected to pick up in the years to come.

In August 2019, the Board of Directors and employees welcomed Alexander Kara as new CEO. With his proven leadership skills and 30 years of international business and operations experience within our industry, Alexander's remit is to drive profitability growth in NKT. Alexander and the team is off to a good start in improving our near-term results, ensuring we benefit from our technological advantages in the expected improved market conditions, and positioning us for satisfactory mid to long-term performance.

NKT Photonics – value creation

In 2019, NKT Photonics continued to grow revenues and improve profitability. Our continuous investments in technology and more recently improved market applicability will drive future improvements. In 2019, the opening of another US site positions us to benefit from the important North American market.

With strong technologies, bigger footprint, continuous growth, and improved profitability, the Board of Directors in November 2019 initiated, as mentioned, a strategic review to assess the preferred path to maximum value creation.

Our team is our key asset

Committed and skilled colleagues are essential to reach our goals of growth, improved profitability and technology leadership. The Board of Directors would like to thank all employees for their dedication and achievements in 2019. We would also like to thank our shareholders, customers and business partners for their continuous support.

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

NKT

"NKT has the solutions and services to accelerate the transition towards more renewable energy generation"

Since joining NKT in August 2019, I have focused on meeting with customers, business partners, investors, and not least in visiting our production sites and talking to my colleagues to gain insights into our products, processes, and go-to market strategies. Based on these observations, my near-term focus is clear. We need to secure a sustainable intake of high-voltage orders to further build our backlog, overcome execution challenges in Applications, position our Service & Accessories businesses for further growth, and remain cost-conscious.

In addition, I have found that we have very dedicated people, some with a long history at NKT, committed to taking our solutions and services further. In that perspective, we have also further strengthened our competencies to develop the technology for the next generation of high-voltage DC power cables.

Our 2019 financial performance was as expected, but earnings were too low. I am pleased that in 2019 we booked new high-voltage cable orders valued at more than EUR 750m, ending the year with a high-voltage backlog at an all-time high. The composition and timing of this backlog will enable improved capacity utilization in our Karlskrona plant in 2020, and we continue to tender for projects with impact in the years ahead.

Toward the end of 2019, we enabled our high-voltage plant in Cologne to be powered by renewable energy, thereby reducing the company's carbon emissions from electrical power by 10%. Our high-voltage plant in Karlskrona has been entirely powered by renewable energy since 2017. To me, these and future steps are important for delivering sustainable power cables to support the green transformation.

Looking into 2020, we will continue to focus on improving our operational performance and hence our profitability. Thanks to our employees for their commitment in 2019, which I am looking forward to see continue into 2020.

Alexander Kara
President and CEO, NKT A/S

NKT Photonics

"NKT Photonics delivered growth and record-high EBITDA despite headwinds in the industrial photonics market"

2019 was another growth year for NKT Photonics. We delivered 10% organic growth and improved EBITDA in a period where the industrial photonics markets faced headwinds. At the same time, we tied our global sites together in a new ERP system that now delivers greater transparency and efficiency.

We realized growth across market segments. Aerospace & Defence, a segment in which we have increased our focus, was especially outstanding and is an area in which we will continue to invest. Geographically, our highest growth was in Europe, but we also see considerable potential in the US, and in October 2019 we opened a new production facility in Boston, Massachusetts to be psysically present in the important US market.

In recent years, OEM and industrial have accounted for an increasing part of our business, and 2019 was no exception. We secured large contracts for delivery in 2020 and 2021, and we expect this trend to continue during 2020. To support the transition towards the industrial segment, we opened new service and application centres in 2019 in China and the UK.

In 2019, we also released several new products to support further growth.

Finally, I would like to thank all our employees, including the more than 50 new people who joined us during the year, for their hard work and contribution to our results in 2019.

Basil Garabet
President and CEO, NKT Photonics

Key messages 2019

The overall financial performance in 2019 for the NKT Group was in line with the financial outlook.

Alexander Kara, a senior power industry executive, assumed the position as CEO of NKT A/S on 1 August 2019. He has a strong industrial background and has held several key positions with ABB since 1987.

As expected, the financial performance for NKT, the power cables business, was impacted by reduced activity in the Solutions business line due to low order intake in 2017 and 2018.

In 2019, progress continued on several tenders in the high-voltage market, and high-voltage projects with an aggregated value of more than EUR 750m were awarded to NKT in 2019, leading to an all-time high high-voltage order backlog.

Financial performance in the Applications business line was unsatisfactory in 2019. To accelerate improvements, Applications has been reorganized to ensure accountability and control of the full operational value chain. Service & Accessories delivered satisfactory organic growth in 2019 despite less offshore work.

NKT Photonics continued to grow in 2019, increasing both revenue and earnings. In November 2019, the NKT A/S Board of Directors initiated a review of strategic alternatives, with the objective of maximizing value creation.

The NKT Group reduced its net interest-bearing debt, excluding IFRS 16 impact, to EUR 205m at end-2019 from EUR 248m at end-2018, driven by favourable development in working capital. NKT A/S has sufficient financial headroom to manage the level of activity expected in 2020.

Both NKT and NKT Photonics anticipate growth in 2020. NKT expects a revenue* of EUR 1.0–1.1bn and an operational EBITDA of approx. EUR 40–60m. NKT Photonics expects organic revenue growth of approx. 5–15% and an EBITDA margin of approx. 15–18%.

	NKT				NKT Photonics			
Amounts in EURm	**Q4 2019**	**Q4 2018**	**2019**	**2018**	**Q4 2019**	**Q4 2018**	**2019**	**2018**
Revenue	**342.0**	309.3	**1,268.2**	1,434.6	**25.5**	22.5	**74.6**	67.7
Revenue in std. metal prices**	**262.2**	232.3	**945.0**	1,080.1	**25.5**	22.5	**74.6**	67.7
Organic growth**	**16%**	-16%	**-10%**	0%	**15%**	7%	**10%**	16%
Operational EBITDA**	**1.2**	-8.4	**15.1**	70.2	**7.2**	8.0	**14.6**	9.0
Operational EBITDA margin*	**0.5%**	-3.6%	**1.6%**	6.5%	**28.2%**	35.6%	**19.6%**	13.3%
EBIT	**-34.1**	-38.4	**-87.7**	-38.6	**4.0**	5.3	**4.7**	1.1
Working capital**			**-146.3**	-16.2			**28.2**	24.0
Working capital % of revenue, LTM**			**-2.2%**	-0.2%			**35.8%**	32.4%
RoCE***			**-7.2%**	-0.8%			**4.9%**	1.6%

* *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*

NKT

945m

Revenue (std. metal prices), EUR

Down from EUR 1,080m in 2018, primarily due to reduced activity in Solutions combined with the divestment of the railway activities

-10%

Organic growth

By business line, Solutions' organic growth was -18%, Applications -2% and Service & Accessories 5%

15.1m

Operational EBITDA, EUR

Down from EUR 70.2m in 2018. The reduction in revenue as expected led to lower profitability

1.37bn

High-voltage order backlog, EUR

An all-time high, up from EUR 1.12bn at end-2018. Driven by several project awards, across markets, with a combined value of more than EUR 750m

NKT Photonics

74.6m

Revenue, EUR

Up from EUR 67.7m in 2018, driven primarily by improved performance in the Aerospace & Defence segment

10%

Organic growth

Achieved despite headwinds in the industrial photonics market, but below initial expectations due to fewer larger projects towards the end of 2019

14.6m

EBITDA, EUR

Driven by the higher revenue, NKT Photonics increased EBITDA from 9.0m in 2018. Positive non-recurring items related to reversals of provisions and revaluations added around EUR 2m

20%

Order intake growth

Driven by the Medical & Life Science and Aerospace & Defence segments. Order intake was above revenue to support growth in years ahead

NKT A/S
5-year financial highlights

Amounts in EURm	2019	2018[1]	2017[1]	2016[1]	2015[1]
Income statement					
Revenue	1,342.4	1,501.6	1,479.3	1,046.1	1,252.1
Revenue in std. metal prices** 3)	1,019.3	1,147.1	1,108.4	792.8	897.7
Operational earnings before interest, tax, depreciation and amortization (Oper. EBITDA)** 6)	29.7	79.3	141.8	74.9	77.3
Earnings before interest, tax, depreciation and amortization (EBITDA)	17.7	49.8	96.9	27.9	54.1
Depreciation and impairment of property, plant and equipment	-75.1	-66.4	-61.3	-33.0	-72.3
Amortization and impairment of intangible assets	-25.6	-20.9	-18.3	-8.6	-11.3
Operational earnings before interest and tax (Oper. EBIT)** 7)	-71.0	-8.0	62.2	33.3	34.2
Earnings before interest and tax (EBIT)	-83.0	-37.5	17.3	-13.7	-29.5
Financial items, net	-12.3	-8.0	-14.7	5.7	1.8
Earnings before tax (EBT)	-95.3	-45.5	2.6	-8.0	-27.7
Profit for the year from continuing operations	-76.0	-46.3	-3.4	-17.5	-40.5
Profit for the year from discontinued operation	0.0	0.0	932.2	29.6	41.7
Net result	-76.0	-46.3	928.8	12.1	1.2
Profit attributable to hybrid capital holders of NKT A/S	8.1	2.4	0.0	0.0	0.0
Profit attributable to equity holders of NKT A/S	-84.1	-48.7	928.8	12.1	1.0
Cash flow					
Cash flow from operating activities	125.0	-42.2	87.8	153.9	173.2
Cash flow from investing activities	-66.8	-60.9	-493.3	-132.0	-87.9
hereof investments in property, plant and equipment	-34.4	-28.5	-50.6	-40.7	-39.0
Free cash flow**	58.2	-103.1	-405.5	21.9	85.3
Balance sheet					
Share capital	73.2	72.8	72.8	72.0	64.9
Equity attributable to equity holders of NKT A/S	651.4	743.2	816.3	951.4	808.6
Hybrid capital	152.4	152.4	0.0	0.0	0.0
Group equity	803.8	895.6	816.3	951.4	809.5
Total assets	1,789.4	1,859.2	1,904.6	1,747.1	1,683.6
Net interest-bearing debt** 8)	242.2	248.3	293.2	-68.4	88.9
Net interest-bearing debt excl. impact of IFRS 16**	204.6	248.3	293.2	-68.4	88.9
Capital employed** 9)	1,046.0	1,143.9	1,109.5	883.0	898.4
Working capital** 10)	-118.1	7.7	-83.5	217.0	269.2
Financial ratios and employees					
Operational EBITDA margin, continuing operations (std. metal prices)**	2.9%	6.9%	12.8%	9.4%	8.6%
Gearing (net interest-bearing debt as % of Group equity)**	30%	28%	36%	-7%	11%
Net interest-bearing debt relative to oper. EBITDA** 11)	8.2	3.1	1.9	-0.4	0.5
Solvency ratio (equity as % of total assets)** 12)	45%	48%	43%	54%	48%
Return on capital employed (RoCE)** 13)	-6.2%	-0.7%	11.8%	11.7%	10.1%
Number of DKK 20 shares ('000)**	27,260	27,126	27,126	26,835	24,186
Earnings continuing oper., EUR, per outstanding share (EPS) 1)	-3.1	-1.8	-0.1	-0.7	-1.7
Earnings, EUR, per outstanding share (EPS) 1)	-3.1	-1.8	34.3	0.5	0.0
Dividend paid, DKK, per share**	0.0	0.0	0.0	4.0	4.0
Distribution of shares in Nilfisk Holding A/S, value DKK per share**	0.0	0.0	285.2	0.0	0.0
Equity value, EUR, per outstanding share** 14)	24	27	30	35	34
Market price, DKK, per share**	161	89	283	499	357
Average number of employees**	3,671	3,744	3,600	8,958	8,895

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

1) – 14) Definitions appear in Section 7.4 in the consolidated financial statements.

** Alternative performance measures

Financial performance versus outlook 2019

The financial performance in 2019 for both NKT and NKT Photonics was in line with the most recently published financial outlook from November 2019.

NKT

The revenue* in 2019 was EUR 945.0m, around the mid-point of the outlook range of EUR 0.9–1.0bn published in February 2019.

NKT delivered operational EBITDA of EUR 15.1m in 2019, which was in line with the outlook range given in the preliminary outlook from November 2018. In November 2019, the financial outlook was narrowed to the lower half of the initial range of approximately EUR 10–30m.

The initial assumption of improved profitability in the Applications business line did not materialize as operational EBITDA was EUR 5.1m lower in 2019 than in 2018.

NKT Photonics

Organic revenue growth for NKT Photonics in 2019 was in line with the most recent financial outlook of approximately 10% published in November 2019. In February 2019, NKT Photonics provided an outlook of organic growth of approximately 15–20%, but fewer than anticipated larger projects towards the end of the year meant that revenue was not delivered as initially planned.

NKT Photonics realized an EBITDA margin of 19.6% for 2019, which was close to the top end of the outlook provided in February and in line with the adjusted outlook published in November 2019. This represented an improvement compared to the previous years but also included non-recurring items that increased EBITDA by around EUR 2m.

Realized figures versus financial outlook 2019

Amounts in EURm	Preliminary, November 2018	Initial, February 2019	Adjustment, November 2019	Realized
NKT				
Revenue*	-	~0.9-1.0bn	Lower half of ~0.9-1.0bn	945.0m
Operational EBITDA	~10–30m	~10-30m	Lower half of ~10-30m	15.1m
NKT Photonics				
Organic revenue growth	-	~15-20%	~10%	10%
EBITDA margin	-	~15-20%	Higher end of ~15-20%	19.6%

** Std. metal prices*

Financial outlook

2020

The revenue* is expected to be approx. EUR 1.0–1.1bn and the operational EBITDA is expected to be approx. EUR 40–60m in 2020.

The anticipated improvement in revenue and operational EBITDA compared to 2019 is expected mainly to be driven by the Solutions business line.

Based on the planned high-voltage production and project execution of an all-time high order backlog, earnings are expected to be higher in the 2nd half of the year.

Achievement of the financial outlook range is based on the following 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

The outcome of these assumptions will determine whether the financial performance will be in the higher or the lower end of the financial outlook range.

Medium-term targets

NKT anticipates an increasing demand for power cable solutions and services in the years ahead and as a technology leading provider NKT expects to be a significant beneficiary of this development.

NKT expects in particular the future development of the high-voltage market to be attractive, supported by the global transition towards renewable energy sources such as solar and wind and a political agenda to expand transmission lines to interconnect power grids within countries in the EU and also in the rest of the world. This transition will also drive demand for the NKT Applications and Service & Accessories business lines.

The growth of the high-voltage markets is, however, subject to various factors, including the timing of political decision-making, which makes the roll-out of specific projects challenging to predict.

In 2017, NKT provided medium-term financial targets, which targeted operational EBITDA of approx. EUR 200–225m and RoCE to be more than 13%. However, due to the aforementioned timing uncertainty for particularly future awards of high-voltage projects, NKT has decided to only provide financial outlook within the current financial year.

2020 outlook

EUR

~1.0–1.1bn

Revenue*

EUR

~40–60m

Operational EBITDA

** Std. metal prices*

NKT Photonics

2020
NKT Photonics expects organic revenue growth of approx. 5–15% and the EBITDA margin to be approx. 15–18% in 2020.

The revenue growth is expected mainly to be driven by the Medical & Life Science and Aerospace & Defence segments. As in previous years, the largest earnings contribution is expected to be generated in Q4.

In 2019, the industrial photonics market was experiencing slowdown in growth, mainly due to lower activity in China. NKT Photonics has low direct exposure to China, but the effects have broadened to global markets, and thereby expected to impact NKT Photonics' growth in the industrial segment in 2020.

Medium-term targets
In 2017, NKT Photonics provided medium-term targets. The annual organic growth is expected to be above 10%, the EBITDA margin is expected to reach approx. 25% and RoCE is expected to be approx. 20%.

The improved financial performance will be driven by innovative solutions across the segments in NKT Photonics' markets.

2020 outlook

~5–15%
Organic growth

~15–18%
EBITDA margin

Medium-term targets

+10%
Annual organic growth

~25%
EBITDA margin

~20%
RoCE

Purpose

Our passion brings power to life

In a globalized and interconnected world, everything depends on power. Power is the foundation of all the things we take for granted in modern civilization. At NKT we play an important role in supplying energy to global societies and bringing power to life.

Our purpose builds on our long and proud history within the cable business. Our products are technical by nature. But for us they are more than that.

There is a three-fold meaning in our purpose:

1. Our cables ensure the physical transportation of energy
2. We contribute to society by enabling transformation to sustainable energy
3. We empower our organization to become excellent and capture the essence of our business

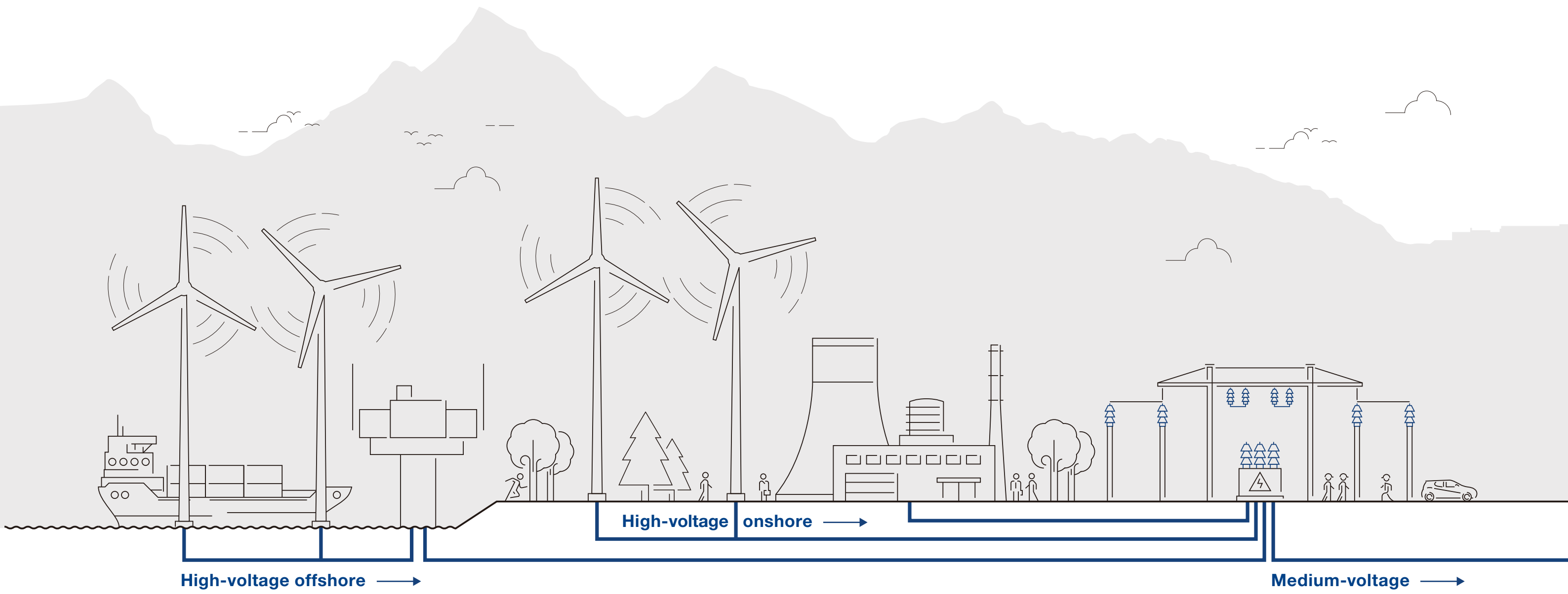
Key financials – 5-year review

Amounts in EURm	2019	2018[1]	2017[1]	2016[1]	2015[1]
Income statement					
Revenue	1,268.2	1,434.6	1,428.9	1,003.7	1,211.9
Revenue in std. metal prices**	945.0	1,080.1	1,058.0	750.4	857.5
Operational EBITDA**	15.1	70.2	138.3	72.5	77.0
EBITDA	3.1	40.8	93.4	26.2	53.8
Depreciation and amortization	-90.3	-79.4	-73.5	-36.8	-39.6
Impairment	-0.5	0.0	-0.9	0.0	-37.8
Operational EBIT**	-75.7	-9.2	63.9	35.7	37.5
EBIT	-87.7	-38.6	19.0	-10.6	-23.6
Financial items, net	-11.6	-7.7	-13.8	-3.0	-9.9
EBT	-99.3	-46.3	5.2	-13.6	-33.5
Tax	20.8	-2.0	-6.4	-8.7	-10.7
Net result	-78.5	-48.3	-1.2	-22.3	-44.2
Cash flow					
Cash flow from operating activities	117.8	-46.3	78.2	33.7	102.6
Cash flow from investing activities excl. acq. and div.**	-52.3	-49.1	-63.0	-31.5	-21.2
Free cash flow excl. acq. and div.**	65.5	-95.4	15.2	2.2	81.4
Balance sheet					
Capital employed**	941.6	1,065.3	1,040.5	348.4	381.3
Working capital**	-146.3	-16.2	-106.5	57.8	87.1
Financial ratios and employees					
Organic growth**	-10%	0%	7%	-10%	4%
Operational EBITDA margin*, **	1.6%	6.5%	13.1%	9.7%	9.0%
RoCE**	-7.2%	-0.8%	7.5%	9.3%	8.2%
Full-time employees, end of period**	3,303	3,419	3,393	2,769	3,208

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.
* Std. metal prices
** Alternative performance measures

Business line organization

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



Solutions

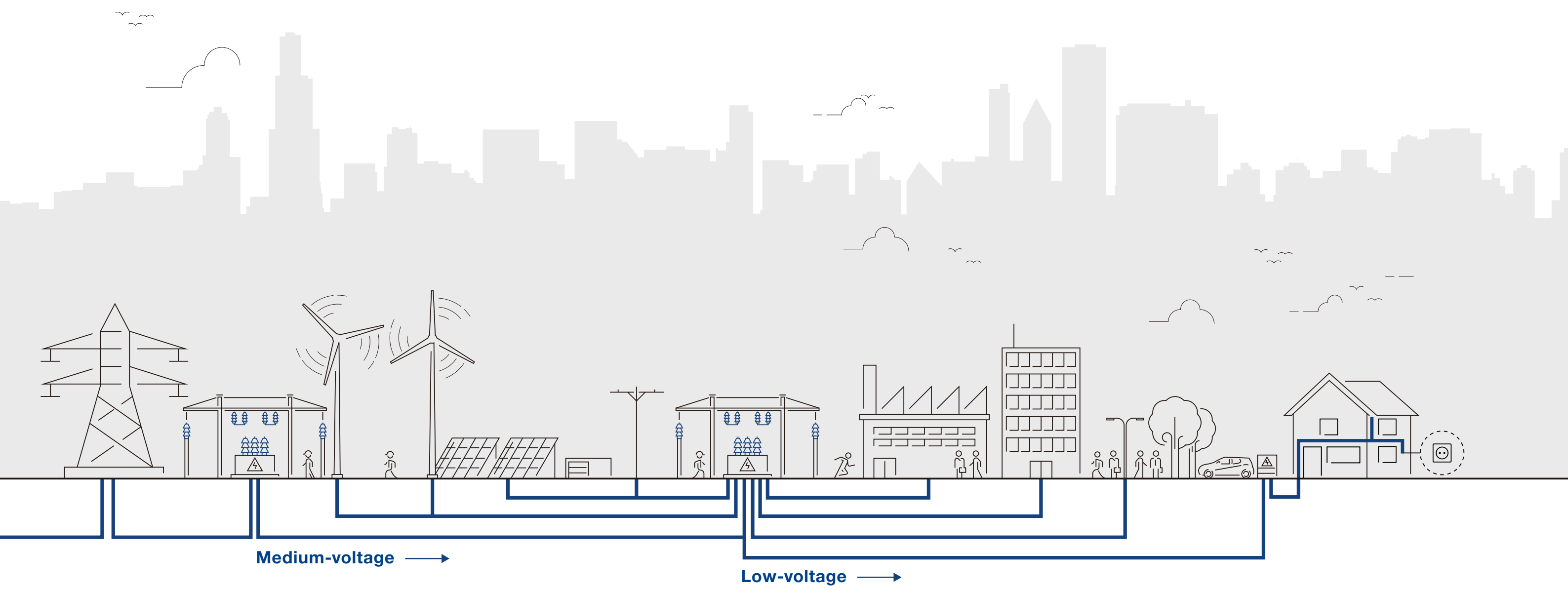
This business line specializes in high-voltage power cable solutions. NKT provides a broad range of solutions for off- and onshore power transmission systems and can supply both AC (Alternating Current) and DC (Direct Current) power cable systems. NKT offers customers complete and customized end-to-end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

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

Applications

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

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



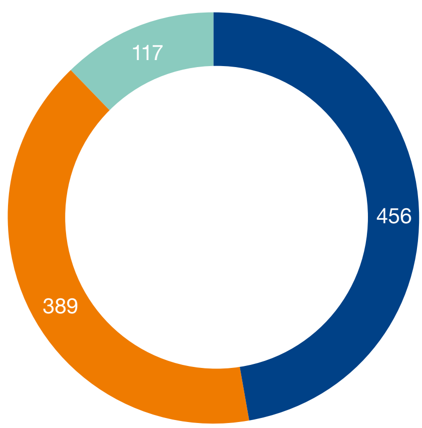
Service & Accessories

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

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

Accessories are critical components in any power cable system. In the high-voltage market, the technological competence possessed by NKT is key as only a limited number of suppliers can match the numerous requirements that accessories must meet for reliable and consistent performance. NKT provides market support for accessories from three production sites in Germany and Sweden.

Revenue distribution 2019 (EURm)*



** Std. metal prices*

Market overview

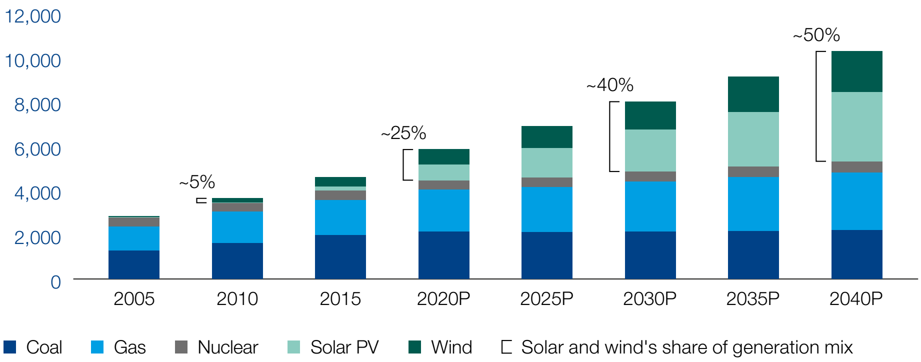
The NKT purpose is to bring power to life by being a key partner in providing solutions to meet the growing need for power – especially from renewable energy sources.

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

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

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

Installed power generation capacity (GW)



Source: IEA World Energy Outlook 2019, Installed power generation capacity by source in the Stated Policies Scenario, 2000–2040

Megatrends driving business opportunities

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

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

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

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

High-voltage power cable market

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

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

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

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

The new generation Cable Laying Monitoring System delivered solid performance during installation of the high-voltage cable by NKT Victoria in challenging waters between the islands of Jersey and Guernsey in October 2019. Photo: Guernsey Electricity Ltd.

Market awards at satisfactory level in 2019

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

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

Attractive market outlook supported by continued tender activity

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

Market overview – Solutions

High-voltage

	Geographical scope	Market characteristics
DC off- and onshore	Global	▪ Growing market ▪ High technical capabilities and know-how required (especially for higher voltage levels and DC) ▪ Increasing competition in lower voltage levels
AC offshore		
AC onshore	Continental	

Note: DC = Direct Current and AC = Alternating Current

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

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

Low- and medium-voltage power cable market

The NKT Applications business line operates in the low- and medium-voltage market, primarily in northern, central and eastern Europe. The solutions are less complex than in the high-voltage market and the number of market players is higher. The products will typically be "made-to-stock" with differentiated specifications and designs from country to country to match local requirements. Compared to the project-driven high-voltage market, demand in this area is generally more aligned with macroeconomic development.

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

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

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

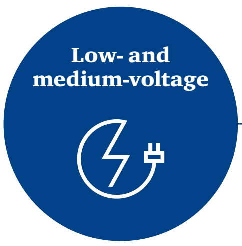
Market growth in 2019 driven by Eastern Europe

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

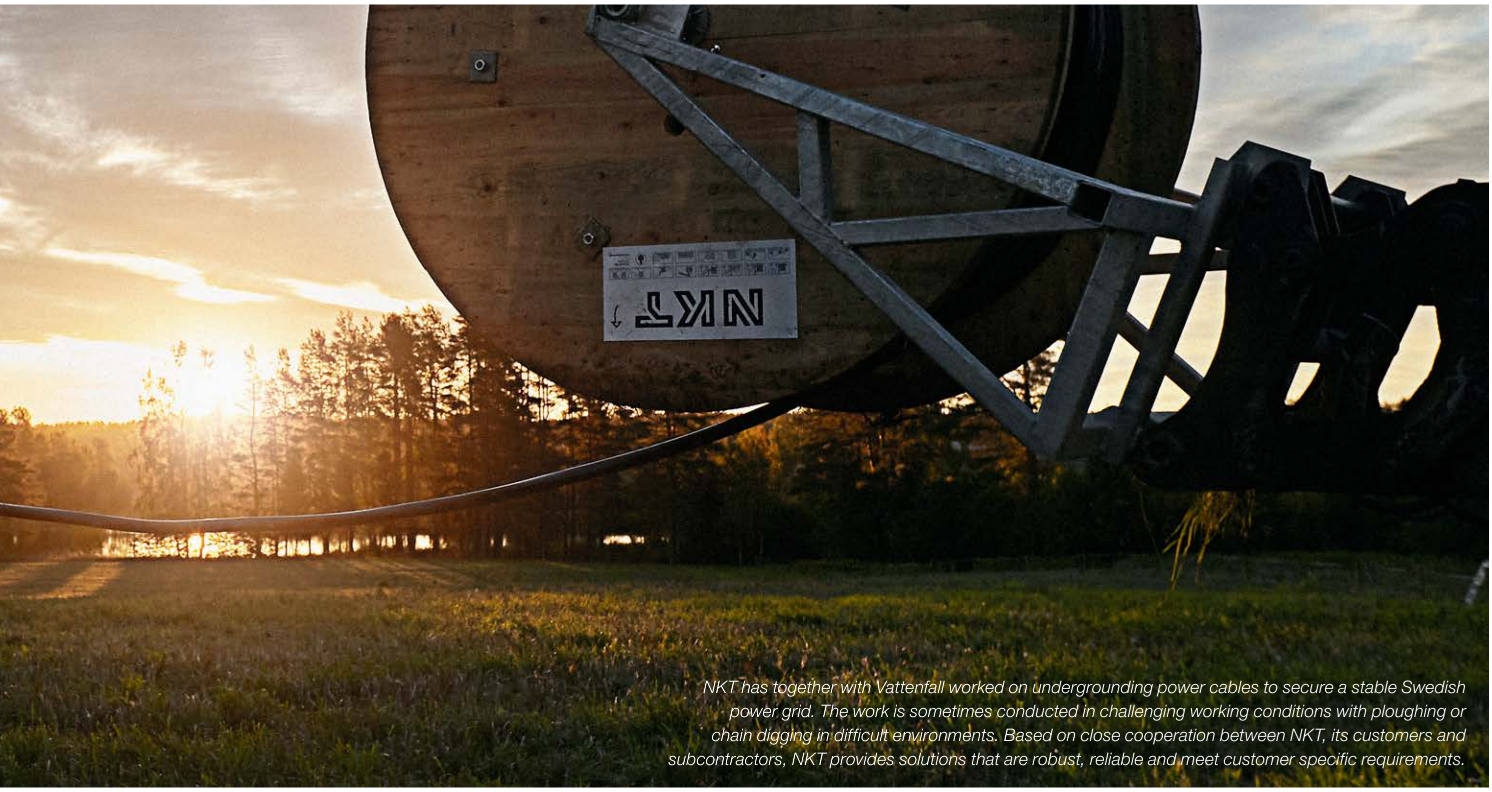
Markets expected to be stable

The development in the markets where NKT operates is expected to be flat in 2020, mainly due to slowdown in the markets in central Europe, whereas growth will

Market overview – Applications



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



NKT has together with Vattenfall worked on undergrounding power cables to secure a stable Swedish power grid. The work is sometimes conducted in challenging working conditions with ploughing or chain digging in difficult environments. Based on close cooperation between NKT, its customers and subcontractors, NKT provides solutions that are robust, reliable and meet customer specific requirements.

continue in eastern Europe. Beyond 2020, further growth is expected led by eastern Europe and Germany. Nordic markets are likely to remain stable in years ahead.

Service & Accessories markets

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

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

The Service market is expected to see attractive growth in the years ahead, driven by the installation of further power cables both off- and onshore in line with the megatrends driving the power cable market. However, the market will fluctuate during this period depending on the number of large offshore cable repairs.

As accessories are necessary components of power cable systems, the accessories market will be closely linked to that for medium- and high-voltage power cables. As with power cables, competitive pressure is greatest at the lowest voltage levels due to the increasing complexity of accessories for higher voltage application. Because transport costs for accessories play a minor role compared to power cables, accessories are a truly global market that NKT can supply on a comprehensive scale. To reap the growth potential, local presence is becoming increasingly important to adequately serve local needs.

Market overview – Service & Accessories

Service and accessories

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

Geographical footprint

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

The NKT Accessories business has together with Austrian partner etn installed six dry type outdoor terminations. This termination utilizes dry technology with no oil leakage and provide sustainable and long-term grid operation. The solutions were introduced to the Austrian market.

Strategic focus on near-term performance

Focus on sustainable financial performance

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

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

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

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

Solutions
Utilization and execution

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

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

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

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

Applications
Profitability

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

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

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

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

Service & Accessories
Growth

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

1. **Strengthen go-to-market approach**
   NKT will maintain focus on clear customer relationship management and ensure an optimal customer approach. Geographical expansion into new focus markets is also being pursued.

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

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


NKT

Financial review

The financial performance for NKT in 2019 was within expectations. Revenue was lower than in 2018, mainly due to reduced level of activity in Solutions and the divestment of the railway activities. The decrease in revenue negatively impacted earnings. NKT generated positive free cash flow, driven primarily by favourable development in working capital.

Revenue impacted by lower activity in Solutions

NKT revenue* in 2019 was EUR 945.0m, against EUR 1,080.1m in 2018. This development was primarily due to a reduced level of activity in Solutions, and the divestment of the railway activities that in 2018 delivered revenue* of EUR 22.1m.

The organic growth in 2019 amounted to -10%, with Solutions reporting -18% and Applications -2%. Service & Accessories delivered positive organic growth of 5%.

The revenue measured in market prices was EUR 1,268.2m in 2019, against EUR 1,434.6m in 2018.

Operational EBITDA lower than 2018 as expected

The reduction in revenue led as expected to lower profitability, with operational EBITDA of EUR 15.1m for 2019 against EUR 70.2m for 2018. In Applications, the profitability level remained unsatisfactory, while earnings in Service & Accessories were marginally down compared to 2018. Consequently, the operational EBITDA margin* was 1.6% in 2019, against 6.5% in 2018.

The implementation of IFRS 16 in 2019 increased operational EBITDA by EUR 4.5m compared to 2018.

Total one-off items in 2019 amounted to EUR -12.0m, a reduction from EUR -29.4m in 2018. The costs related to strategic initiatives primarily aimed at reducing head count and improving production efficiency. The divestment of the railway activities led to a one-off accounting gain of EUR 6.4m in Q1 2019.

In February 2019, NKT launched a cost programme targeted at an annual positive EBITDA impact of approx. EUR 15m to be achieved through reduced staff costs and general spend. Overall, the programme was delivered on plan. Half of the earnings impact came in 2019 as expected and the full targeted impact will materialize as runrate going into 2020. In addition to the cost programme, blue-collar jobs were adjusted downwards over the year to reflect the lower level of activity.

The reported EBITDA in 2019 amounted to EUR 3.1m, compared to EUR 40.8m in 2018.

Revenue development and organic growth

Amounts in EURm	
2018 revenue*	**1,080.1**
Currency effect	-15.4
Acquisitions	0.0
Divestments and reclassifications	-19.7
2018 adjusted revenue*	**1,045.0**
Organic growth	-100.0
2019 revenue*	**945.0**
Organic growth %	**-10%**

** Std. metal prices*

Lower net result

EBIT in 2019 amounted to EUR -87.7m, down from EUR -38.6m in 2018. The depreciations and amortizations were higher, driven by the increased asset base. As a result of the lower EBIT, earnings before tax (EBT) decreased from EUR -46.3m in 2018 to EUR -99.3m in 2019.

The net result amounted to EUR -78.5m in 2019, against EUR -48.3m in 2018. The reported tax level was low, mainly due to reduced capitalization of tax assets.

Working capital exceptionally low

NKT improved its working capital position from EUR -16.2m at end-2018 to EUR -146.3m at end-2019, which is an exceptionally low level. Working capital is expected to normalize at a higher level during 2020 and will depend on impact from potential new project awards.

The positive development in 2019 was mainly driven by Solutions, with favourable phasing of milestone payments on projects in progress towards year end. In Applications, working capital was similarly improved from a high initial level when entering 2019.

The working capital ratio, LTM, was -2.2% at end-2019, against -0.2% at end-2018.

Positive free cash flow driven by working capital

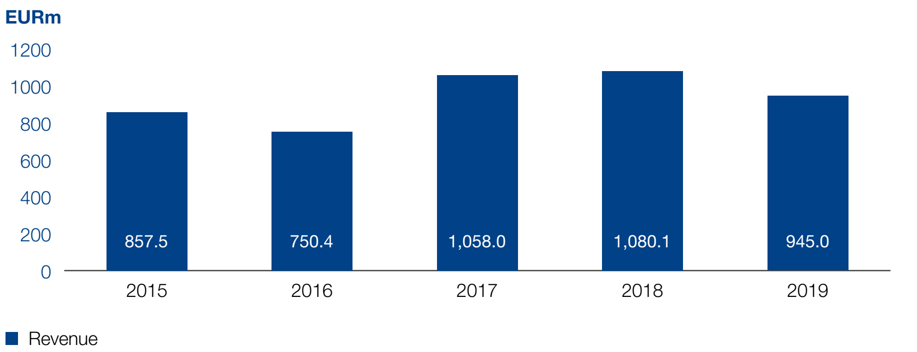
NKT's free cash flow amounted to EUR 65.5m in 2019, up from EUR -95.4m in 2018. This was driven by the positive development in the cash flow from operating activities, primarily due to the improvement in working capital.

The cash flow from investing activities (excluding acquisitions and divestments) was EUR -52.3m in 2019, slightly up from 2018. During 2019, NKT has continued upgrading equipment in Solutions.

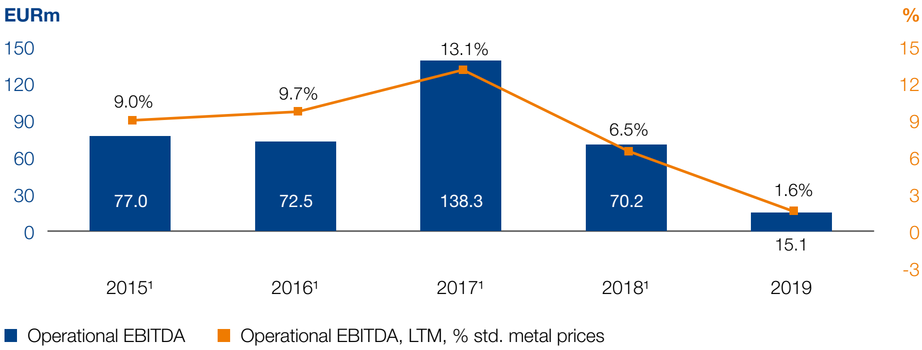
RoCE down due to reduced earnings

The reduction in earnings impacted RoCE, which decreased from -0.8% at end-2018 to -7.2% at end-2019. In the period from end-2018 to end-2019, the capital employed went down by EUR 123.7m to EUR 941.6m due to the favourable development in working capital.

Revenue development

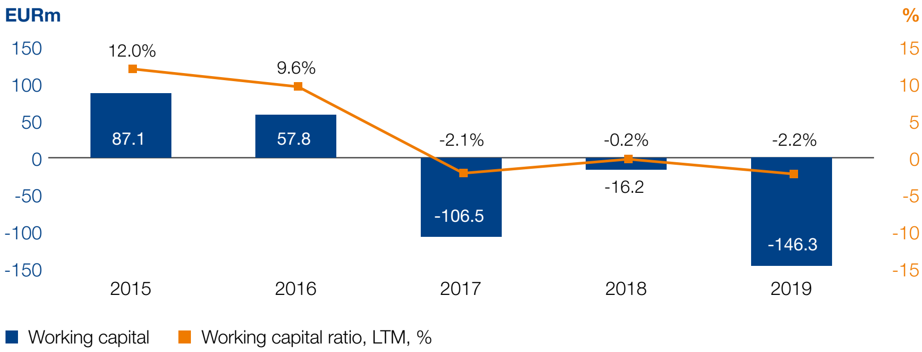


Operational EBITDA

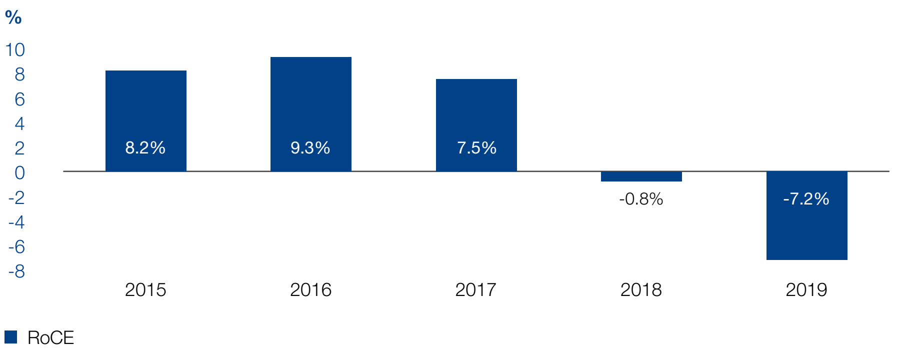


1 2015–2018 figures have not been restated following the implementation of IFRS 16 Leases.

Working capital



RoCE



Business review – Solutions

456m

Revenue*, EUR
(2018: EUR 578m)

-18%

Organic growth
(2018: -4%)

14.1m

Operational EBITDA, EUR
(2018: EUR 62.9m)

Highlights – Solutions

- Financial performance down compared to 2018 as expected
- Satisfactory order intake with high-voltage project awards exceeding EUR 750m leading to all-time high order backlog
- Strengthened leadership focus, with three new members added to the Group Leadership Team

* *Std. metal prices*

Revenue down due to reduced activity

As expected, the revenue* for Solutions declined in 2019, amounting to EUR 455.6m against EUR 577.9m in 2018. This was due to reduced activity at the Karlskrona factory, which continued to reflect the relatively low number of high-voltage projects awarded in the market in 2017 and 2018. As a result of the lower capacity utilization, organic growth in 2019 was -18%.

Revenue measured in market prices was EUR 522.5m in 2019, against EUR 640.3m in 2018.

Operational EBITDA impacted by lower revenue

The decreased revenue generation impacted operational EBITDA, which amounted to EUR 14.1m in 2019 compared to EUR 62.9m in 2018. In 2019, the operational EBITDA margin* was 3.1%, compared to 10.9% in 2018.

Overall, execution on current projects was in line with expectations in 2019. Performance in Karlskrona was better than expected, while Cologne experienced production delays.

Several projects in progress and completed in 2019

Progress was made on multiple projects at the production sites and on a number of installation assignments.

During 2019, NKT completed a number of high-voltage projects, which included:

- Caithness-Moray: Turnkey project in Scotland connecting the electricity grid on either side of the Moray Firth with a 320 kV DC power cable system.
- Martin Linge: Power-from-shore solution to enable the field operator, Equinor, to power the Martin Linge oil and gas field in the North Sea via a 163 km long high-voltage power cable system. This a world record length AC cable system.
- Hornsea 1: NKT has delivered the 220 kV AC submarine export cable system for this UK offshore wind farm, which will be the world's largest when completed in 2020.

The company's cable-laying vessel, NKT Victoria, was utilized less than in the previous year. The vessel was deployed on a number of installation and offshore assignments in northern Europe during 2019.

High-voltage order backlog at all-time high

At end-2019, the high-voltage order backlog totalled EUR 1.37bn (EUR 1.21bn in std. metal prices), an increase from EUR 1.12bn (EUR 0.94bn in std. metal prices) in 2018. NKT estimates that around 40% of the backlog will be realized in 2020 and the remaining approximately 60% in 2021 and beyond.

The improvement in the order backlog was driven by several project awards in 2019 with an aggregated value of more than EUR 750m. The total market size was estimated to be around EUR 3bn.

In November 2019, NKT announced its largest ever XLPE power cables order. The company is the main contractor for the delivery and installation of 320 kV DC on- and offshore export cable systems for the Dogger Bank Wind Farms Creyke Beck A and Creyke Beck B. This is the first DC power cable system for a UK offshore wind farm. The order has a

In 2019, NKT has handed over the 163 km long high-voltage cable system powering the Norwegian oil and gas field Martin Linge from the shore.

contract value of approx. EUR 360m (approx. EUR 300m in standard metal prices) and project owners are Equinor and SSE Renewables.

Additionally, NKT has been awarded a contract worth approx. EUR 90m (approx. EUR 75m in std. metal prices) for the Viking Link interconnector project between Denmark and UK, and a contract valued at approx. EUR 67m (approx. EUR 57m in standard metal prices) for the land and sea sections of the Beckomberga-Bredäng project in Sweden.

The order intake for smaller-size onshore AC projects increased in 2019, and NKT views this improvement as the initial indicator of a better market environment in this part of the high-voltage market.

While satisfactory, the intake of high-voltage orders in 2019 will not lead to immediate optimized production and installation flow for NKT in 2020. An improved project mix is required to increase capacity utilization further, and there will be lead time from award to revenue and earnings generation.

Strengthened leadership team

In Q3 2019, the NKT Group Leadership Team was strengthened with the addition of three new members from Solutions: The Executive Vice Presidents (EVP) of the high-voltage sites in Cologne and Karlskrona and the Chief Commercial Officer (CCO) for Solutions. All three will report directly to the CEO of NKT. The positions were filled through internal promotions.

The two EVPs will be fully responsible for their respective high-voltage site, including production and project execution. The CCO will have overall responsibility for prioritization of tenders, sales, customer relations and allocation of projects between the two high-voltage sites. The objective is to enhance P&L ownership, improve project execution and ensure faster decision-making while maintaining focus on overall capacity utilization in the business line.

Qualification of 525 kV DC cable

In January 2020, NKT completed the qualification of its 525 kV high-voltage DC XLPE underground power cable to match the requirements for the coming high-voltage DC corridor projects in Germany. This followed the Cigre qualification obtained already in 2014, when NKT launched the 525 kV XLPE power cable as a world's first. Additionally, NKT is in the process of qualifying its Cologne facility for DC cable production according to international standards.

Large high-voltage project awards for NKT in 2019

Project	Country	Segment	Contract value (EUR)	Award time	Expected finalization
Viking Link	DK-UK	Interconnector	~90m	Q3/19	2023
Beckomberga-Bredäng	Sweden	Interconnector	~67m	Q3-Q4/19	2022
Dogger Bank Creyke Beck A+B	UK	Offshore wind	~360m	Q4/19	2023

Business review – Applications

389m

Revenue*, EUR
(2018: EUR 401m)

-2%

Organic growth
(2018: 5%)

0.3m

Operational EBITDA, EUR
(2018: EUR 5.4m)

Highlights – Applications

- Financial performance unsatisfactory in 2019
- Mixed geographical sales performance, with growth contribution from eastern Europe and Germany
- New management structure to accelerate improvements

** Std. metal prices*

Revenue slightly down compared to 2018

In Applications, revenue* amounted to EUR 389.1m in 2019 against EUR 400.5m in 2018, equal to organic growth of -2%.

The revenue development was positive in eastern Europe and Germany, while sales in Scandinavia and France decreased.

The revenue in market prices amounted to EUR 645.3m in 2019, against EUR 677.4m in 2018.

Profitability at unsatisfactory level

The operational EBITDA in 2019 amounted to EUR 0.3m, against EUR 5.4m in 2018. The reduction in revenue drove down profitability compared to last year and the current level is considered unsatisfactory.

NKT is continuously focused on improving efficiency across its production sites. During 2019 the sites in eastern Europe delivered satisfactory production output, while factory performance in Scandinavia was below expectations. Addressing and prioritizing these factory efficiency challenges are key to improving performance.

In late Q1 2019, NKT initiated the rollout of a uniform IT platform across its Scandinavian sites. As expected, the rollout process initially had negative impact on financial performance, but in the course of the year these early challenges were gradually eliminated.

The IT platform is now operating largely as planned and is expected to deliver future benefits. NKT plans to roll-out the platform into other markets as well.

Mixed geographical performance

NKT generated around 75% of 2019 revenue in five countries: Czech Republic, Denmark, Germany, Poland and Sweden. The growth contributions from these markets varied.

The primary contribution to positive sales development came from eastern Europe and Germany. In the medium-voltage segments, NKT particularly improved its performance in the Czech Republic and Germany, driven by an attractive product offering. In the low-voltage segments, NKT further strengthened its already strong market position in the Czech Republic.

In Scandinavia, revenue was lower than in 2018. NKT has a solid market position in this region and is continuously focused on expanding its positions. Increased competitive pressure, especially in the low-voltage segment, impacted performance in 2019.

In France, NKT revenue from medium-voltage power cables declined in 2019 against a strong performance in 2018.

In the market for telecom power cables, NKT recorded stagnating revenue in 2019. However, with the ongoing rollout of the next-generation 5G mobile network the expectation is that attractive growth opportunities will continue to show.

New organizational structure

In order to accelerate improvements, the organization of the business line was adjusted in Q2 2019 with a new management structure.

As part of this reorganization, Applications will also include manufacturing and supply chain responsibilities in the low- and medium-voltage segments. This setup aims to ensure control of the full operational value chain at the appropriate organizational level and optimal planning between sales and operations.

Strengthened medium-voltage portfolio

NKT launched a new and improved version of AXAL-TT, a key power cable product for the Swedish medium-voltage market. The product upgrade places NKT at the forefront of offerings for utility companies in Sweden. Among other benefits, the power cable can be installed in the most challenging environments and is fast and easy to install.

The medium-voltage power cables from NKT are the result of more than a hundred years of experience. By working closely with customers, NKT has created power cables that are safe, highly durable and easy to install. For several years, NKT has worked with Vattenfall to modernize the power grid in Sweden by undergrounding power cables instead of overhead lines.

Business review – Service & Accessories

117m

Revenue*, EUR
(2018: EUR 129m)

5%

Organic growth
(2018: 9%)

13.5m

Operational EBITDA, EUR
(2018: EUR 15.7m)

Highlights – Service & Accessories

- Satisfactory growth driven by Accessories
- Reduction in offshore cable repair work impacted performance
- Successful market approach is driving positive development in Accessories

** Std. metal prices*

Satisfactory organic growth

The revenue* for Service & Accessories in 2019 amounted to EUR 116.7m, compared to EUR 129.4m in 2018, equal to organic growth of 5%. This growth was driven by the Accessories business.

The decrease in revenue* in 2019 was due to the impact of the divested railway activities, which contributed EUR 22.1m in 2018.

In 2019, the revenue measured in market prices amounted to EUR 118.8m, compared to EUR 154.2m in 2018.

Earnings development reflected revenue composition

The operational EBITDA for Service & Accessories amounted to EUR 13.5m in 2019, against EUR 15.7m in 2018. The decrease was due to reduced offshore service work. The operational EBITDA margin* in 2019 thus comprised 11.6%, compared to 12.1% in 2018.

Based on the composition of revenue between the Service and Accessories segments, the profitability was satisfactory. Fluctuations will occur in both earnings and profitability, primarily depending on the number of large offshore cable repairs conducted.

Fewer offshore repairs in the Service business

In 2019, NKT had fewer offshore repairs than the previous year. The nature of the service business will remain volatile as the volume of future repair work is difficult to predict. NKT has improved responsiveness and efficiency when restoring damaged power cable connections caused by external incidents. This improvement has met with wide customer satisfaction.

The onshore service business was characterized by moderate activity in 2019, and NKT is considered to have maintained its competitive position.

To support further growth and offset fluctuations in its offshore repair business, NKT is continuously focused on introducing improved solutions and securing long-term service contracts. Early in 2020, NKT signed a service contract with EirGrid, the operator for the East West Interconnector connecting Ireland and Wales. This agreement marks the first contract to include the recently launched NKT 10-day vessel mobilization guarantee.

Strong growth in Accessories business

The NKT Accessories business delivered strong growth in 2019. This positive performance was primarily based on increased sales of medium-voltage products from the Nordenham production facility in Germany. The company continued to improve its market presence, particularly in the Middle East, but also delivered solid performance in Central Europe.

In the offshore wind segment, NKT benefitted from its position as a recognized supplier of innovative accessories, which also contributed to growth in 2019.

Entering 2020, NKT plans to invest in additional production equipment to accommodate the increased demand and support growth opportunities in new markets.

NKT's strong performance in the medium-voltage segment more than compensated for challenging market

Built on over a century of power cable experience, NKT cable jointers are skilled in all commonly used power cable technologies both off- and onshore.

conditions in the high-voltage accessories market in the US and Russia.

Divestment of railway business

On 1 February 2019, NKT divested its railway cable activities to the Swedish company Elcowire Group AB, which marked the completion of portfolio trimming and the divestments of non-core activities.

Risk management

NKT operates in dynamic markets with different characteristics where risks have to be managed systematically to reduce potential negative financial impact.

The NKT risk management goal is to identify, assess and prioritize risks and to react appropriately with suitable actions that mitigate, reduce or control the impact of negative events. NKT views risk management as a tool which adds value by raising risk awareness and places focus on efficient day-to-day business operation in line with company strategy.

The company's main revenue streams originate from a variety of markets with independent market dynamics. To some extent this has the effect of spreading the risk. For example, the Solutions business line, which is primarily driven by sizeable infrastructure projects, is largely decoupled from short-term developments in the general economy. On the other hand, sales of low-voltage solutions in the Applications business line are linked to general construction activities. Finally, growth in the Service & Accessories business line partly depends on large power cable repair projects. The development in 2019 for each business line is described in the business reviews on pages 26–31.

The company's enterprise risk management (ERM) model ensures that risks are captured and dealt with by either the business line managements or the support functions. This tailored reporting structure ensures company-wide awareness of risks, opportunities and mitigating actions.

Responsibilities

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

NKT has established eight risk reporting units representing the three business lines and their support functions. These units perform bi-annual progress reports and updates on the specified risk areas. These reports are consolidated and submitted to the NKT Group Leadership Team and the Board of Directors twice yearly evaluate whether satisfactory actions are being taken.

NKT risk matrix

The company's primary specific risks are charted in a risk matrix according to probability and impact. The overall risk picture was relatively similar in 2019 to the previous year, the ten primary risk areas being unchanged. However, risk assessment in respect of two risk areas has been modified compared to 2018.

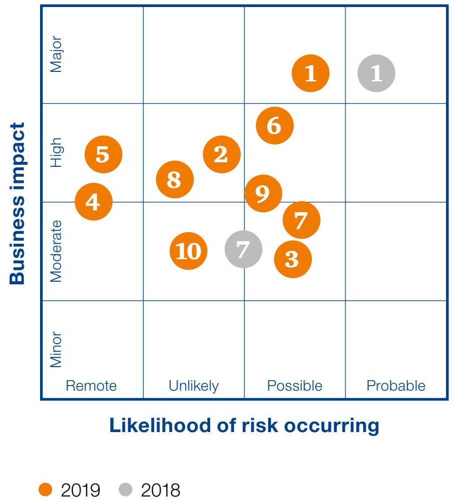
Firstly, the likelihood of *sales risk* has been reduced. NKT has been awarded several high-voltage projects since 2nd half 2018, and at end-2019 the high-voltage order backlog was at its highest level since ABB HV Cables was acquired in March 2017.

Secondly, the assessment rating for *cyber risk* has been increased both in terms of likelihood of occurrence and business impact driven by the external environment.

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 122–127.

NKT risk matrix



Enterprise Risk Management reporting structure

Risk assessment

Risk	Risk identification	Monitoring	Mitigating actions
1	Sales risk – ensure high-voltage order intake to optimize revenue and earnings going forward	Close monitoring of market challenges/ opportunities to act swiftly to maximize NKT potential. Despite improvements in both the offshore and onshore power cable markets, these markets remain somewhat volatile	Ensure intake of high-voltage orders in order to optimize revenue and earnings going forward. Overall, the high-voltage market is viewed as attractive with a promising order pipeline in years ahead. Although NKT is expected to be in a good position to capture a fair share of these orders, market competition will be intense. NKT is analyzing relevant markets to find new market and customer opportunities not previously explored
2	Product claims	Close monitoring of product and warranty issues to identify potential failures in either production and/or product designs	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
3	Operational breakdowns at factories	Close monitoring of operational performance for critical equipment and processes	Maintenance programme established with external third party including high-voltage collaboration between the Cologne and Karlskrona sites. The outsourced maintenance function is steadily increasing usability and availability, thus reducing the risk of operational downtime
4	Compliance	Continuous monitoring of regulatory developments	Mandatory e-learning and tests in the NKT Business Code of Conduct, data privacy and competition law, an established Ethics & Compliance Procedure monitored by the Ethics & Compliance Committee and the Audit Committee, and monitoring and auditing processes in place to identify potential issues. Issues reported to the whistleblower hotline are investigated and corrective measures taken
5	DC qualification in Cologne	Monitoring of ongoing testing and qualification procedures	The DC qualification is ongoing, adequate resources have been allocated and the process is monitored closely to ensure timely completion
6	Project execution in high-voltage segment	High focus on risk management activities in all project phases (tender approval, start-up and execution)	Mitigation of identified risks via risk management activities and as far as possible through insurance, contract provisions and pre-production testing. Defined work groups are closely monitoring and addressing specific projects
7	Cyber risk	Continuous monitoring of cybercrime, virus attacks or cyber-related incidents impacting business operations	Performance of cyber maturity assessment as the basis for enhanced focus on cyber protection and detection. External threats have increased in likelihood and impact. Resources dedicated to mitigation were increased in 2019, and a cyber programme was initiated to further increase maturity
8	Key suppliers	NKT works together with suppliers of a range of products, including key materials, compounds and metals	Close working relationship with identified key suppliers to reduce risks, and investigate and qualify alternative sourcing opportunities
9	Price pressure	NKT is experiencing pressure on pricing for solutions, products and services in several power cable markets	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
10	Key customers	In a few markets in the Applications segment a range of customers contribute a significant share of sales. NKT maintains close and regular interaction with all identified key customers	NKT is expanding market presence and strengthening its value proposition to reduce dependence on individual customers

Note: The risks are not shown in prioritized order

NKT Group Leadership Team

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

Roland M. Andersen
Executive Vice President,
Chief Financial Officer
Born 1968
Joined NKT in 2015

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

Oliver Schlodder
Executive Vice President,
Head of Applications & Accessories
Born 1980
Joined NKT in 2013

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 & Installation
Born 1977
Joined NKT in 2020


NKT VICTORIA

Mission

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.

Key financials – 5-year review

Amounts in EURm	2019	2018[1]	2017[1]	2016[1]	2015[1]
Income statement					
Revenue	74.6	67.7	50.9	43.1	40.6
EBITDA	14.6	9.0	3.5	6.3	3.7
Depreciation and amortization	-9.9	-7.9	-5.2	-4.8	-3.6
Impairment	0.0	0.0	0.0	0.0	-2.6
EBIT	4.7	1.1	-1.7	1.5	-2.5
Financial items, net	-0.7	-0.3	-0.9	-1.2	-0.5
EBT	4.0	0.8	-2.6	0.3	-3.0
Tax	-1.5	1.2	0.4	-0.1	-0.1
Profit for the year	2.5	2.0	-2.2	0.2	-3.1
Cash flow					
Cash flow from operating activities	7.2	4.1	-0.4	-1.4	4.3
Cash flow from investing activities excl. acq. and div.**	-16.7	-11.8	-7.5	-3.3	-3.8
Free cash flow excl. acq. and div.**	-9.5	-7.7	-7.9	-4.7	0.5
Balance sheet					
Capital employed**	104.4	78.6	69.0	49.3	19.2
Working capital**	28.2	24.0	23.1	18.5	8.5
Financial ratios and employees					
Organic growth**	10%	16%	7%	7%	9%
EBITDA margin	19.6%	13.3%	6.9%	14.7%	9.6%
RoCE**	4.9%	1.6%	-3.1%	4.1%	0.4%
Full-time employees, end of period**	403	349	302	240	174

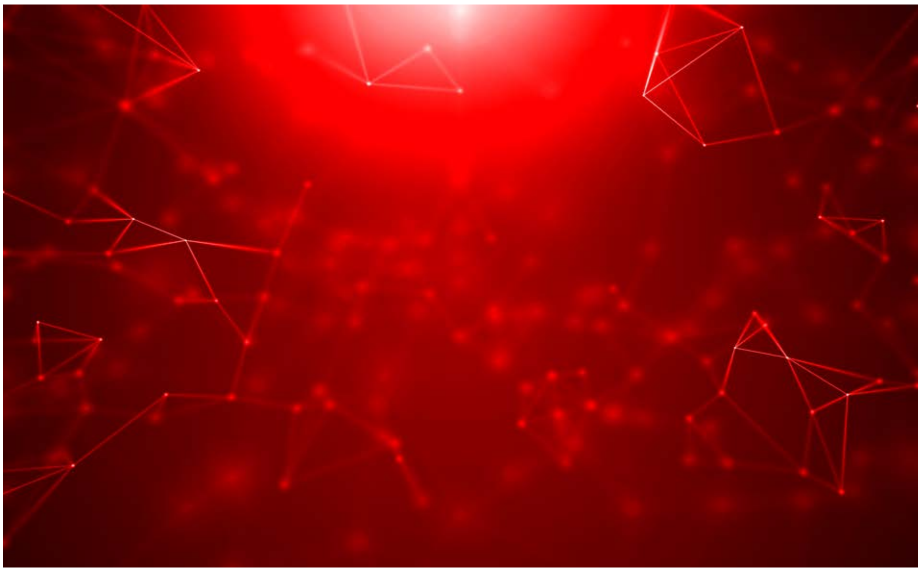
1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

** 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 supporting megatrends

NKT Photonics has developed 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.

Growing and ageing population

The continued increase in global population and life expectancy will lead to pressure for more effective use of resources and higher 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 structure 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 a security concern 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, a sports stadium or a ship cost-efficiently and effectively. 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 segmentation

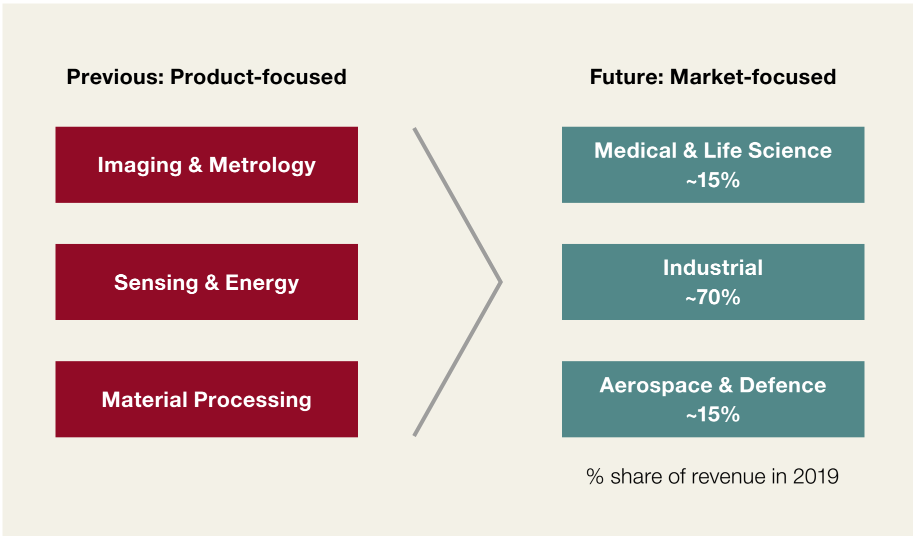
In recent years, NKT Photonics has divided its main market into three product-focused segments: Imaging & Metrology, Sensing & Energy, and Material Processing. As NKT Photonics has grown into further product areas and market focus has developed, the company has decided to change segmentation, making it market-focused instead. Going forward, the company's market segments will be defined as follows: Medical & Life Science, Industrial, and Aerospace & Defence.

Most of the products in NKT Photonics' portfolio have applications across market segments.

This market-focused segmentation is better aligned with the general reporting in the global photonics industry and provides a good overview of NKT Photonics' commercial focus for the years ahead.

Based on this new segmentation structure, the total addressable market for NKT Photonics is estimated to be approximately EUR 2.6bn. The largest segment is the Industrial market, while the two smaller segments represent the most attractive growth opportunities from a market perspective.

NKT Photonics market segmentation



Estimated market sizes and growth for addressable NKT Photonics' markets in 2019

Amounts in EURm	Fiber lasers*		Solid-state lasers*		DTS systems**	
EUR	Market size 2019E	2018-23E CAGR	Market size 2019E	2018-23E CAGR	Market size 2019E	2016-22E CAGR
Medical & Life Science	48m	23%	493m	8%	-	-
Industrial	670m	5%	570m	0%	590m	8%
Aerospace & Defence	164m	6%	113m	8%	-	-

* *Source: The Worldwide Market for Lasers, Trends and Five-Year Forecast (2017–2023) by STRATEGIES UNLIMITED. 2019 projected revenue for fiber lasers and solid-state lasers. The Industrial segment comprises Sensors, R&D, and Micro Materials. USD to EUR conversion rate is 0.9.*

** *Source: "Distributed Temperature Sensing (DTS) Market by Operating Principle (OTDR, OFDR), Fiber Type (Single-Mode, Multi-Mode), Application (Oil & Gas, Power Cable Monitoring, Fire Detection, Process & Pipeline Monitoring) and Geography – Global Forecasts to 2022" by Markets and Markets*

Medical & Life Science

Medical & Life Science is the fastest growing of the three identified market segments. Ultrafast fiber lasers especially are finding use in medical procedures such as ophthalmology, and 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 among others driven by the previously described megatrend, *Growing and ageing population*.

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 missed when applying this method.

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. These microscopes, which are used in areas such as cancer research, offer superior image contrast and flexibility, enabling the user to see features in cells not previously possible. 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 bio-compatibility 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 under 40 years. Using NKT Photonics' SuperK supercontinuum white light lasers, researchers at the Massachusetts General Hospital have created in-vivo scanners with cell-level resolution. Such scanners are helping doctors understand the causes of Cystic Fibrosis, helping pharmaceutical companies design drugs to alleviate and eventually cure the decease.

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 the risk of contamination 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 from the production line all the way to the patients.

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 equipment for cataract surgery 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.

Industrial

The Industrial segment is the largest and most diversified of the three identified 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 sub-segments and applications, such as:

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

The Industrial segment is among others driven by the previously described megatrend, *Increased technological complexity*.

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. Feeding this information to the wind turbine's control system, the 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.

Safer tunnels and metros using fiber sensors

Fire safety in tunnels and metros is a very 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. The linear heat detection systems feed the data to the fire protection systems, enabling fast and accurate reaction to any fires or hotspots, making sure that people are safe when travelling in tunnels or underground.

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.

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, thereby enabling better load distribution and capacity utilization. Consequently, more of the energy produced by wind and solar can be sent into the grid.

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.

Aerospace & Defence

While NKT Photonics has always operated within the Aerospace & Defence market, particular focus over the last couple of years has resulted in significant growth in this area. 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 among others driven by the previously described megatrend, *Focus on security*.

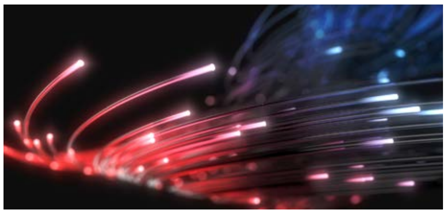
Examples of current main applications

Lasers preventing drone attacks

In 2018, small drones closed 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 quickly and effectively.

Koheras lasers in Space

NKT Photonics currently has several Koheras low-noise lasers in orbit on board the ESA SWARM satellites that measure the magnetic field of the Earth. 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, where they help scientists better understand the planet and help smartphones navigate with higher precision by mapping the magnetic poles.



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.

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 in 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 different from e.g. telecommunication fibers in that they use 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 precision in measurements not possible with any other laser type.

Narrow linewidth low-noise lasers

The Koheras lasers are in many ways the exact opposite of the 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. Common to these systems is that they can measure temperature with high accuracy over many kilometres of optical fiber. Unlike electronic temperature measurements, 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 successfully pursued the strategic direction to grow the business and increase profitability by prioritizing focus on commercialization over focus mainly on scientific markets. NKT Photonics will continue to pursue commercialization of solutions and technologies in the years ahead to sustain further growth. This is supported by four strategic 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. It is also a natural consequence of the change in the 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, the company's product and competence matrix is more balanced. The new businesses have been integrated as part of NKT Photonics and serve as an important part of the growth platform for the years ahead. NKT Photonics will continue to invest in growing 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 become increasingly important to improve profitability and manage working capital. The various manufacturing sites are tied together with centralized functions like purchasing and order handling. Responsibility for operating these sites as efficiently as possible across borders and for driving the LEAN process are anchored under 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.

Financial and business review

2019 was another year of growth for NKT Photonics with a revenue increase of 10% organically. This led to improved EBITDA compared to 2018. The order intake increased by 20% to drive future growth. The free cash flow was negative in 2019 as NKT Photonics increased investments to be prepared for future growth opportunities.

Revenue growth driven by Aerospace & Defence

The revenue in NKT Photonics increased to EUR 74.6m in 2019, up from EUR 67.7m in 2018. Despite fewer larger projects than anticipated towards the end of 2019, organic growth of 10% was achieved. This exceeded the performance for the broader photonics industry.

The increased revenue was driven by NKT Photonics' strengthened presence in the Aerospace & Defence industry, where the company's solutions are in demand. Geographically, revenue growth was highest in the largest region, Europe, while positive progress was also delivered in the US.

Underlying increase in EBITDA

Driven by the higher revenue, NKT Photonics lifted EBITDA to EUR 14.6m in 2019 from EUR 9.0m in 2018. This development demonstrated the operational leverage in the business, but also included positive non-recurring items related to reversals of provisions and revaluations that added around EUR 2m to EBITDA in 2019.

Additionally, the implementation of IFRS 16 increased EBITDA for 2019 by EUR 1.9m against 2018.

The EBITDA margin was 19.6% in 2019, compared to 13.3% the previous year.

Employee recruitment in NKT Photonics increased across 2019, reflecting the need for additional resources to pursue further growth opportunities. The total FTE count at end-2019 was up by 54 compared to the previous year and will have full-year impact in 2020.

EBIT and net result

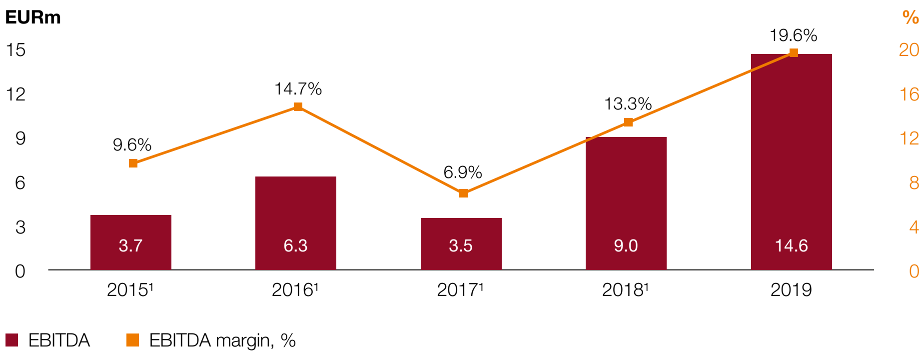
The positive development in EBITDA drove higher EBIT, which amounted to EUR 4.7m in 2019 against EUR 1.1m in 2018.

NKT Photonics increased its net result to EUR 2.5m in 2019, against EUR 2.0m in 2018. The tax rate in 2019 was 36%, negatively impacted by items related to prior years.

Working capital increased in line with revenue

At end-2019, the working capital amounted to EUR 28.2m, up from

EBITDA



1 *2015–2018 figures have not been restated following the implementation of IFRS 16 Leases.*

EUR 24.0m at end-2018. The working capital has increased with revenue and was particularly impacted by high revenue towards the end of 2019. The level of working capital was stable during Q4 2019.

The free cash flow (excl. acquisitions and divestments) amounted to EUR -9.5m in 2019, compared to EUR -7.7m in 2018. The heightened level of investment in 2019 related to continuing R&D development, opening of the Boston facility and implementation of a new ERP system.

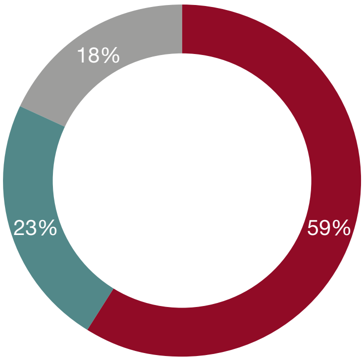
Order intake up by 20%

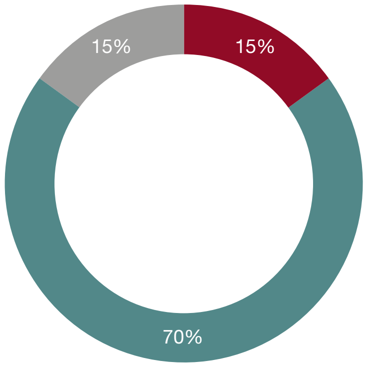
NKT Photonics' order intake was above revenue in 2019 and will thereby support growth in the years ahead. The intake grew by 20% from 2018 to 2019 and was similar to revenue, mainly driven by the Medical & Life Science and Aerospace & Defence segments.

Earnings growth led to higher RoCE

Driven by the improvement in earnings, NKT Photonics increased RoCE from 1.6% in 2018 to 4.9% in 2019. The capital employed amounted to EUR 104.4m at end-2019, up from EUR 78.6m at end-2018 due to increased level of investment and implementation of IFRS 16.

Revenue distribution 2019





Revenue development and organic growth

Amounts in EURm	
2018 revenue	**67.7**
Currency effect	0.6
Acquisitions	0.0
Divestments and reclassifications	-0.3
2018 adjusted revenue	**68.0**
Organic growth	6.6
2019 revenue	**74.6**
Organic growth %	**10%**

Medical & Life Science

In 2019, Medical & Life Science was dominated by large customers within bio-imaging, microscopy, and ophthalmology. The growth in the business was driven by both the large customers as well as various smaller players within the field as, especially, supercontinuum and ultrafast lasers gained traction within medical and life science applications.

Industrial

Various sectors within the industrial segment experienced headwinds in 2019, where especially the Chinese industrial market and lasers for automotive production slowed down. However, NKT Photonics has limited exposure to those sectors and a relatively diverse industrial product portfolio. Consequently, the company registered growth in the Industrial segment as the market slowdown had less impact across product lines in 2019.

Aerospace & Defence

With a doubling of the revenue, the primary area of growth in 2019 was Aerospace & Defence. Driven by dedicated focus and extra resources, several new projects were secured and existing delivered growth. Two of the noticeable projects that were announced during 2019 were a directed energy program with Rheinmetall Waffe und Munition and a large-scale secure data network project in India with The Ava Group's technology division, Future Fibre Technologies (FFT), and their in-country manufacturing partner, SFO Technologies.

Risk management

In 2019, NKT Photonics executed on its commercialization strategy, resulting in another year of organic growth. Combined with continuously changing market challenges, this has been among the key considerations in the management of risks and opportunities for the company.

The Board of Directors and the NKT Photonics Leadership Team review the company's Enterprise Risk Management (ERM) model on an ongoing basis to ensure that risk management is always one step ahead of developments. Continuous change of market conditions has been part of the key considerations in the management of risks and opportunities for the company.

In 2019, NKT Photonics successfully implemented a new ERP system that effectively aligns the company's business processes globally - including past years' acquisitions - as one entity. The new ERP system has strengthened transparency and processes across the organization – supporting timely and relevant decision-making.

With the acquired businesses now fully integrated and the ERP system rolled out, Risk 2 has been changed from last year. *Cyber risk* has been included as a primary specific risk driven by the external environment.

NKT Photonics risk matrix

Note: Risk 2 is new in 2019 compared to 2018

Risk	Risk identification	Monitoring	Mitigating actions
1	Current market leaders find alternatives to NKT Photonics, enabling them to compete in the form of new technology.	Continued focus on internal research and development of new technology and shifts in customer demands.	Ongoing development and improvement of offerings, and protection by patents, etc.
2	Failure to adequately protect the company's IT infrastructure and main IT systems from security risks could lead to disclosures of confidential or sensitive information, stolen digital assets resulting in reputational damage, and loss of competitive position.	Identify and understand the development of threats related to IT and information security.	Continuously address such risks by processes and tools designed and deployed to protect sensitive business information from malicious threats and security breaches.
3	Intellectual Property (IP) Rights relating to commercial opportunities are challenged either by infringements or lawsuits.	Closely supervise the specific area of technology and track the development and registration of IP inside and outside the company.	Pursue competitors violating IP, and continuously build on existing strength by further IP development and registration.
4	Dependence on key suppliers constitutes a risk in case of delivery issues, quality issues or price increases.	Perform early quality control of purchased materials and services, and continuously evaluate key supplier performance and options for dual supply.	Selective implementation of dual sourcing wherever possible, and avoidance of critical dependency on single-source components as far as possible through design solutions.
5	Unable to identify, attract, motivate and retain talents.	Focus on existing personnel through employee engagement surveys and dialogue. Continuous dialogue with talents from the industry and education clusters in order to attract new people.	Cooperation with universities to ensure recognition and focus from students and schools, and effective succession planning for senior employees.

Note: The risks are not shown in prioritized order

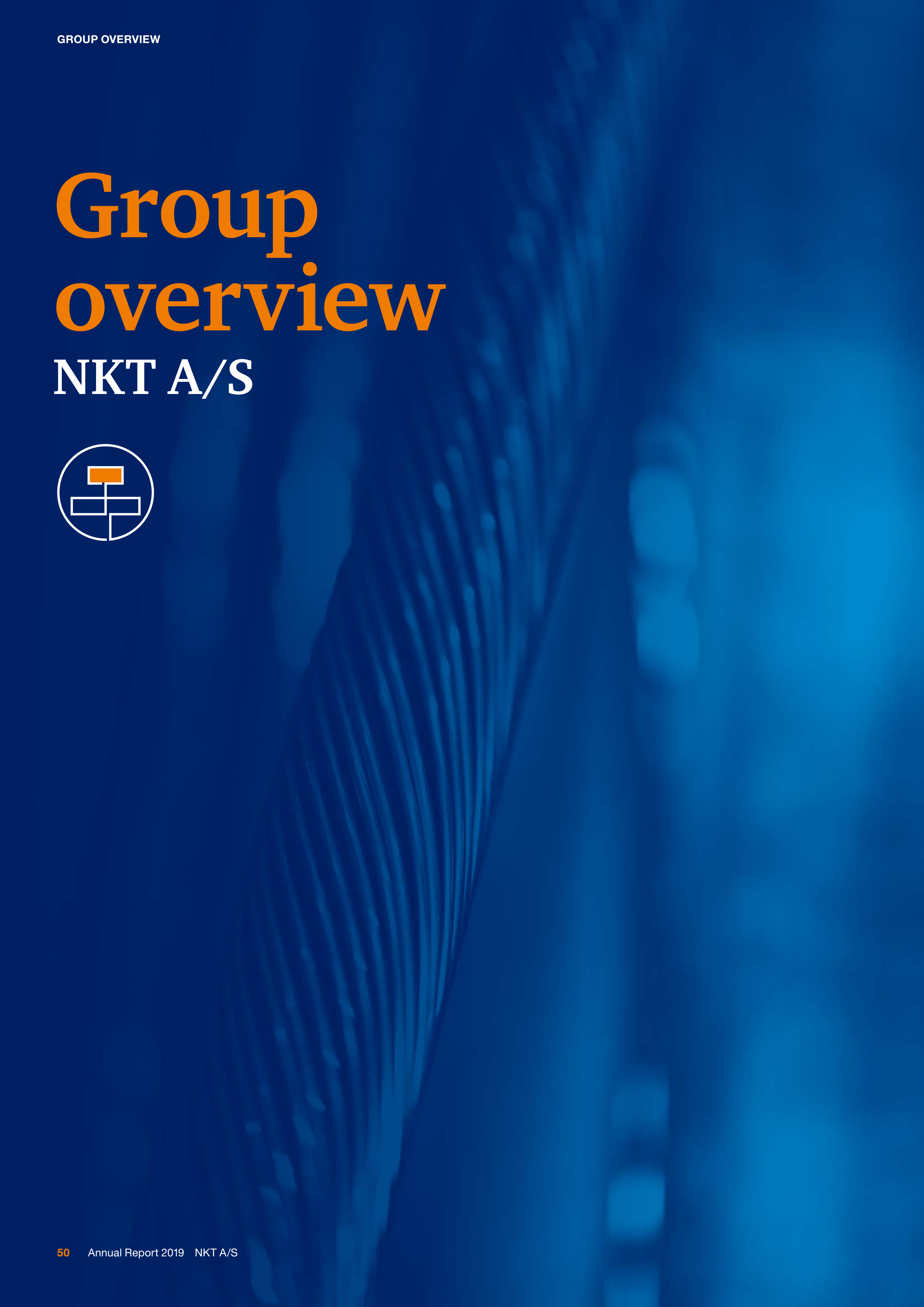
NKT Photonics Leadership Team

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



Group overview

NKT A/S

Group financials – NKT A/S

Operational EBITDA and EBIT

The NKT Group reported operational EBITDA of EUR 29.7m in 2019, against EUR 79.3m in 2018. This was due to the expected decreased profitability in the Group's power cable business, NKT. The operational EBITDA margin* declined from 6.9% in 2018 to 2.9% in 2019.

The implementation of IFRS 16 increased operational EBITDA for 2019 by EUR 6.4m against 2018.

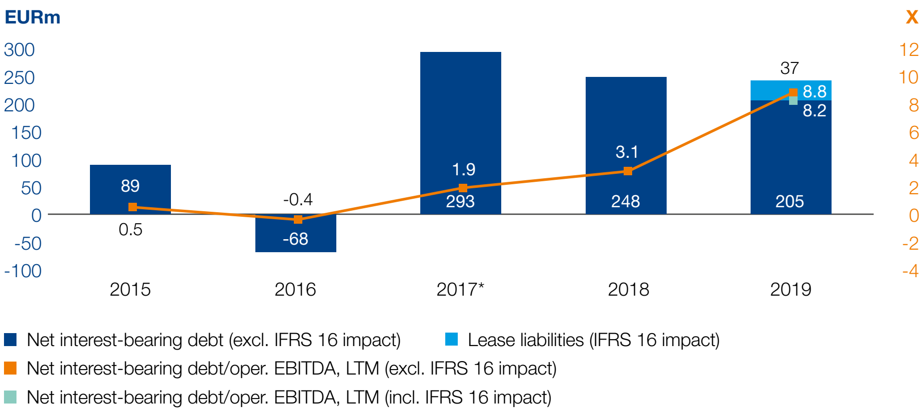
EBIT decreased in 2019 to EUR -83.0m from EUR -37.5m in 2018, driven by lower profitability in NKT.

Financial items and net result

The net financial items in 2019 amounted to EUR -12.3m compared to EUR -8.0m in 2018. The financial items primarily consisted of interest costs on debt, and also included interest expenses on leases in 2019 as a result of IFRS 16. Earnings before tax therefore comprised EUR -95.3m in 2019, compared to EUR -45.5m in 2018.

The NKT Group reported an effective tax rate of 20.2% in 2019. Adjusted for an unrecognized deferred tax asset and adjustment for prior years, the tax rate was 27.9%. The net result in 2019 amounted to EUR -76.0m, against EUR -46.3m in 2018.

Net interest-bearing debt



For the 2017 leverage ratios, pro forma EBITDA for the acquired ABB HV Cables activities has been added to LTM EBITDA in the period when NKT was not the owner of ABB HV Cables. The pro forma EBITDA was based on ABB HV Cables' estimated average annual pro forma EBITDA of EUR 79m for 2014–2016.

Cash flow

In 2019, the cash flow from operating activities amounted to EUR 125.0m, a significant increase compared to 2018. The primary driver for this growth was the favourable development in working capital in NKT.

The cash flow from investing activities amounted to EUR -66.8m in 2019, which was EUR 5.9m more than in 2018. The increased level of investments were both in NKT and NKT Photonics.

The cash flow from financing activities totalled EUR -79.5m in 2019 as the NKT Group repaid loans to credit institutions and paid the annual coupon payment of EUR 8.1m on the hybrid security in September 2019.

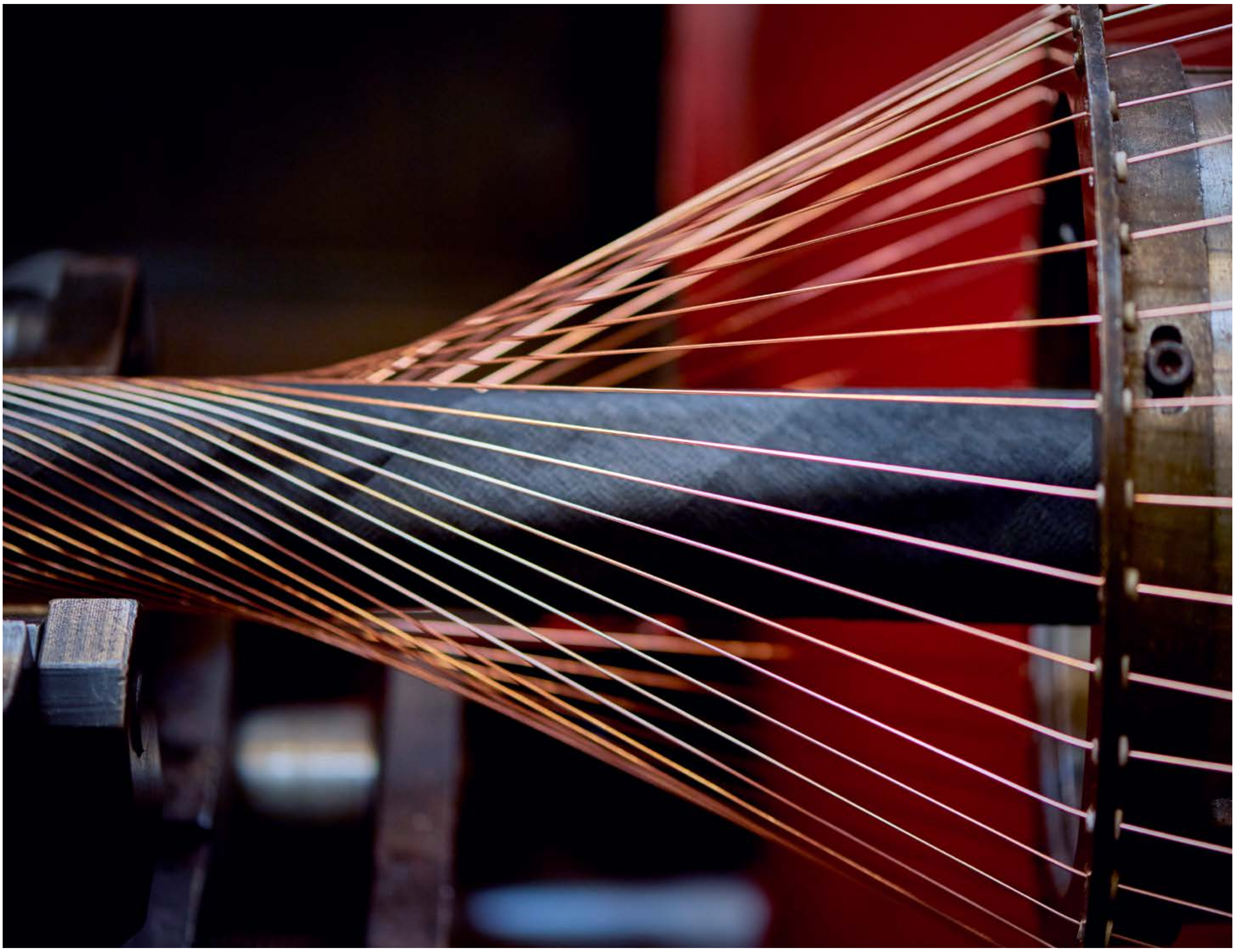
Liquidity, debt leverage and equity

The net interest-bearing debt, excluding the impact of IFRS 16, amounted to EUR 204.6m at end-2019, which was EUR 43.7m less than end-2018. The improvement was mainly due to the favourable development in working capital. The corresponding net interest-bearing debt at end-2019, including IFRS 16 impact, was EUR 242.2m.

2019 financial development by business

	Revenue*			Oper. EBITDA			Oper. EBITDA margin*	
Amounts in EURm	**2019**	**2018**	**Change**	**2019**	**2018**	**Change**	**2019**	**2018**
NKT	945.0	1,080.1	-135.1	15.1	70.2	-55.1	1.6%	6.5%
NKT Photonics	74.6	67.7	6.9	14.6	9.0	5.6	19.6%	13.3%
Other/eliminations	-0.3	-0.7	0.4	0.0	0.1	-0.1		
NKT A/S	**1,019.3**	**1,147.1**	**-127.8**	**29.7**	**79.3**	**-49.6**	**2.9%**	**6.9%**

* *Std. metal prices*



At 31 December 2019, net interest-bearing debt relative to operational EBITDA amounted to 8.8x, excluding IFRS 16 impact (8.2x including IFRS 16 impact), compared to 3.1x at the end of 2018. This development was in line with expectations due to the anticipated decrease in profitability.

At end-2019, the NKT Group had drawn EUR 46m on its committed EUR 300m revolving credit facility.

NKT A/S has sufficient financial headroom to manage the level of activity expected in 2020. The company targets a leverage ratio of up to approx. 1.5x. This is to be achieved through improvement in earnings and reduction of the net interest-bearing debt in the years ahead.

At end-2019, NKT A/S had total available liquidity reserves of EUR 266.7m, comprising cash of EUR 6.9m and undrawn credit facilities of EUR 259.8m. Group equity, including the hybrid security issued in Q3 2018, amounted to EUR 803.8m. The solvency ratio was 45%.

Financial review Q4 2019

Organic growth in Q4 2019

16%
NKT

35%
Solutions

-4%
Applications

17%
Service & Accessories

15%
NKT Photonics

NKT

Primarily driven by growth in Solutions, the revenue* in Q4 2019 increased to EUR 262.2m compared to EUR 232.3m in Q4 2018. In the comparison period, the revenue also included EUR 4.8m from the divested railway activities. The revenue increase corresponded to organic growth of 16%.

Solutions delivered 35% organic growth, driven by ongoing progress on projects in Cologne and Karlskrona. In Q4 2018, the performance was negatively impacted by delays in two ongoing high-voltage projects due to external factors.

Applications delivered organic growth of -4%. Germany was the main positive growth contributor, while sales decreased in France and Scandinavia.

Service & Accessories reported organic growth of 17% in Q4 2019, driven by a continuation of the positive development that characterized the Accessories business throughout the year.

NKT increased operational EBITDA to EUR 1.2m in Q4 2019 from EUR -8.4m in Q4 2018. This was due to improved earnings in Solutions after a subdued end to 2018 when project delays impacted profitability. In Applications, profitability was unsatisfactory due to the lower level of revenue.

NKT Photonics

In 2019, as in previous years, Q4 was the strongest period for NKT Photonics. The revenue amounted to EUR 25.5m in Q4 2019, up from EUR 22.5m in Q4 2018. This equalled organic growth of 15%, in line with the most recently announced financial outlook.

The growth performance in Q4 2019 was driven by improved sales in the Aerospace & Defence segment and of ultrafast lasers.

NKT Photonics' EBITDA of EUR 7.2m in Q4 2019 was down from EUR 8.0m in Q4 2018. The relatively higher cost base should be seen in the light of the company investing in a continued growth platform, which included hiring more than 20 employees in Q4 2019.

Financial development in Q4

	Revenue*			Oper. EBITDA			Oper. EBITDA margin*	
Amounts in EURm	**Q4 2019**	**Q4 2018**	**Change**	**Q4 2019**	**Q4 2018**	**Change**	**Q4 2019**	**Q4 2018**
NKT – Solutions	142.6	111.1	31.5	5.6	-9.4	15.0	3.9%	-8.5%
NKT – Applications	92.4	96.5	-4.1	-2.6	1.2	-3.8	-2.8%	1.2%
NKT – Service & Accessories	30.6	31.5	-0.9	2.5	4.0	-1.5	8.2%	12.7%
Eliminations / non-allocated costs	-3.4	-6.8	3.4	-4.3	-4.2	-0.1		
NKT	**262.2**	**232.3**	**29.9**	**1.2**	**-8.4**	**9.6**	**0.5%**	**-3.6%**
NKT Photonics	25.5	22.5	3.0	7.2	8.0	-0.8	28.2%	35.6%
Eliminations	0.0	-0.2	0.2	0.0	0.1	-0.1		
NKT A/S	**287.7**	**254.6**	**33.1**	**8.4**	**-0.3**	**8.7**	**2.9%**	**-0.1%**

* *Std. metal prices*

Shareholder information

NKT A/S shares

The average daily turnover in NKT A/S shares on all trading markets was EUR 4m in 2019, compared to EUR 10m in 2018. The average daily trading volume was 256,000 shares in 2019, against 431,000 in the previous year. Nasdaq Copenhagen was the main trading market for the company's shares with 53% of the total traded volume in 2019. This was a slightly lower proportion than in 2018.

The NKT A/S share price was DKK 160.80 at end-2019, compared to DKK 88.95 at end-2018, equal to a share price return of 81%. NKT A/S did not pay dividend to shareholders in 2019. The dividend-adjusted share price returns for the company's largest European competitors, Prysmian and Nexans, were 30% and 80%, respectively. The Danish OMX C25 index, adjusted for dividends, increased by 29% in 2019.

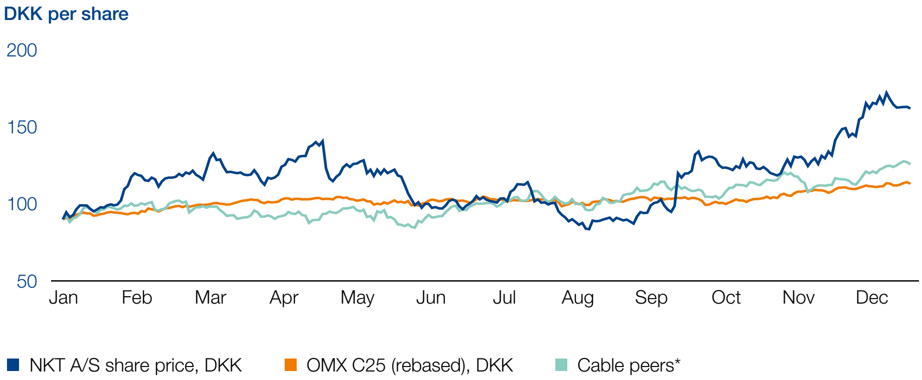
NKT A/S is included in the Nasdaq Copenhagen Mid Cap index.

The total share capital of NKT A/S consists of 27,260,115 shares, each with a nominal value of DKK 20, corresponding to a total nominal share capital of EUR 73.2m (DKK 545,202,300). In December 2019, the share capital was increased by the issue of 133,746 shares of a nominal value of DKK 20 each as a number of former employees exercised their warrants from the share option programme issued in 2015.

Dividend policy

The company's dividend policy targets pay-out of approximately one third of profit for the year, provided the capital structure allows for it. Further excess cash may be distributed as share buybacks or extraordinary dividends.

NKT A/S Share price



** Cable peers are: Nexans S.A. and Prysmian S.p.A.*

Based on the net result in 2019 no dividend payment is proposed in 2020 as the result was negative and the leverage ratio (net interest-bearing debt relative to operational EBITDA) is currently higher than the targeted level of 1.5x.

Shareholder structure

The NKT A/S share is 100% free float with no dominant shareholders. At end-2019, the company had approx. 23,900 registered shareholders, compared to approx. 26,300 at end-2018. 98% of the registered shareholders were Danish, the same level as at the end of 2018. At end-2019, 94% of the total share capital was registered, up from 91% at end-2018.

At end-2019, five NKT A/S investors had reported shareholdings of between 5.00–9.99%:

- ATP (Denmark)
- Ferd AS (Norway)
- Greenvale Capital (UK)
- 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 43,716 NKT A/S shares at the end of 2019, corresponding to a total market value of EUR 0.9m. Members of the Executive Management team did not own shares. 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 period of four weeks after publication of financial statements provided that no inside knowledge is possessed.

See number of shares held by the Board of Directors and the Executive Management on pages 62-64.

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 there is a diversified shareholder base 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 200 annual meetings and roadshows in Denmark and internationally, while private investors have an opportunity to meet the Board of Directors and the business managements at the company's AGM.

The Investor section on the NKT website includes information such as current and historical share data, presentations and a list of financial analysts who monitor the development in the company's shares. Interested parties can also subscribe to news releases.

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 73m (DKK 545m)

Number of shares: 27.3 million

Nominal value: DKK 20

Share classes: 1

Financial calendar 2020

26 Mar: Annual General Meeting

13 May: Interim Report, Q1 2020

19 Aug: Interim Report, Q2 2020

18 Nov: Interim Report, Q3 2020

Sustainability

NKT A/S is a signatory to the UN Global Compact and has established corporate policies and rules which govern compliance by the group, its employees and business partners with laws and regulations and with the company's Business Code of Conduct. Furthermore, NKT A/S is committed to supporting the environment through sustainable business processes, and thereby minimizing the impact of the company's solutions, activities and operations.

NKT A/S is firmly committed to ensuring equal treatment for all its employees. As part of this focus, the workforce composition is continuously monitored, and every effort is made to promote equality of gender representation.

The NKT A/S Sustainability Report 2019 defines the compliance with Section 99a (CSR) and Section 99b (Diversity) of the Danish Financial Statements Act. The report also includes communication on progress within the principles of the UN Global Compact.

Find more detailed information in NKT's Sustainability Report 2019 on www.nkt.com/sustainability-report-2019.

NKT

NKT is a central player in the global transition to renewable energy, and the power cable solutions offered by the company provide the backbone for the expansion in the power grid necessary for this transition. NKT's performance in support of the green transition is based on rules for responsible and ethical behaviour defined in the Business Code of Conduct.

NKT is committed to supporting the reduction of carbon emissions in all its activities and seeks continuously to reduce the environmental impact of its solutions and operations. In 2019, the company took the key step of transitioning both its high-voltage factories to operation based on renewable energy. The ambition is to have all company manufacturing sites operating on green electricity by end-2020, thereby significantly reducing the company's carbon footprint.

NKT promotes diversity and equality company-wide in line with principles for responsible and ethical behaviour set out in the company's Business Code of Conduct.

Furthermore, NKT aims to conduct business in accordance with the UN Sustainable Development Goals (SDGs), which define the most important global challenges.

NKT Photonics

NKT Photonics manufactures a wide range of products used in solutions that have a long-term perspective of supporting the transition to renewable energy and improving human health and safety.

Products from NKT Photonics are marketed and sold with a reputation for high quality and rely upon significant investment and R&D. It is therefore crucially important for the company that all industry players compete on fair terms, and no forms of bribery or other acts contributing to unfair competition will be tolerated.

As a company at the cutting edge of photonics technology it is vital that NKT Photonics can attract highly committed, top-qualified people and provide them with incentive to do their best. Consequently, the company strives to offer its employees a good, stimulating and challenging work environment with ongoing dialogue on development, performance and goals at both a personal and job-related level.

Environment, Social and Governance Data 2019

	Unit	2019	2018
NKT A/S			
Employees, end of period	FTE	3,706	3,768
Gender diversity, senior management* (% of females)	%	19	18
Gender diversity, Board of Directors (% of females)	%	17	17
Board meeting attendance	%	92	95
NKT			
Employees, end of period	FTE	3,303	3,419
CO_2 emissions**	Tonnes	74,319	64,844
Lost Time Accident Rate***	LTAR	0.73	0.51
Employee Engagement Index	EEI	65	61
NKT Photonics			
Employees, end of period	FTE	403	349
Employee injuries	#	6	1
Injuries by high-intensity light	#	0	0

* *The senior leadership level in NKT consists of the Extended Leadership Team, including members of the Executive Group Leadership Team. In NKT Photonics it is defined as the Global Management Team.*

** *Including direct CO_2 emissions from gas and fuel consumption and inderect CO_2 emissions from consumption of purchased electricity and district heating and emissions from corporate travel. The CO_2 emissions of 2019 was higher than in 2018 due to improved reporting and changes in the purchased energy mix at several manufacturing sites negatively impacting our CO_2 emissions.*

*** *Lost Time Accident Rate (LTAR) is a standardized way to measure and compare accident frequency in organizations. From 2020 LTAR will be replaced by Lost Time Injury Rate ((Number of LTI x 200,000) / worked hours) due to implementation of new KPI framework.*


NKT
40
km

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 (AGM), and all were re-elected at the AGM in March 2019. The Board of Directors also comprises three employee-elected members serving four-year terms. Three new members were elected for the period 2018–2022 at an ordinary election of employee representatives at the beginning of 2018.

Peter Wennevold, an employee-elected member, resigned from his position as Finance Business Partner at NKT with effect from 31 December 2019 and consequently stepped down from the Board. Thomas Torp Hansen, Production Manager at NKT Photonics, replaced him as a new member of the Board.

The AGM-elected Board members comprise one female and five males. The three employee-elected members are males. Of the six AGM-elected members, four live in Denmark, one lives 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. Roland M. Andersen, CFO of NKT A/S and NKT, who joined in 2015, has decided to leave the company no later than end-June 2020.

See pages 62–63 for particulars of the Board of Directors. See pages 34 and 49 respectively for the business leadership teams.

Committees

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

Furthermore, there is a committee specifically for NKT Photonics.

Audit Committee

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

Corporate governance framework

- 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

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 relating 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, in June each year, and monitors the design and the effectiveness of the internal controls in June and in January.

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.

Scope

In 2019, the Audit Committee focused particularly on the company's continued strengthening of its internal controls and compliance framework, including the ongoing automation of key process controls and transfer of accounting tasks to the shared service centre in Lithuania. 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 i.a. policies for accounting, treasury, metal 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 whistleblower 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

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	8
Remuneration	Jutta af Rosenborg (Chair), Jens Maaløe	5
Nomination	Lars S. Sørensen (Chair), Andreas Nauen	4
NKT Photonics	Jens Maaløe (Chair), Jens Due Olsen	11

* *Members and meetings held in the period AGM 2019 – AGM 2020. Full terms of reference for the Audit, Remuneration and Nomination Committees 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 competitive pay 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 2020 the company will propose that the remuneration for the Board of Directors be unchanged from 2019. 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 Danish and other European companies of comparable size and complexity. No member of the Board of Directors will 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 89–92 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 CEO.

Self-assessments
The purpose of the annual self-assessments is to define competencies required within the Board of Directors, taking into account 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 2019.

The Board of Directors also performs an annual assessment of the Executive Management covering two main areas: the interaction between both 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 is to have at least two out six members represent the underrepresented gender among members elected at the Annual General Meeting. This target was not achieved for the Board of NKT A/S as there has been no changes in the composition of the Board. The ambition is maintained for 2020. 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-2019.

Terms of reference for the Nomination Committee 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 First elected in 2006 MSc. Econ 1990	**René Svendsen-Tune** Deputy Chairman Born 1955, Denmark First elected in 2016 BSc. Eng. (hon.)	**Jens Maaløe** Born 1955, Denmark First elected in 2004 MSc. E.Eng. 1979 PhD. 1983	**Andreas Nauen** Born 1964, Germany First elected in 2017 BSc. Mechanical Eng. 1991	**Jutta af Rosenborg** Born 1958, Denmark First elected in 2015 State-Authorized Public Accountant 1992 MSc. Business Economics and Auditing 1987
NKT Committees	▪ NKT Photonics		▪ Remuneration ▪ Audit ▪ NKT Photonics (C)	▪ Nomination	▪ Audit (C) ▪ Remuneration (C)
Other positions and directorships	▪ Nilfisk Holding A/S, Chairman ▪ KMD A/S, Deputy Chairman ▪ Diego HC Topco A/S (Huscompagniet), Chairman ▪ Danske Bank A/S ▪ BørneBasketFonden (non-profit foundation), Chairman ▪ Danish Corporate Governance Committee	CEO, GN Store Nord A/S and GN Audio A/S ▪ Nilfisk Holding A/S ▪ Stokke AS, (C)	▪ Poul Due Jensens Fond, Chairman ▪ Grundfos Holding A/S, Chairman of Technology Committee ▪ Danish Technology Institute, Vice Chairman ▪ Niras A/S, Vice Chairman ▪ OMT A/S (Odense Maritime Technology)	CEO Offshore, Siemens Gamesa Renewable Energy ▪ Semco Maritime A/S	▪ Nilfisk Holding A/S, Chairman of Audit and Remuneration Committee ▪ Standard Life Aberdeen, Remuneration and Audit Committee ▪ JPMorgan European Investment Trust plc, Chairman of the Audit Committee ▪ PGA European Tour, Chairman of the Audit and Risk Committee ▪ BBGI SICAV S.A., Chairman of the Audit Committee
NKT shares at 31 December 2019	36,706	4,000	515	0	0
Special qualifications	▪ Industrial management ▪ Management of listed companies ▪ Specialist expertise in economic and financial matters	▪ International management ▪ Management of listed companies ▪ Specialist expertise in technology, service businesses and large account sales	▪ Industrial management ▪ Management of listed companies ▪ Specialist expertise in technology and technological development	▪ International and industrial management ▪ Management of listed companies ▪ Specialist expertise in technology and large infrastructure projects	▪ International management ▪ Management of listed companies ▪ Transformation and optimization of businesses ▪ Risk management ▪ Finance and controlling

(C) = Chairman




	Lars Sandahl Sørensen Born 1963, Denmark First elected in 2013 MSc. Int. Business and Management	**Jack Ejlertsen** Born 1987, Denmark First elected in 2018 Operator and team coordinator, NKT (Denmark) A/S Elected by the employees	**Thomas Torp Hansen** Born 1985, Denmark First elected in 2018 Production Manager, NKT Photonics A/S Elected by the employees	**Stig Nissen Knudsen** Born 1969, Denmark First elected in 2018 Senior Production Engineer, NKT Photonics A/S Elected by the employees
NKT Committees	▪ Nomination (C)			
Other positions and directorships	CEO, Confederation of Danish Industry ▪ ATP ▪ Fund of 3 June ▪ Industry Foundation of Denmark ▪ Nilfisk Holding A/S ▪ Pension Danmark			
NKT shares at 31 December 2019	2,495	0	0	0
Special qualifications	▪ International services management ▪ Management of listed companies ▪ Specialist expertise in leadership development, operations excellence and sales and marketing			

(C) = Chairman

Executive Management

	Alexander Kara President & CEO Born 1961, Germany Joined NKT in 2019 MSc. Electrical Technology 1986 IMD Development Program XII 2011	**Roland M. Andersen** CFO Born 1968, Denmark Joined NKT in 2015 MSc. Corporate Finance 1993 Executive Management Programme 1999
NKT positions	▪ President & CEO and Member of Executive Management 2019	▪ Member of Executive Management 2018 ▪ CFO NKT 2015
Directorships	▪ –	▪ –
NKT shares at 31 December 2019	0	0

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 2019.

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 2019 and of the results of the Group's and the Company's operations and cash flow for the financial year 1 January – 31 December 2019.

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, 26 February 2020

Executive Management

Alexander Kara *President & CEO*	Roland M. Andersen *CFO*

Board of Directors

Jens Due Olsen *Chairman*	René Svendsen-Tune *Deputy Chairman*	Jack Ejlertsen*
Thomas Torp Hansen*	Stig Nissen Knudsen*	Jens Maaløe
Andreas Nauen	Jutta af Rosenborg	Lars Sandahl Sørensen

** 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 01.01.2019 – 31.12.2019, 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 31.12.2019, and of the results of their operations and cash flows for the financial year 01.01.2019 – 31.12.2019 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 7 years up to and including the financial year 2019.

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 01.01.2019 – 31.12.2019. 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 sections 1.3, 2.2, 4.2 and 4.3 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 31.12.2019 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 sections 1.3, 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 2020 and financial forecasts for 2021–2025, 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 2020 and financial forecasts for 2021–2025. 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 sections 1.3 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 2020 and financial forecasts for 2021–2024.

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 2020 and financial forecasts for 2021–2024 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 review

Management is responsible for the management review.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management review, 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 review and, in doing so, consider whether the management review 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 review provides the information required under the Danish Financial Statements Act.

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

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, 26.02.2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Kirsten Aaskov Mikkelsen
State-Authorised Public Accountant
MNE no mne21358

Lars Siggaard Hansen
State-Authorised Public Accountant
MNE no mne32208

Consolidated financial statements

Income statement

1 January – 31 December

Amounts in EURm	Section	2019	2018[1]
Revenue	2.1/2.2	1,342.4	1,501.6
Other operating income		10.7	11.9
Changes in inventories of finished goods and work in progress		1.1	-0.4
Work performed by the Group and capitalized		14.0	13.6
Costs of raw materials, consumables and goods for resale		-883.3	-988.6
Staff costs	2.3/2.4	-266.3	-277.8
Other costs	2.5/6.1/7.1	-200.9	-210.4
Share of profit after tax in associates		0.0	-0.1
Earnings before interest, tax, depreciation and amortization (EBITDA)		**17.7**	**49.8**
Depreciation of property, plant and equipment	3.2	-75.1	-66.4
Amortization of intangible assets	3.1	-25.6	-20.9
Earnings before interest and tax (EBIT)		**-83.0**	**-37.5**
Financial income	5.5	33.2	65.5
Financial expenses	5.5	-45.5	-73.5
Earnings before tax (EBT)		**-95.3**	**-45.5**
Tax	2.6	19.3	-0.8
Net result		**-76.0**	**-46.3**
To be distributed as follows:			
Equity holders of NKT A/S		-84.1	-48.7
Hybrid capital holders of NKT A/S		8.1	2.4
Net result		**-76.0**	**-46.3**
Basic earnings, EUR, per share (EPS)	5.2	-3.1	-1.8
Diluted earnings, EUR, per share (EPS-D)	5.2	-3.1	-1.8

The Board of Directors proposes a dividend for the year of DKK 0.0 per share (2018: DKK 0.0 per share) for approval at the Annual General Meeting.

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 ‘Implementation of new or amended accounting standards and interpretations’ provide selected comparison figures according to the previous standard.

Statement of comprehensive income

1 January – 31 December

Amounts in EURm	Section	2019	2018[1]
Net result		**-76.0**	**-46.3**
Other comprehensive income			
Items that may be reclassified to income statement:			
Foreign exchange adjustment, foreign companies		-6.5	-32.3
Value adjustment of hedging instruments:			
Value adjustment for the year		0.3	10.0
Transferred to costs of raw materials, consumables and goods for resale		1.6	0.4
Transferred to financial income		0.2	0.0
Tax on comprehensive income		-0.5	-2.6
Items that may not be reclassified to income statement:			
Actuarial gains/losses on defined benefit pension plans		-6.5	2.0
Tax on actuarial gains/losses		2.0	-0.2
Total other comprehensive income		**-9.4**	**-22.7**
Comprehensive income for the year		**-85.4**	**-69.0**
To be distributed as follows:			
Equity holders of NKT A/S		-93.5	-71.4
Hybrid capital holders of NKT A/S		8.1	2.4
Comprehensive income attributable to equity holders of NKT A/S		**-85.4**	**-69.0**

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

Balance sheet

31 December

Amounts in EURm	Section	2019	2018[1]
Assets			
Goodwill		397.4	401.2
Trademarks, patents and licences etc.		69.6	79.9
IT software		29.9	8.9
Completed development projects		40.2	27.6
Development projects in progress		39.2	41.0
Other intangible assets under construction		17.7	30.6
Total intangible assets	3.1/3.3	**594.0**	**589.2**
Land and buildings		294.5	267.0
Manufacturing plant and machinery		276.2	303.6
Fixtures, fittings, tools and equipment		47.2	51.9
Property, plant and equipment under construction, incl. prepayments		23.4	22.7
Total property, plant and equipment	3.2/3.3	**641.3**	**645.2**
Other investments and receivables		1.9	2.0
Deferred tax	2.6	49.8	27.7
Total other non-current assets		**51.7**	**29.7**
Total non-current assets		**1,287.0**	**1,264.1**
Inventories	4.1	229.7	219.8
Receivables	4.2	224.0	266.3
Contract assets	4.3	36.7	72.7
Income tax receivable		5.0	8.0
Interest-bearing receivables		0.1	0.1
Cash at bank and in hand		6.9	28.2
Total current assets		**502.4**	**595.1**
Total assets		**1,789.4**	**1,859.2**

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 ‘Implementation of new or amended accounting standards and interpretations’ provide selected comparison figures according to the previous standard.

Balance sheet

31 December

Amounts in EURm	Section	2019	2018[1]
Equity and liabilities			
Share capital	5.1	73.2	72.8
Reserves		-33.8	-28.9
Retained comprehensive income		612.0	699.3
Equity attributable to equity holders of NKT A/S		**651.4**	**743.2**
Hybrid capital		152.4	152.4
Total equity		**803.8**	**895.6**
Deferred tax	2.6	31.8	46.3
Pension liabilities	3.4	55.6	49.9
Provisions	3.5	14.6	18.5
Interest-bearing loans and borrowings	5.4	238.0	268.4
Total non-current liabilities		**340.0**	**383.1**
Interest-bearing loans and borrowings	5.4	11.2	8.2
Trade payables		286.3	270.4
Other liabilities		139.0	142.5
Contract liabilities	4.3	186.3	145.4
Income tax payable		1.9	0.8
Provisions	3.5	20.9	13.2
Total current liabilities		**645.6**	**580.5**
Total liabilities		**985.6**	**963.6**
Total equity and liabilities		**1,789.4**	**1,859.2**

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

Cash flow statement

1 January – 31 December

Amounts in EURm	Section	2019	2018[1]
Earnings before interest, tax, depreciation and amortization (EBITDA)		17.7	49.8
Non-cash operating items:			
Profit on sales of non-current assets, use and increase of provisions,			
and other non-cash operating items, etc.		0.2	-10.8
Changes in working capital	4.4	130.3	-76.0
Cash flow from operations before financial items, etc.		148.2	-37.0
Financial income received		33.2	65.4
Financial expenses paid		-45.4	-73.7
Income tax paid		-14.8	-10.0
Income tax received		3.8	13.1
Cash flow from operating activities		**125.0**	**-42.2**
Acquisition of businesses	6.1	-7.3	0.0
Divestment of businesses	6.1	9.5	0.0
Investments in property, plant and equipment		-34.4	-28.5
Disposal of property, plant and equipment		1.2	1.2
Intangible assets and other investments, net		-35.8	-33.6
Cash flow from investing activities		**-66.8**	**-60.9**
Free cash flow		**58.2**	**-103.1**
Repayment of loans	5.4	-68.1	-64.4
Proceeds from loans	5.4	0.0	3.5
Repayment of lease liabilities		-5.0	0.0
Coupon payments on hybrid capital		-8.1	0.0
Cash from issue of hybrid capital		0.0	148.3
Cash from issue of new shares / exercise of warrants		1.7	0.0
Cash flow from financing activities		**-79.5**	**87.4**
Net cash flow for the year		**-21.3**	**-15.7**
Cash at bank and in hand, 1 January		28.2	44.7
Currency adjustments		0.0	-0.8
Net cash flow for the year		-21.3	-15.7
Cash at bank and in hand, 31 December		**6.9**	**28.2**

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

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

Statement of changes in equity

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 2018	**72.8**	**4.0**	**-9.4**	**0.3**	**748.6**	**0.0**	**816.3**	**0.0**	**816.3**
Other comprehensive income:									
Foreign exchange translation adjustments		-31.6			-0.7		-32.3		-32.3
Value adjustment of hedging instruments:									
Value adjustment for the year			10.0				10.0		10.0
Transferred to consumption of raw materials			0.4				0.4		0.4
Actuarial gains/losses on defined benefit pension plans					2.0		2.0		2.0
Tax on other comprehensive income			-2.6		-0.2		-2.8		-2.8
Total other comprehensive income	**0.0**	**-31.6**	**7.8**	**0.0**	**1.1**	**0.0**	**-22.7**	**0.0**	**-22.7**
Net result					-48.7		-48.7	2.4	-46.3
Comprehensive income for the year	**0.0**	**-31.6**	**7.8**	**0.0**	**-47.6**	**0.0**	**-71.4**	**2.4**	**-69.0**
Transactions with owners:									
Issue of hybrid capital					-1.7		-1.7	150.0	148.3
Total transactions with owners in 2018[1]	**0.0**	**0.0**	**0.0**	**0.0**	**-1.7**	**0.0**	**-1.7**	**150.0**	**148.3**
Equity, 31 December 2018	**72.8**	**-27.6**	**-1.6**	**0.3**	**699.3**	**0.0**	**743.2**	**152.4**	**895.6**
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
Transferred 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		-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		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**

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

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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 or changed accounting standards and interpretations' and 1.3 'Key accounting 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 2019 comprises both the consolidated financial statements for NKT A/S and its subsidiaries (NKT Group) and separate financial statements for the parent company.

The 2019 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.

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 values 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 in according to NKT Groups 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 ruling at the reporting date. All adjustments are recognized in the income statement. Non-monetary items that are measured in terms of 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 the exchange rates prevailing at the dates of the transactions. 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

The provisions in IFRS contain extensive disclosure requirements. The specific disclosures required according to IFRS are stated in the Annual Report unless the disclosures concerned 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.

1.1 General accounting policies – continued

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 reconciled to IFRS measures in Section 2.1.

Going concern

Group Management is required to decide whether the financial statements can be presented on a 'going concern' basis. Based on estimated future prospects, expectations of future cash flows, existence of credit facilities, etc. it is Group Management's opinion that the financial headroom is sufficient to manage the level of activity expected in 2020 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 2019. Except for the implementation of IFRS 16 Leases described below, the implementation of new or amended standards and interpretations has not had any material impact on NKT Group's or Parent Company's financial statements.

Effect of IFRS 16 Leases

NKT Group has implemented IFRS 16 Leases effective for the annual reporting period beginning 1 January 2019. NKT Group has applied the modified retrospective transition approach without restating comparative figures, which are still presented as previously required by IAS 17 and IFRIC 4.

NKT Group has chosen to use the following exemptions proposed by the standard:

- Not to reconsider if existing contracts are, or include, a lease
- Not to recognize lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value
- Not to recognize any initial direct costs from the measurement of the right-of-use asset
- Apply only one discount rate for a group of similar lease assets

NKT Group recognizes all material operating leases – with the exemptions listed above – on the balance sheet as assets with a corresponding lease liability. The lease liability equals the discounted value of all future lease payments. The lease assets, right-of-use assets, corresponds at transition to the lease liability. Payments related to short-term leases and leases of low-value assets continue to be 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 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. Leases in NKT Group mainly comprise office and sales buildings and production facilities. The lease period of offices and sales buildings are assessed to be approximately 3–10 years and for production facilities 5–10 years. For other assets the life is equal to the non-cancellable lease period and extensions are not considered for these. 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 or, where this is not available, NKT Group's incremental borrowing rate as of 1 January 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.5%.

NKT has no leases where the rent is variable depending for instance 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.

Lease payments are allocated between the installment of liability and finance cost. The finance cost 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.

In the cash flow statement the finance cost is presented under cash flows from operating activities and the instalment as repayment of debt under cash flow from financing. As lease payments was previously presented as cash flows from operating activities, free cash flow is thus increased by the amount of installments on the leases.

The implementation of IFRS 16 did not have a material impact on Earnings per share (EPS) and Earnings per share diluted (ESP-D).

1.2 Implementation of new and amended accounting standards and interpretations – continued

Reconciliation of operating lease commitments disclosed in the Annual Report 2018 and lease liabilities recognized in the balance sheet at 1 January 2019:

Amounts in EURm	
Rent and lease obligations reported 31 December 2018 (IAS17)	84.4
Changes to leases in the opening balance	-13.8
Rent and lease obligations 31 December 2018 (IAS17)	70.6
Discounting effect with alternative borrowing rate at 1 January 2019	-20.2
Not recognized leases including low value and short term leases	-13.5
Lease liabilities recorded at 1 January 2019	**36.9**

The impact from implementing IFRS 16 Leases in 2019 is shown below.

IFRS 16 Impact 2019

	2019		
Amounts in EURm	Reported	IFRS 16 impact	Figures before IFRS 16 impact
Operational EBITDA, NKT	15.1	4.5	10.6
Operational EBITDA, NKT Photonics	14.6	1.9	12.7
Operational EBITDA, NKT Group	**29.7**	**6.4**	**23.3**
EBIT, NKT	-87.7	0.9	-88.6
EBIT, Photonics	4.7	0.2	4.5
EBIT, NKT Group	**-83.0**	**1.1**	**-84.1**
Net result, NKT	-78.5	-0.2	-78.3
Net result, Photonics	2.5	-0.1	2.6
Net result, NKT Group	**-76.0**	**-0.3**	**-75.7**
Total assets NKT Group, 31 December 2019	1,789.4	37.2	1,752.2
Net interest-bearing debt NKT Group, 31 December 2019	242.2	37.6	204.6
Net interest-bearing debt relative to oper. EBITDA NKT Group, 31 December 2019	8.2x		8.8x

IFRIC 23
IFRIC 23 on uncertain tax positions was implemented in 2019. This had no material impact on the consolidated financial statements.

Accounting policies established in 2019
In September 2018, NTK Group issued EUR 150,000,000 Callable Subordinated Capital Securities due in 3018. In September 2019, management decided to pay out interest on the loan. The fair value of the instrument (Hybrid Capital) is classified as equity. Payments of interest on the Hybrid Capital (treated as dividend) is according to current tax legislation deductible for income tax purposes. The tax effect is recorded, in accordance with the updates to IAS 12, in the income statement as this is considered distribution of earnings and not in equity where the effect of the dividend paid is recorded.

New standards, interpretations and amendments not yet adopted by NKT Group
Certain new accounting standards and interpretations have been published that are not mandatory for reporting periods ending at 31 December 2019 and have not been early adopted by NKT Group. These standards are expected not to have a material impact on NKT Group in the current or future reporting periods.

1.3 Significant judgements and estimates

Significant judgements and estimates

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

Estimates regarding future developments are regularly reassessed based on historical experience and other factors which Group Management assesses to be reliable, but which, by their nature, are associated with uncertainty and unpredictability. These assumptions may prove incomplete or incorrect, and unexpected events or circumstances may arise.

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 project is subject to uncertainty.

Impairment assessment of NKT Group's assets is based on expected future cash flows, see Section 2.6 and 3.3. In the near future, NKT Group expects a number of significant interconnector projects especially in Europe to be awarded in addition to the growth in the offshore wind market. It is an underlying assumption that NKT will be awarded its fair share of these projects. Assessing the future awards to NKT and cash flows/earnings is by nature subject to uncertainty, and the value-in-use calculations are sensitive to this.

Particular risks referred to in the 'Risk management' sections of Group Management's review and in Section 5.5 Financial risks to the consolidated financial statements as well as Section 7.3 Contingent liabilities, may have substantial influence on the financial statements.

Significant accounting estimates

Significant accounting estimates are expectations of the future based on assumptions, that to the extent possible are supported by historical trends, reasonable expectations based on the current situation in capital markets and other relevant factors. Estimates used in this Annual Report are considered the most likely outcome of future events.

Significant accounting judgements

Significant accounting judgements are made when applying accounting policies. Key accounting judgements are the judgements made, that can have a significant impact on the amounts recognized in the financial statements.

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

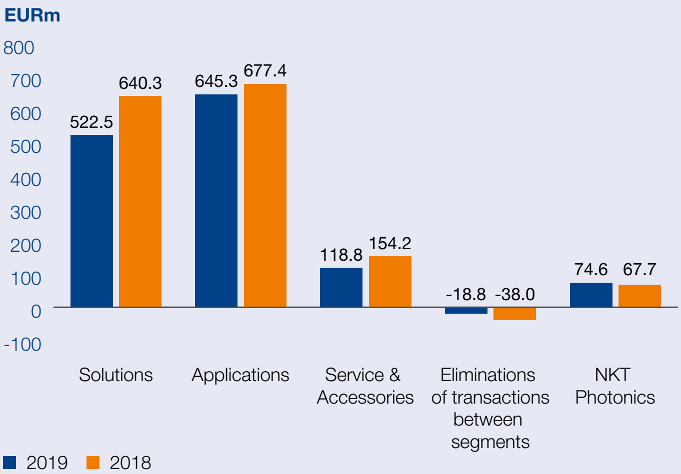
Section	Label	Significant accounting estimate or judgement	Estimate/judgement
2.2	Revenue	Determine recognition method for projects (PoC)	Judgement
4.2	Construction contracts	Valuation of construction contracts	Estimate
2.6	Tax	Estimate the value of deferred tax asset	Estimate
3.3	Impairment of assets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

Section 2 – Profit for the year

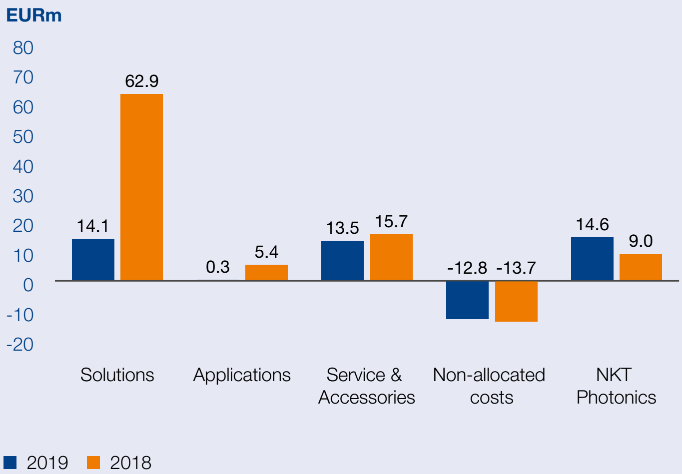
This section relates to profit for the year, including revenue, segment information, staff costs, share-based payments, research and development costs and tax.

Key developments 2019

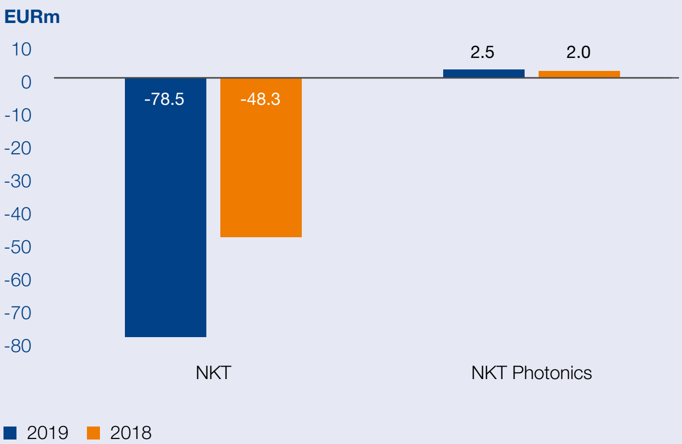
Revenue in market prices (Amounts in EURm)



Operational EBITDA (Amounts in EURm)



Net result (Amounts in EURm)



In 2019, NKT realized organic growth of -10% (2018: 0%) and revenue of EUR 1,268.2m (2018: EUR 1,434.6m). Organic growth was impacted by a negative development in Solutions of -18% (2018: -4%) as a result of the reduced level of activity and -2% (2018: 5%) in the Applications business. This was partly offset by positive growth in Service & Accessories of 5% (2018: 9%) mainly due to increased output of the medium-voltage products. Operational EBITDA was EUR 15.1m (2018: EUR 70.2m) and operational EBITDA margin, in std. metal prices, was 1.6% (2018: 6.5%). including the positive impact from IFRS 16 of EUR 4.5m, operational EBITDA decreased by EUR 55.1m compared to last year. The earnings development from 2018 to 2019 reflected the lower level of activity in Solutions and unsatisfying earnings in Applications.

NKT Photonics realized organic growth of 10% (2018: 16%) and revenue of EUR 74.6m (2018: EUR 67.7m). In 2019, EBITDA was EUR 14.6m (2018: EUR 9.0m) and the EBITDA margin 19.6% (2018: 13.3%). Compared to last year, EBITDA increased by EUR 5.6m and the margin by 6.2%-points. The increase in EBITDA was positively impacted by implementation of IFRS 16 with EUR 1.9m. The EBITDA margin included positive non-recurring items related to reversals of provisions and revaluations added around EUR 2m.

2.1 Segment information

§ 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 decision to be made 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. The reportable segments are identified without aggregation of operating segments.

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 and adjustments of earn-out. 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 acquisitions and changes during the year in relevant 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.

Depreciation, amortization and impairment
Depreciation, amortization and impairment comprise amortization of intangible assets, depreciation of property, plant and equipment and impairment charges for the year.

2.1 Segment information – continued

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	0.0	-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	0.0	2.0	–	0.0	0.1	-323.1
Revenue (std. metal prices)	455.6	389.1	116.7	0.0	-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
Share of profits after tax of associates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Operational EBITDA – segment result	**14.1**	**0.3**	**13.5**	**-12.8**	**0.0**	**15.1**	**14.6**	**0.0**	**29.7**
Operational EBIT	**-53.4**	**-14.8**	**8.7**	**-16.2**	**0.0**	**-75.7**	**4.7**	**0.0**	**-71.0**
One-off items included in EBITDA						-12.0	0.0	0.0	-12.0
EBITDA						3.1	14.6	0.0	17.7
Depreciation and amortization						-90.8	-9.9	0.0	-100.7
EBIT						-87.7	4.7	0.0	-83.0
Financial items, net						-11.6	-0.7	0.0	-12.3
EBT						-99.3	4.0	0.0	-95.3
Tax						20.8	-1.5	0.0	19.3
Net result						-78.5	2.5	0.0	-76.0
Balance sheet									
Assets									
Non-current assets									
Goodwill						372.2	25.2	0.0	397.4
Other intangible assets						159.5	37.1	0.0	196.6
Property, plant and equipment						621.6	19.7	0.0	641.3
Other investments and receivables						0.8	1.1	0.0	1.9
Deferred tax						49.0	0.8	0.0	49.8
Current assets									
Inventories						211.2	18.5	0.0	229.7
Receivables (incl. tax receivables)						201.6	28.0	-0.6	229.0
Contract assets						36.7	0.0	0.0	36.7
Interest-bearing receivables						99.3	11.2	-110.4	0.1
Cash at bank and in hand						6.0	0.9	0.0	6.9
Segment assets						**1,757.9**	**142.5**	**-111.0**	**1,789.4**

2.1 Segment information – continued

2019

Amounts in EURm	Solutions	Appli-cations	Service & acces-sories	Non-allocated	Inter-segment transact.	Total NKT	NKT Photonics	Inter-segment transact.	NKT Group
Equity and liabilities									
Equity						796.4	7.4	0.0	803.8
Non-current liabilities									
Deferred tax						27.4	4.4	0.0	31.8
Pension liabilities						55.6	0.0	0.0	55.6
Provisions						11.6	3.0	0.0	14.6
Interest-bearing loans and borrowings						234.4	101.4	-97.8	238.0
Current liabilities									
Interest-bearing loans and borrowings						16.1	7.7	-12.6	11.2
Trade payables and other liabilities						408.2	17.7	-0.6	425.3
Contract liabilities						185.9	0.4	0.0	186.3
Income tax payables						1.7	0.2	0.0	1.9
Provisions						20.6	0.3	0.0	20.9
Segment equity and liabilities						**1,757.9**	**142.5**	**-111.0**	**1,789.4**
Other Information									
Working capital	-167.1	17.5	10.4	-7.1	0.0	-146.3	28.2	0.0	-118.1

2018[1]

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)	640.3	677.4	154.2	0.0	-37.3	1,434.6	67.7	-0.7	1,501.6
Adjustment of market prices to std. metal prices	-62.4	-276.9	-24.8	0.0	9.6	-354.5	0.0	0.0	-354.5
Revenue (std. metal prices)	577.9	400.5	129.4	0.0	-27.7	1,080.1	67.7	-0.7	1,147.1
Costs and other income, net (excl. one-off items)	-577.3	-672.0	-138.5	-13.8	37.3	-1,364.3	-58.7	0.8	-1,422.2
Share of profits after tax of associates	-0.1	0.0	0.0	0.0	0.0	-0.1	0.0	0.0	-0.1
Operational EBITDA – segment result	**62.9**	**5.4**	**15.7**	**-13.8**	**0.0**	**70.2**	**9.0**	**0.1**	**79.3**
Operational EBIT	**-0.3**	**-4.6**	**12.0**	**-16.3**	**0.0**	**-9.2**	**1.2**	**0.0**	**-8.0**
One-off items included in EBITDA						-29.4	0.0	-0.1	-29.5
EBITDA						40.8	9.0	0.0	49.8
Depreciation and amortization						-79.4	-7.9	0.0	-87.3
EBIT						-38.6	1.1	0.0	-37.5
Financial items, net						-7.7	-0.3	0.0	-8.0
EBT						-46.3	0.8	0.0	-45.5
Tax						-2.0	1.2	0.0	-0.8
Net result						-48.3	2.0	0.0	-46.3

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

2.1 Segment information – continued

2018[1]

Amounts in EURm	Solutions	Appli-cations	Service & acces-sories	Non-allocated	Inter-segment transact.	Total NKT	NKT Photonics	Inter-segment transact.	NKT Group
Balance sheet									
Assets									
Non-current assets									
Goodwill						376.0	25.2	0.0	401.2
Other intangible assets						157.1	30.9	0.0	188.0
Property, plant and equipment						637.7	7.5	0.0	645.2
Other investments and receivables						0.8	1.2	0.0	2.0
Deferred tax						26.7	1.0	0.0	27.7
Current assets									
Inventories						206.8	13.0	0.0	219.8
Receivables (incl. tax receivables)						246.9	28.7	-1.3	274.3
Contract assets						72.7	0.0	0.0	72.7
Interest-bearing receivables						81.5	5.2	-86.6	0.1
Cash at bank and in hand						26.6	1.6	0.0	28.2
Segment assets						**1,832.8**	**114.3**	**-87.9**	**1,859.2**
Equity and liabilities									
Equity						891.3	4.3	0.0	895.6
Non-current liabilities									
Deferred tax						42.6	3.7	0.0	46.3
Pension liabilities						49.9	0.0	0.0	49.9
Provisions						12.4	6.1	0.0	18.5
Interest-bearing loans and borrowings						271.6	76.3	-79.5	268.4
Current liabilities									
Interest-bearing loans and borrowings						10.5	4.8	-7.1	8.2
Trade payables and other liabilities						396.6	17.6	-1.3	412.9
Contract liabilities						145.4	0.0	0.0	145.4
Income tax payables						0.6	0.2	0.0	0.8
Provisions						11.9	1.3	0.0	13.2
Segment equity and liabilities						**1,832.8**	**114.3**	**-87.9**	**1,859.2**
Other Information									
Working capital	-108.1	46.4	9.7	35.8	0.0	-16.2	24.0	-0.1	7.7

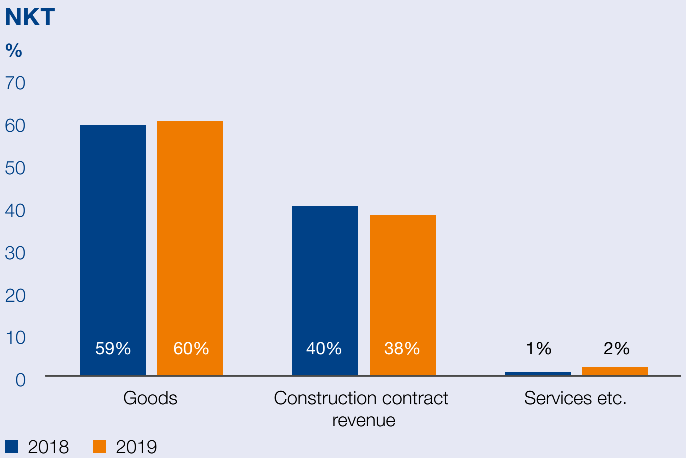
1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

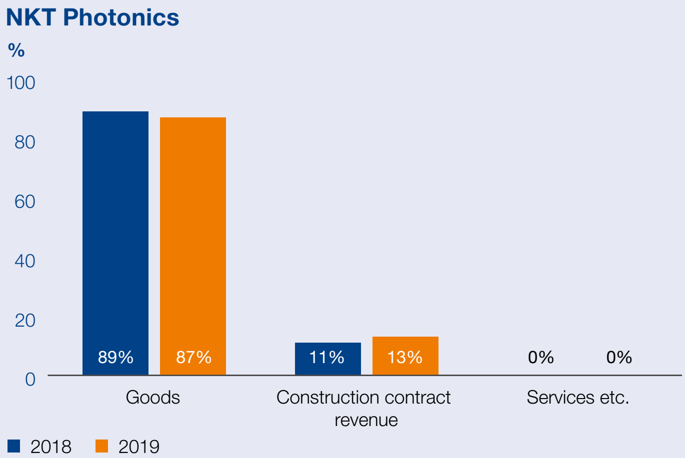
2.2 Revenue

Revenue composition

NKT Group generates revenue from sale of turnkey 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 revenue split is presented below:





The revenue in 2019 decreased to EUR 1,342.4m from EUR 1,501.6m in 2018 mainly due to an expected reduced level of activity in Solutions. Please see business reviews in the Management review for further information.

Geographical information, revenue in market prices

Amounts in EURm	2019	2018
Germany	381.1	410.2
UK	197.8	113.3
Sweden	120.1	160.7
Poland	112.3	114.0
Netherlands	91.4	79.1
Czech Republic	65.4	67.5
Norway	62.3	62.5
Denmark	58.2	214.9
Other	253.8	279.4
Total	**1,342.4**	**1,501.6**

2.2 Revenue – continued

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

Amounts in EURm	Solutions	Applications	Service & Accessories	Intersegment transactions	Total NKT	NKT Photonics	Intersegment transactions	NKT Group
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**
2018								
Revenue at a point in time:								
Goods	59.0	677.4	140.8	-37.3	839.9	60.1	-0.7	899.3
Services etc.	10.1	0.0	13.4	0.0	23.5	0.0	0.0	23.5
Revenue transfered over time:								
Construction contracts	571.2	0.0	0.0	0.0	571.2	7.6	0.0	578.8
Total	**640.3**	**677.4**	**154.2**	**-37.3**	**1,434.6**	**67.7**	**-0.7**	**1,501.6**

Management expects that around 40% of the revenue on uncompleted contracts and backlog as of 31 December 2019 will be recognized in 2020. The remaining 60% of the revenue will be recognized from 2021–2024.

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 Services, 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. For standardized products, payment terms vary by market but are usually short.

2.2 Revenue – continued

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 usingthe 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.

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.

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.

See Section 4.3 for further information concerning construction contracts.

2.3 Staff costs

Amounts in EURm	2019	2018
Wages and salaries	210.0	218.8
Social security costs	40.7	42.2
Defined contribution plans	14.1	15.6
Defined benefit plans	1.0	1.2
Share-based payments, NKT A/S (parent company)	0.5	0.0
Total	**266.3**	**277.8**
NKT	239.3	245.6
NKT Photonics	27.0	32.2
Average number of full-time employees	3,671	3,744
NKT	3,299	3,423
NKT Photonics	372	321

In 2019, staff costs in NKT Group decreased by 4%, and the average number of full time employees decreased by 2%. In NKT, the average numbers of FTEs decreased by 4% and staff cost by 3%, mainly driven by the expected lower activity level in 2019. NKT Photonics increased average number of FTEs by 16% while staff costs decreased by 16%. The lower staff cost were impacted by reversal of prior years' accrual for Management's long term incentive program.

Remuneration to Board members 2019

		Committees					
Amounts in EURt	Base remune-ration	Audit	Nomination	Remune-ration	NKT Photonics	Total remune-ration 2019	Total remune-ration 2018
Total remuneration 2019	**480**	**40**	**18**	**20**	**20**	**578**	**583**

2.3 Staff costs – continued

Term of notice

The termination notice of the CEO contract by NKT A/S is 18 months. Beyond this there is no pre-defined severance package agreement for the CEO.

The term of notice for the former CEO was 18 months. As previously communicated a total of EUR 2m was accrued for severance payment of which salary, pension and bonus of EUR 0.9m was paid in 2019. A final severance agreement has not yet been completed.

Remuneration to Executive Management

Amounts in EURt	2019	2018[1]
Salary and pension	1,129	2,270
Bonus	243	796
Pension	71	325
Long-term incentive	29	163
Other benefits	97	121
Total	**1,569**	**3,675**

1 Remuneration cost for 2018 include EUR 2m regarding accrued severance pay for former CEO Michael Hedegaard Lyng who's contract was terminated on 16th November 2018.

For more information on the remuneration of the Executive Management, refer to the Group's Remuneration Report 2019 available on nkt.com.

§ Related parties

NKT Group has no related parties holding control.

NKT Group'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. Related parties further include associates; cf. the Group companies in Section 6.2.

§ Accounting policy

Staff costs comprise wages and salaries, remuneration, pensions, etc., and share-based payment for NKT Group'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 Group 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 Group and the employee and no future service is rendered by the employee in exchange for the benefits.

2.4 Share based payment

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

In any given year, the Executive Management, the Group Leadership Team (GLT) and select employees may be awarded performance shares, 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 make awards under 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 making awards of performance shares.

For more information on the grant of performance shares, refer to the Group's Remuneration Report 2019 available on nkt.com.

Performance shares outstanding

	Executive management	Other Employees	Total
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	-	-4,287	-4,287
Performance shares outstanding, 31 December 2019	**61,963**	**90,919**	**152,882**
Performance shares outstanding, 1 January 2018	-	-	-
Shares granted during the year	28,679	22,043	50,722
Performance shares outstanding, 31 December 2018	**28,679**	**22,043**	**50,722**

The weighted average remaning contractual life of performance shares at the end of the period was 1.9 years (2018: 2.0 years).

In 2019, a performance share program was awarded 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.

In 2018, a 3-year performance share program was granted. 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). The EBITDA and RoCE targets are not expected to be met.

Remaining value to be expensed relating to current programs is EUR 0.7m.

2.4 Share based payment – continued

Outstanding 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 2019, 133,746 shares were exercised. The average share price at exercise was 146.6 DKK.

As of 31 December 2019 the value of the remaining warrant programme was EUR 0.2m (2018: EUR 0.1m). The outstanding warrants are held only by former NKT Group employees.

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 2019:	Warrants, 1 January 2019		154,552
	Exercised	91.3	-133,746
	Forfeited		0
	31 December 2019		20,806
Outstanding warrants 2018:	Warrants, 1 January 2018		155,202
	Forfeited		-650
	31 December 2018		154,552

§ Accounting policy

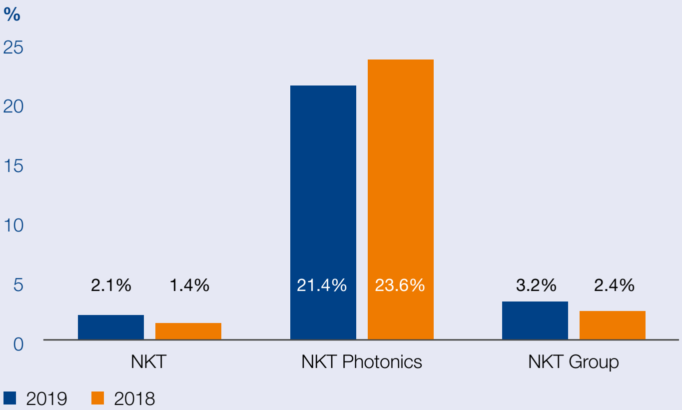
The NKT Group's incentive plans include share-based payments which contain both internal business performance measures and external market return measures. At the grant date the value of services received in exchange for share-based payments are measured at the fair value and a similar amount is recognized in equity. The fair value of share-base 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.

2.5 Research and development costs

	NKT		NKT Photonics		NKT Group	
Amounts in EURm	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Research and development costs – staff costs	6.2	4.6	11.0	9.0	17.2	13.6
Research and development costs – other costs	20.9	16.0	5.0	7.0	25.9	23.0
Total research and development costs	27.1	20.6	16.0	16.0	43.1	36.6
Recognized as follows:						
Expensed in income statement	11.0	6.8	9.3	8.8	20.3	15.6
Capitalized in balance sheet	16.1	13.8	6.7	7.2	22.8	21.0
	27.1	20.6	16.0	16.0	43.1	36.6

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 27.1m in 2019, up from EUR 20.6m in 2018. In percentage of revenue, this corresponds to 2.1% against 1.4% in 2018. 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 decreased slightly due to the increased 2019 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.

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 -95.3m (2018: EUR -45.5m) which resulted in a reported tax rate of 20.2% (2018: -1.8%).

The reported tax rate of 20.2% was primarily impacted by unrecognized deferred tax asset in Germany of EUR 20.4m relating to tax losses in 2019 and adjustments related to prior years of EUR -9.0m.

For 2020, the reported tax rate is expected to be around 28%.

In 2019, NKT Group paid a net amount of EUR 11.0m in corporate income tax compared to receiving a net amount of EUR 3.1m in 2018. 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 2019 (2018: EUR 0.0m), as the Danish Group realized negative taxable income.

Amounts in EURm	2019	2018
Tax recognized in the income statement		
Current tax	2.8	0.6
Current tax, adj. prior years	12.4	-3.8
Deferred tax	-13.1	5.9
Deferred tax, adj. prior years	-21.4	-1.9
	-19.3	0.8
Tax rate for the year	20.2%	-1.8%
Reconciliation of tax		
Calculated 22.0% tax on earnings before tax	-21.0	-10.0
Tax effect of:		
Foreign tax rates relative to Danish tax rate	-4.6	-3.0
Non-taxable income/non-deductible expenses, net	-6.0	-0.1
Adjustment for previous years	-9.0	-5.7
Value adjustment of tax assets	21.3	19.6
	-19.3	0.8

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 turn-around of the high-voltage onshore business. The tax losses carried forward from the German Tax unit increased from EUR 111.0m 2018 to EUR 176.0m in 2019. The total deferred tax value amounts at EUR 56.5m. NKT Group has recognized a tax asset hereof of EUR 16.1m at year-end.

The tax losses carried forward at end-2019 in the Danish tax unit was EUR 45.4m which lead to a deferred tax asset of EUR 9.9m. NKT Group has recognized a tax asset hereof of EUR 5.7m (2018: EUR 5.7m) at year-end, assuming continued joint taxation with NKT Photonics.

The tax losses carried forward at end-2019 in the Swedish tax unit sums up to EUR 92.6m which lead to a deferred tax asset of EUR 19.8m (2018: 5.2m), which was fully off-set against a deferred tax liability.

NKT Group's total net deferred tax asset amounted to EUR 18.0m (2018: EUR 18.6m) at year-end 2019.

Amounts in EURm	2019	2018
Deferred tax, 1 January, net	-18.6	-10.4
Foreign exchange adjustment	0.6	1.8
Tax recognized in other comprehensive income	1.5	-2.6
Deferred tax recognized in income statement	34.5	-4.0
Transferred to payable tax	0.0	-3.4
Deferred tax, 31 December, net	18.0	-18.6
Recognized deferred tax:		
Deferred tax assets, 31 December	49.8	27.7
Deferred tax liabilities, 31 December	-31.8	-46.3
Deferred tax, 31 December, net	18.0	-18.6

2.6 Tax – continued

Amounts in EURm	2019	2018
Specification on deferred tax assets and liabilities:		
Intangible assets	-17.2	-23.5
Tangible assets	-21.1	-27.9
Other non-current assets	6.1	0.0
Current assets	75.5	70.5
Non-current liabilities	0.3	6.0
Current liabilities	-73.8	-71.3
Tax losses	88.4	52.6
Valuation allowance, unrecognized tax assets	-44.5	-24.7
Other	4.3	-0.3
Deferred tax liabilities, 31 December, net	18.0	-18.6

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

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

As 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.

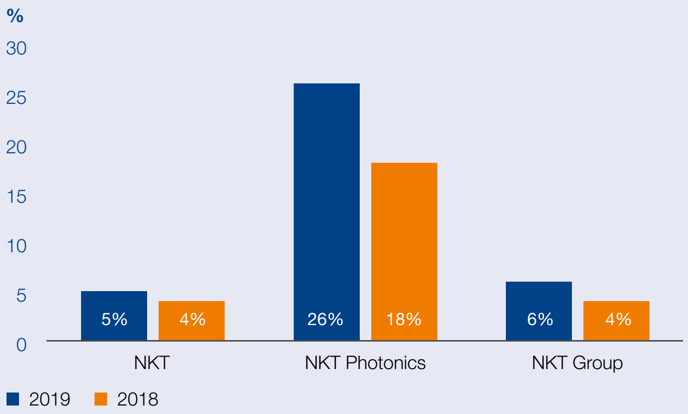
Deferred tax is adjusted for the elimination of unrealized intra-Group profits and losses.

Section 3 – Non-current assets and liabilities

This section covers NKT Group's investments in non-current assets that form a basis for the NKT 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.

Key developments 2019

Investment ratio (Additions in % of revenue)



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.

NKT investment ratio was in line with 2018. A continued update of the equipment in Solutions was offset by lower investment in IT.

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, upgrading facilities and production equipment. The ratio of investment increased from 2018 mainly related to the opening of the Boston facility and ERP implementation.

Geographical information for property, plant and equipment and intangible assets

Amounts in EURm	2019	2018
Sweden	739.0	759.0
Germany	241.8	225.7
Norway	97.4	103.7
Denmark	43.2	36.3
Other	113.9	109.7
Total	**1,235.3**	**1,234.4**

3.1 Intangible assets

Investment in NKT of EUR 25.5m was EUR 3.8m lower than 2018 (EUR 29.3m), mainly driven by lower investment in IT.

In NKT Photonics the high level of investment in 2019 related to continuing research and development investments and implementation of a new ERP system.

Breakdown of additions of intangible assets for the business units:

Amounts in EURm	2019	2018
NKT	25.5	29.3
NKT Photonics	13.8	7.3
Total	**39.3**	**36.6**

§ 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

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 2018	418.8	112.0	27.3	46.6	44.1	21.1	669.9
Additions	0.0	0.1	2.8	1.8	19.2	12.7	36.6
Disposals	0.0	-4.9	-0.2	-7.8	-1.2	0.0	-14.1
Reclassifications	0.0	0.0	1.9	19.3	-19.5	-3.2	-1.5
Exchange rate adjustments	-16.3	-3.7	-0.1	0.0	-1.6	0.0	-21.7
Cost, 31 December 2018	**402.5**	**103.5**	**31.7**	**59.9**	**41.0**	**30.6**	**669.2**
Amortization and impairment, 1 January 2018	-1.3	-17.0	-19.8	-34.4	0.0	0.0	-72.5
Amortization for the year	0.0	-12.1	-3.1	-5.7	0.0	0.0	-20.9
Disposals	0.0	4.9	0.2	7.8	0.0	0.0	12.9
Exchange rate adjustments	0.0	0.4	0.1	0.0	0.0	0.0	0.5
Amortization and impairment, 31 December 2018	**-1.3**	**-23.8**	**-22.6**	**-32.3**	**0.0**	**0.0**	**-80.0**
Carrying amount, 31 December 2018	**401.2**	**79.7**	**9.1**	**27.6**	**41.0**	**30.6**	**589.2**
Cost, 1 January 2019	402.5	103.5	31.7	59.9	41.0	30.6	669.2
Additions 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
Reclassifications	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
Cost, 31 December 2019	**398.7**	**107.4**	**60.7**	**79.6**	**39.2**	**17.7**	**703.3**
Amortization 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
Reclassifications	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
Amortization 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**

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

3.2 Property, plant and equipment

In NKT, the addition of EUR 31.2m reflected the continued upgrading of equipment in Solutions.

In NKT Photonics, the increased level of investment in 2019 related to the opening of the Boston facility.

Breakdown of additions of property, plant and equipment for the business units:

Amounts in EURm	2019	2018
NKT	31.2	23.2
NKT Photonics	6.5	4.8
Total	**37.7**	**28.0**

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 2018	341.3	591.6	115.9	27.2	1,076.0
Additions	1.3	8.3	3.9	14.5	28.0
Disposals	-0.1	-6.6	-2.1	0.0	-8.8
Reclassifications	3.0	10.9	5.3	-17.7	1.5
Exchange rate adjustments	-7.4	-6.6	-2.4	-0.5	-16.9
Cost, 31 December 2018	**338.1**	**597.6**	**120.6**	**23.5**	**1,079.8**
Depreciation and impairment, 1 January 2018	-61.5	-256.8	-58.0	-0.8	-377.1
Depreciation for the year	-9.7	-43.8	-12.9	0.0	-66.4
Disposals	0.1	6.3	1.7	0.0	8.1
Exchange rate adjustments	0.0	0.3	0.5	0.0	0.8
Depreciation and impairment, 31 December 2018	**-71.1**	**-294.0**	**-68.7**	**-0.8**	**-434.6**
Carrying amount, 31 December 2018[1]	**267.0**	**303.6**	**51.9**	**22.7**	**645.2**
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
Reclassifications	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
Reclassifications	-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**

1 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide selected comparison figures according to the previous standard.

Regarding impairment test, please refer to Section 3.3.

3.2 Property, plant and equipment – continued

Right-of-use assets reported as part of land and buildings are recognized as follows:

Amounts in EURm	2019
Additions from application of IFRS 16	36.9
Additions through business combinations	2.6
Additions for the year	3,3
Depreciation of right-of-use assets	-5.3
Exchange rate adjustments	-0.3
The carrying amount of right-of-use assets, 31 December 2019	**37.2**
Amounts recognized in the income statement, EURm	
Costs relating to other immaterial leases including short term and low value leases, recognized in the income statement	8.3

Future minium lease payments relating to leases not recognized in the balance sheet

Amounts in EURm	2019	2018[1]
Total future payments:		
Within 0-1 year	5.8	15.4
Within 1-5 years	6.7	39.0
After 5 years	0.1	30.0
Total	**12.6**	**84.4**

Lease liabilities and interests relating to recognized lease contracts are included in Section 5.4 and 5.5 respectively.

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 such time as 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 are usually made for a fixed period and for buildings in some instances the contract includes 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 continue to be 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 and sales buildings are 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-cancellable 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.

3.3 Impairment test

Result of annual impairment test

At 31 December 2019, the carrying amount of goodwill, other intangible assets and tangible assets were tested for impairment. The impairment test showed no impairment for 2019 (2018: EUR 0.0m).

Cash-generating units

Cash-generating units in NKT Group mirror the business segments, 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 determination 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 similar to reportable segments in NKT Group: Solutions, Applications, Service & Accessories and NKT Photonics. The goodwill level in Applications was immaterial and the assumptions for the goodwill impairment test are not described any further. The carrying amount of Goodwill was as follows:

Amounts in EURm	2019	2018
Solutions	317.4	320.5
Applications	6.4	6.3
Service & Accessories	48.4	49.2
NKT Photonics	25.2	25.2
	397.4	401.2

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 2020 and financial forecasts for 2021–2025, hence a 6 year budget period in 2019 compared to a 4 year budget period in 2018. 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 10-year Danish government bond, the equity risk premium and the cost of debt.

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 has been reduced in 2019 to reflect the lower risk free rate for Solutions and Service & Accessories.

Investments reflect both maintenance and expectations of organic growth. Yearly average investment is expected to be below depreciation for the period 2020–2025, and for the terminal period the investments are expected to be higher than the depreciations to support the growth.

Group Management determines the expected annual growth rate in the budget period and the expected margins based on historical experience and the following assumptions about expected market developments, detailed below:

3.3 Impairment test – continued

Key assumptions 2019

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

Key assumptions 2018

Cash-generating unit	Average EBITDA margin in budget period	Annual average revenue growth rate in budget period	Growth rate in terminal period	Discount rate after tax	Discount rate before tax	Average working capital ratio in budget period
Solutions	11.8%	9.3%	2.5%	8.0%	10.5%	-9.1%
Service & Accessories	13.3%	9.9%	2.5%	7.5%	9.9%	11.9%
NKT Photonics	24.8%	15.0%	3.0%	10.0%	12.8%	27.0%

Solutions

During 2018, several significant high-voltage projects were awarded to NKT and market competitors. This continued in 2019 with several project awards across the interconnector, offshore wind, and oil & gas segments. NKT was successful in winning its fair share of orders in all tree categories in 2018 and 2019. The continued growth in renewable power generation is an important driver in the attractive outlook for the high-voltage market. Progress continues on several tenders across market segments and geographies. NKT still views Europe as its largest market opportunity, but more projects are also coming to the market in the USA and Asia.

In the near future, NKT expects a number of significant interconnector projects especially in Europe to be awarded in addition to the growth in the offshore wind market. It is an underlying assumption that NKT will be awarded its fair share of these projects. Assessing the future awards to NKT is by nature subject to uncertainty, and the value-in-use calculation of the Solutions segment is very sensitive to any changes in the actual share awarded to NKT.

Service & Accessories

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

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

The Service market is expected to see attractive growth in the years ahead, driven by the growth of installation of new and expanded power cable systems both off- and onshore in line with the megatrends driving the power cable market. However, the market will fluctuate during this period depending on the number of large offshore cable repairs.

As accessories are necessary components of power cable systems, the accessories market will be closely linked to that for medium- and high-voltage power cables. As with power cables, competitive pressure is higher in low voltage markets due to the increasing complexity of accessories for higher voltage. Because transport costs for accessories play a minor role compared to those for power cables, accessories are a truly global market that NKT can supply on a comprehensive scale.

NKT Photonics

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

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 European interconnector projects in 2020 and following years Group Management believes that likely changes in the key assumptions 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 used when calculating value-in-use (starting point)

	Discount rate after tax		Growth rate in terminal period	
Cash-generating units*	**2019**	**2018**	**2019**	**2018**
Solutions	8.0%	8.0%	2.0%	2.5%
Service & Accessories	7.5%	7.5%	2.0%	2.5%
NKT Photonics	8.5%	10.0%	3.0%	3.0%

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

	Discount rate after tax		Growth rate in terminal period		Change in EBITDA in terminal period	
Cash-generating units*	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Solutions	8.5%	9.5%	1.4%	1.3%	-6.7%	-11.0%
Service & Accessories	14.5%	16.5%	-9.9%	-8.8%	-51.5%	-59.5%
NKT Photonics	12.9%	18.2%	-3.9%	-10.0%	-27.0%	-33.5%

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 at 31 December:

	Headroom in EURm	
Cash-generating units	**2019**	**2018**
Solutions	72	186
Service & Accessories	104	148
NKT Photonics	100	107

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.

3.3 Impairment test – continued

§ 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.

3.4 Pension liabilities

Most employees in NKT Group are covered by pension schemes, primarily in the form of defined contribution-based plans. NKT Group companies contribute to these plans either directly or through independently administered pension funds. The nature of such schemes varies according to legislative and regulatory regimes and tax rules and economic conditions in the countries where the employees work, and the contributions are usually based on employee salary and seniority.

The pension liability of EUR 55.6m (2018: EUR 49.9m) recognized in the balance sheet relates to closed defined benefit plans for already retired staff or retiring in the future, primarily in Germany. If a plan is not fully funded, a plan liability is recognized in the balance sheet.

Expenses relating to pension benefits are recognized as employee benefits.

Net liabilities recognized in the balance sheet:

	Present value of obligation	Present value of obligation
Amounts in EURm	**2019**	**2018**
Recognized plan liabilities net, at 1 January	48.8	51.3
Recognized in staff costs in income statement:		
Current service cost	0.4	0.4
Calculated interest cost/income	0.6	0.8
Total	**1.0**	**1.2**
Recognized in other comprehensive income:		
Actuarial gain/loss from changes in financial assumptions	6.5	-2.0
Total	**6.5**	**-2.0**
Other changes:		
Benefits paid	-1.8	-1.7
Total	**-1.8**	**-1.7**
Recognized plan liabilities net, at 31 December	54.5	48.8
Other long-term employee benefits	1.1	1.1
Recognized at 31 December	**55.6**	**49.9**

Note: No were plan assets in 2019 or 2018

Principal actuarial assumptions at the balance sheet date	**2019**	**2018**
Discount rate	1.0%	1.9%
Future salary increases	3.0%	3.0%
Future pension increases	2.0%	2.0%

3.4 Pension liabilities – continued

Sensitivity

The table below shows the sensitivity of the liability to changes in the key assumptions for the measurement of the liability at the balance sheet date.

The analysis is based on changes in the applied key assumptions considered reasonably likely provided the other parameters in the calculation are unchanged.

Amounts in EURm	2019	2018
0.5% point increase in discount rate	-4.0	-3.4
0.5% point decrease in discount rate	4.5	3.8

Accounting policy

NKT Group has contracted pension plans and similar arrangements with the majority of its employees.

Liabilities in respect of defined contribution-based pension plans, where NKT Group makes fixed regular payments to independent pension companies, are recognized in the income statement in the period to which they relate. Any contributions outstanding are recognized in the balance sheet under other payables.

In the case of defined benefit plans, an annual actuarial calculation (the Projected Unit Credit Method) is made of the present value of future benefits payable under the plan. 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 with NKT Group. The actuarial present value less the fair value of any plan assets is recognized in the balance sheet under employee benefits.

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 are similarly recognized by actuarial calculation. Actuarial gains and losses are recognized in the income statement immediately. Other long-term employee benefits include anniversary bonuses.

3.5 Provisions

Amounts in EURm	Guarantee/ Warranty provision	Restructuring provision	Other provision	Total provision
Provisions, 1 January 2019	10.8	2.6	18.3	31.7
Provisions made during the year	1.1	2.4	13.6	17.1
Used during the year	-0.5	-2.6	-6.7	-9.8
Reversed during the year	-1.6	-0.3	-1.7	-3.6
Exchange rate adjustment	-0.1	0.0	0.2	0.1
Provisions, 31 December 2019	**9.7**	**2.1**	**23.7**	**35.5**
Provisions are recognized in the balance sheet as:				
Non-current liabilities	6.8	0.0	7.8	14.6
Current liabilities	2.9	2.1	15.9	20.9
	9.7	**2.1**	**23.7**	**35.5**

Other provision consist of reestablishment obligations, provision for loss making contracts, legal disputes etc. Total provisions in NKT Group increased by net EUR 3.8m in 2019, which mainly related to changed project assumptions in Solutions.

§ Accounting policy

Provisions are recognized when NKT 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 affects 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 loss making contracts is recognized when the expected benefits to be derived by NKT Group from a contract are lower than NKT 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.

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.

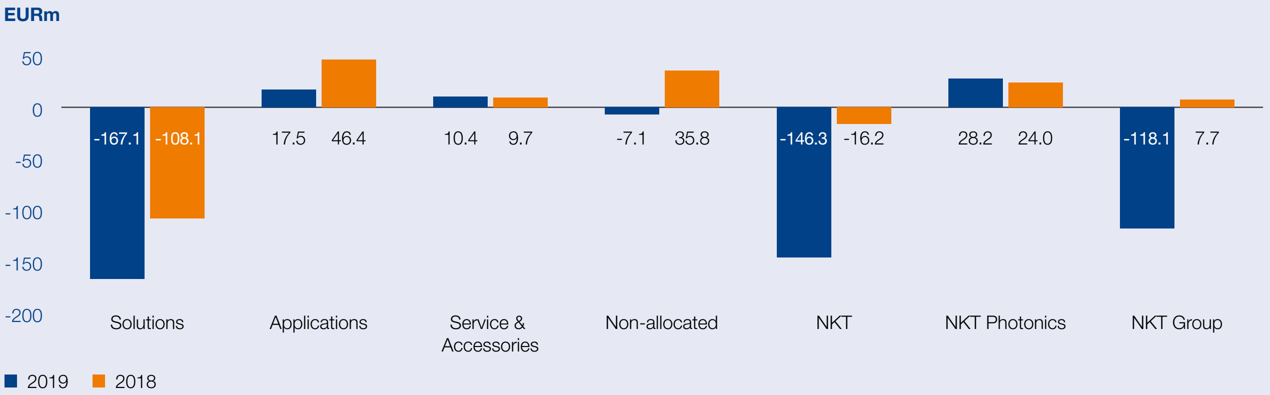
Composition and drivers

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 aluminum. 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.

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

Key developments 2019

Working capital



NKT improved its working capital position by EUR 130.1m from EUR -16.2m at end 2018 to EUR -146.3m at end 2019. This was driven by a positive development in Solutions from a change in milestone payments on projects and a favorable development in Applications as a result of a program to reduce working capital.

In NKT Photonics working capital increased compared to last year mainly as a result of inventory build-up for future growth.

Amounts in EURm	2019	2018
Solutions	-167.1	-108.1
Applications	17.5	46.4
Service & Accessories	10.4	9.7
Non-allocated	-7.1	35.8
NKT	**-146.3**	**-16.2**
NKT Photonics	28.2	24.0
Intersegment transactions	0.0	-0.1
NKT Group	**-118.1**	**7.7**

4.1 Inventories

NKT Group carries inventory to support its 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 maintained a stable inventory level compared to last year.

In NKT Photonics inventory has been built up during the year to facilitate the growth.

Amounts in EURm	2019	2018
Raw materials, consumables and goods for resale	89.2	83.3
Work in progress	62.7	54.0
Finished goods	77.8	82.5
Inventories, 31 December	229.7	219.8
NKT	211.2	206.8
NKT Photonics	18.5	13.0
Impairments on inventories, 1 January	14.1	14.1
Impairments on inventories for the year, expensed in the income statement	7.5	3.6
Disposals from sales	-2.6	-2.8
Scrapping	-0.5	-0.8
Impairments on inventories, 31 December	18.5	14.1

§ 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.

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, trade receivables decreased EUR 43.5m from EUR 185.1m in 2018 to EUR 141.6m in 2019. The decrease was mainly driven by milestone payments on projects in Solutions and a program to reduce working capital in Applications.

Impairment on trade receivables amounted to 3% of trade receivables up from 2% in 2018. For further information on credit risks, please see Section 5.6.

Amounts in EURm	2019	2018
Trade receivables	141.6	185.1
Other receivables incl. derivative financial instruments	62.1	63.6
Prepayments	20.3	17.6
Receivables	224.0	266.3
Of which receivables falling due later than 12 months from the balance sheet date	0.0	0.1

Development in trade receivables provision

Amounts in EURm	2019	2018
Receivables from sales and services, gross	147.4	188.6
Impairment for bad and doubtful debts:		
1 January	3.5	1.7
Exchange rate adjustments	0.3	0.0
Writedowns for the year included in income statement in 'Other costs'	2.5	1.7
Reversal of impairment for the year included in the income statement in 'Other costs'	-0.5	0.0
Realized losses during the year	0.0	0.1
Impairment, 31 December	5.8	3.5
Receivables from sales and services, net	141.6	185.1

For receivables, the expected credit losses are based on the historical credit loss experience combined with forward-looking information in macroeconomic factors effecting the credit risk. In 2019 credit losses recognized in the income statements count for less than 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.

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	2019	2018	2017
Trade receivables, Section 4.2	141.6	185.1	154.5
Construction contracts	36.7	72.7	47.6
Total contract assets	**178.3**	**257.8**	**202.1**
Construction contracts:			
Contract value of work in progress	1,399.5	1,852.3	1,659.1
Progress billings	-1,540.2	-1,853.3	-1,651.9
	-140.7	**-1.0**	**7.2**
Construction contracts are recognized as follows:			
Recognized as assets	36.7	72.7	47.6
Recognized as liabilities	-177.4	-73.7	-40.4
	-140.7	**-1.0**	**7.2**
Construction contracts	177.4	73.7	40.4
Prepayments regarding construction contracts	1.0	65.0	83.3
Prepayments from customers, products	7.9	5.4	1.6
Deferred income	0.0	1.3	1.4
Total contract liabilities	**186.3**	**145.4**	**126.7**
Recognized revenue from contract liabilities			
Revenue recognized included in contract liabilities at the beginning of the year	133.2	117.5	
Revenue recognized from performance obligations satisfied in previous years	5.2	40.6	

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.

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.

4.3 Contract assets and Liabilities – continued

§ 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

Amounts in EURm	2019	2018
Inventory	-3.4	2.5
Trade receivables and other receivables	46.9	-40.5
Contract assets and contract liabilities	74.0	-14.6
Trade payables and other liabilities	12.8	-23.4
Total	**130.3**	**-76.0**

The above cannot be derived directly from the balance sheet.

Section 5
– Capital structure and financial risk management

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

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

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 medium-term targets for solvency (ratio of minimum 30%) and operational EBITDA leverage (ratio up to 1.5x). In periods where the capital structure targets are satisfied, NKT Group cash flows are used for value adding investments or acquisitions and shareholder distributions. If not, cash flows are prioritized to repay debt.

At end-2019 the solvency ratio was 45% and the EBITDA leverage (Net interest-bearing debt relative to Operational EBITDA) was 8.2x. No dividend payment is proposed to be paid out in 2020 based on the 2019 results and the focus on reducing the debt level.

Key developments 2019

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

EUR 242m

Decrease of EUR 43.7m compared to 2018 (excl. IFRS 16)

AVERAGE FUNDING RATE (EXCL. HYBRID CAPITAL)

2.4%

Up from 2.2% in 2018

AVAILABLE LIQUIDITY RESOURCES

EUR 267m

Up from EUR 246m in 2018

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-2019, NKT A/S did not hold any treasury shares (2018: 0 treasury shares).

Number of DKK 20 shares	2019	2018
Shares, 1 January	27,126,369	27,126,369
Increase in capital by exercise of warrants	133,746	0
Shares, 31 December	27,260,115	27,126,369

Four 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 200m in the period until April 2022.

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. The Board of Directors is authorized to issue warrants to the Group Management and employees of NKT Group, which gives a right of subscription of a total nominal amount of DKK 19,022,120 shares (951,106 shares of DKK 20 each).

4. In the period until 9 October 2022 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 100m (5 million new shares).

§ 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.

5.2 Earnings per share

Amounts in EURm	2019	2018
Profit attributable to equity holders	-84.1	-48.7
Weighted average number of ordinary shares adjusted for the effect of dilution	27,137,515	27,126,369
Basic earnings per share, EUR	-3.1	-1.8
Diluted earnings per share, EUR	-3.1	-1.8

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. As a consequence of the terms of the hybrid security, it is accounted for as equity. 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 bond holders 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, and 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.

5.4 Net interest-bearing debt and maturity of financial liabilities

Net interest-bearing debt at end-2019 was EUR 242.2m. This corresponded to a net debt decrease of EUR 6.1m compared to end-December 2018. The net interest-bearing debt consisted of gross debt of EUR 249.2m and cash and interest-bearing receivables of EUR 7.0m.

In addition to the hybrid security mentioned in Section 5.3 and Revolving Credit Facility (RCF), NKT Group has mortgage debt of EUR 165.5m.

It is Group Management's opinion, that the financial headroom is sufficient to manage the level of activity expected in 2020 for the NKT Group.

Net interest-bearing debt

Amounts in EURm	2019	2018
Net interest-bearing debt comprises:		
Non-current loans	206.4	268.4
Non-current lease liability	31.6	0.0
Current loans	5.2	8.2
Current lease liability	6.0	0.0
Interest-bearing debt, gross	249.2	276.6
Interest-bearing receivables	-0.1	-0.1
Cash at bank and in hand	-6.9	-28.2
Net interest-bearing debt	242.2	248.3

Net interest-bearing debt includes debt related to capitalized lease contracts of EUR 37.6m. Of this amount, EUR 31.6m was recognized as non-current, and EUR 6.0m as current debt respectively. In 2019, payments relating to capitalized lease contracts was EUR 6.4m, of which EUR 5.0m was installments on the debt and the remaining amount, EUR 1.4m, 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 January 2019	IFRS 16 effect 1 January	New leases	Changes from cash flow	Effect of changes in exchange rates	Total 31 December 2019
Current and non-current loans[1]	276.6	36.9	3.3	-68.1	0.5	249.2

Amounts in EURm	1 January 2018	IFRS 16 effect 1 January	New leases	Changes from cash flow	Effect of changes in exchange rates	Total 31 December 2018
Current and non-current loans[2]	340.0	0.0	0.0	-60.9	-2.5	276.6

1 Current and non-current loans includes leasing liabilities

2 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide comparison figures according to the previous standard.

5.4 Net interest-bearing debt and maturity of financial liabilities – continued

Maturity of Group financial liabilities

	2019						
Amounts in EURm	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Interest-bearing loans and borrowings[1]	15.7	15.9	63.1	21.5	19.2	163.4	298.8
Trade payables	286.3						286.3
Prepayments	7.9						7.9
Derivative financial liabilities	15.7						15.7
Other financial liabilities[3]	123.3						123.3
Total	448.9	15.9	63.1	21.5	19.2	163.4	732.6

	2018[2]						
Amounts in EURm	Less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
Interest-bearing loans and borrowings	12.7	4.5	4.5	107.2	4.9	196.9	330.7
Trade payables	270.4						270.4
Prepayments	5.4						5.4
Derivative financial liabilities	15.4						15.4
Other financial liabilities[3]	127.1						127.1
Total	431.0	4.5	4.5	107.2	4.9	196.9	749.0

1 Interest-bearing loans and borrowings includes leasing liabilities
2 Comparison figures have not been restated following the implementation of IFRS 16 Leases. Section 1.2 'Implementation of new or amended accounting standards and interpretations' provide comparison figures according to the previous standard.
3 Other financial liabilities consists of other payables

The above items 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', the difference between the proceeds and the nominal value 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.

5.5 Financial items

The net financial items represented an expense of EUR 12.3m in 2019 compared to an expense of EUR 8.0m in 2018. The increase was mainly caused by higher interest expenses including interest relating to leases due to the implementation of IFRS 16 Leases in 2019.

Net interest expenses were EUR 11.5m in 2019 (including EUR 1.4m regarding capitalized leases) compared to EUR 8.7m in 2018.

In 2019, net foreign exchange gains/losses of EUR 1.2m (2018: EUR -0.3m) were more than fully offset by gains/losses on hedging derivatives of EUR -2.0m (2018: EUR 1.0m). This resulted in net currency gains/losses of EUR -0.8m in 2019 compared to EUR 0.7m in 2018, which was within the expected range of the hedging policy.

	Financial income		Financial expenses		Net financial items	
Amounts in EURm	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Interest etc. relating to financial assets/liabilities measured at amortized cost	1.3	0.8	-11.4	-9.5	-10.1	-8.7
Interest expenses on leases	0.0	0.0	-1.4	0.0	-1.4	0.0
Total interest	**1.3**	**0.8**	**-12.8**	**-9.5**	**-11.5**	**-8.7**
Foreign exchange gains/losses	14.6	53.3	-13.4	-53.6	1.2	-0.3
Gains/losses on derivative financial instruments	17.3	11.4	-19.3	-10.4	-2.0	1.0
Total currency gains/losses	**31.9**	**64.7**	**-32.7**	**-64.0**	**-0.8**	**0.7**
Total financial items	**33.2**	**65.5**	**-45.5**	**-73.5**	**-12.3**	**-8.0**

§ 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 Group is exposed to and manages several financial risks due to its operations, investments and financing activities. As a matter of policy, NKT Group 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 Group with sufficient risk protection while giving Group Treasury some room to maneuver.

NKT Group 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 2019 and 2018 no option contracts were active.

The financial risks are divided into:

1. Currency risks
2. Raw material price risks
3. Credit risks
4. Interest rate risks
5. Liquidity risks

Currency risks

With presence in several countries NKT Group 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 of the individual businesses, while the actual hedging is executed by Group Treasury.

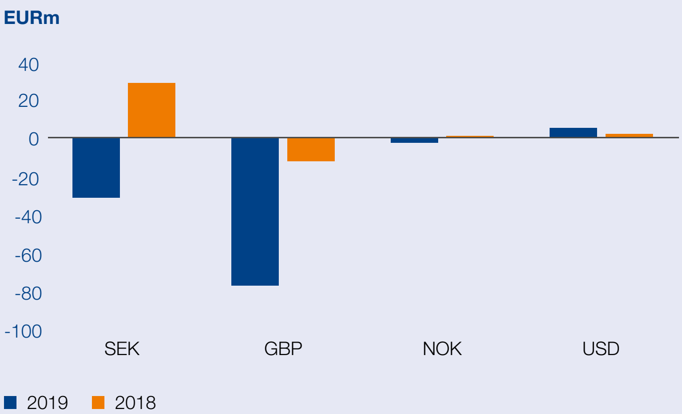
As a basic principle, the hedging of currency risk is not performed for net assets (equity) in foreign subsidiaries. Gains and losses relating to unhedged net assets in foreign subsidiaries are accounted directly in other comprehensive income. For the most significant investments in foreign currency (SEK, CHF, CZK, and PLN), a rate of exchange which is 10% lower than the year-end 2019 exchange rate would reduce NKT Group's equity by EUR 72.8m, compared to EUR 74.6m in 2018.

Balances with credit institutions are mainly denominated in DKK and EUR and do, therefore, not result in a significant currency risk for the NKT 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 on next page shows net outstanding forward exchange hedging contracts at 31 December for NKT Group 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 of a 10% increase in selected currency rates is shown in the table below.

Effect of 10% increase in currency rates



As NKT Group currently only uses forwards and spots to hedge the foreign exchange rate 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 volume and maturity of the hedging instrument should match the underlying transactions.

5.6 Financial risks and financial instruments – continued

The table below shows net outstanding forward exchange hedging contracts at 31 December for NKT Group which are used for and fulfil the conditions for hedge accounting of future transactions.

Cash flow hedges related to main currencies

Local currency		Average exchange rate[1]		Notional value: Local currency in mio.		Notional value: EURm		Market value: EURm
		31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019
SEK	**Buy**							
	Less than 1 year	0.0944	0.1000	1,808.4	2,678.4	170.7	267.9	0.9
	More than 1 year	0.0939	0.0966	1,559.0	1,464.2	146.3	141.5	0.5
	Sell							
	Less than 1 year	0.0944	0.0989	1,553.4	1,265.9	146.6	125.2	-0.9
	More than 1 year	0.0935	0.0965	516.2	730.9	48.3	70.5	-0.5
USD	**Buy**							
	Less than 1 year	0.8576	0.8629	67.3	40.6	57.7	35.0	1.7
	More than 1 year	0.8874	0.8451	0.2	35.0	0.2	29.6	0.0
	Sell							
	Less than 1 year	0.8348	0.8640	49.1	11.5	41.0	9.9	-2.4
	More than 1 year	0.7724	0.8431	0.2	41.4	0.2	34.9	0.0
GBP	**Buy**							
	Less than 1 year	1.1337	1.1137	29.4	48.0	33.3	53.4	1.3
	More than 1 year	1.1599	1.1187	1.2	13.8	1.4	15.5	0.0
	Sell							
	Less than 1 year	1.1014	1.1309	61.2	111.5	67.4	126.1	-4.6
	More than 1 year	1.0957	1.1188	6.4	60.3	7.0	67.5	-0.5
NOK	**Buy**							
	Less than 1 year	0.0990	0.1016	83.5	141.3	8.3	14.4	0.1
	More than 1 year	0.0978	0.1013	6.0	13.5	0.6	1.4	0.0
	Sell							
	Less than 1 year	0.1016	0.1013	2.7	67.0	0.3	6.8	0.0
	More than 1 year							

1 EUR/Local currency

Fair value hedges related to main currencies

Local currency		Average exchange rate[1]		Notional value: Local currency in mio.		Notional value: EURm		Market value: EURm	
		31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018	31/12/2019	31/12/2018L
SEK	**Buy**								
	Less than 1 year	0.0	0.0973	0.0	0.5	0.0	0.1	0.0	0.0
	Sell								
	Less than 1 year	0.0	0.0972	0.0	86.1	0.0	8.4	0.0	-0.1
GBP	**Sell**								
	Less than 1 year	0.0	1.1110	0.0	1.7	0.0	1.9	0.0	0.0

1 EUR/Local currency

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 Group 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 Group hedges raw materials via London Metal Exchange, and changes in the fair value of the hedging instrument offset overall changes in the value of the underlying 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 2019, NKT Group had current financial hedging instruments relating to future raw material supplies of a value of EUR 208.8m (2018: EUR 177.8m) with a positive fair value of EUR 6.2m (2018: EUR 0.3m).

It is estimated that, all other things being equal, a 10% increase in raw material prices would influence NKT Group's other comprehensive income by around EUR 14.4m for forward transactions for raw material supplies at 31 December 2019 (2018: EUR 14.3m).

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 profit/loss when the hedged transaction materializes. The impact of ineffectiveness on the income statement was negligible during the year.

The table below gives an overview of the cash flow hedges related to raw materials.

Cash flow hedges related to raw materials

		Average rate: EURm		Notional value: EURm		Market value: EURm
Commodity		**31/12/2019**	**31/12/2018**	**31/12/2019**	**31/12/2018**	**31/12/2019**
Copper	**Buy**					
	Less than 1 year	5,241	5,222	120.7	27.7	6.0
	More than 1 year	5,057	5,114	27.7	85.2	2.0
	Sell					
	Less than 1 year	5,314	5,404	27.9	13.8	-1.3
Lead	**Buy**					
	Less than 1 year	1,762	1,784	14.5	19.2	-0.2
	More than 1 year	1,712	1,700	8.4	17.4	-0.1
	Sell					
	Less than 1 year	1,745		1.4		-0.1
Aluminum	**Buy**					
	Less than 1 year	1,748	1,766	2.2	9.1	-0.2
	Sell					
	Less than 1 year	1,567		3.1		-0.1
Gas-Oil	**Buy**					
	Less than 1 year	517	512	2.5	2.0	0.1
	More than 1 year	501	508	0.6	3.2	0.0

5.6 Financial risks and financial instruments – continued

Credit risks

NKT Group's credit risks relate partly to receivables, contract assets 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 Group has no material risks relating to a single customer or partner. NKT Group's policy for acceptance of credit risks entails ongoing monitoring and credit rating of important customers and other partners. NKT Group obtains prepayments or bank guarantees from customers when considered needed. Thus, insurance cover and similar measures to hedge receivables are rarely applied as NKT Group historically has had only few material losses.

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 Group's net interest-bearing debt (NIBD) was EUR 242.2m (2018: EUR 248.3m).

At year-end, an interest rate hedge of EUR 125.0m was in place in the form of an interest rate cap with a strike of 0% maturing in June 2021. As of end-2018, the market value of the interest rate cap was EUR -0.3m (2018: EUR -0.4m).

Based on interest rates as of end-2019, a 1%-point increase in market interest rate would increase pre-tax financial expenses by EUR 0.8m.

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-2019, NKT Group's total available liquidity resources amounted to EUR 266.8m compared to EUR 246.3m in 2018.

The EUR 300.0m 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	2019	2018
Committed facilities (>3 years)	0.0	300.0
Committed facilities (1-3 years)	300.0	0.0
Committed facilities (<1 year)	5.9	0.0
Total committed facilities	305.9	300.0
Uncommitted facilities	0.0	23.3
Total facilities	305.9	323.3
Cash	6.9	28.2
Utilized facilities	-46.0	-105.2
Liquidity resources	266.8	246.3

5.6 Financial risks and financial instruments – continued

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 2019 and 2018 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	2019	2018
Financial assets		
Measured at amortized cost:		
Receivables	206.9	250.7
Contract assets	36.7	72.7
Interest-bearing receivables	0.1	0.1
Measured at fair value through profit/loss:		
Other investments and receivables	1.9	2.0
Cash at bank and in hand	6.9	28.2
Derivative financial instruments	17.1	15.6
Financial liabilities		
Measured at amortized cost:		
Trade payables and other liabilities	409.6	397.1
Interest-bearing loans and borrowings	249.2	276.6
Measured at fair value through profit/loss:		
Derivative financial instruments	15.7	15.8

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 2018	**-1.7**	**-0.3**	**0.4**	**-1.6**
Gain/(loss) arising from changes in fair value of hedging instruments during the period	-4.2	-0.4	5.2	0.6
Income tax related to gains/(losses) recognized in other comprehensive income during the period	1.0	0.0	-1.2	-0.2
(Gain)/loss reclassified to profit or loss – hedged items have affected profit or loss	0.5	0.0	-1.2	-0.7
Income tax related to amounts reclassified to profit or loss	-0.1	0.0	0.3	0.2
Cumulative (gain)/loss transferrred to initial carrying amount of hedged items	0.2	0.5	1.5	2.2
Income tax related to amounts transferred to initial carrying amount of hedged items	0.0	0.0	-0.5	-0.5
Balance at 31 December 2019	**-4.3**	**-0.2**	**4.5**	**0.0**

§ Accounting policy

Derivative financial instruments are recognized from the trade date and measured in the balance sheet at fair value. Positive and negative fair values of derivative financial instruments are included in receivables and payables, respectively. Fair values of derivative financial instruments are computed based on current market data and generally accepted valuation methods.

Fair value hedges

Changes in the effective portion of the fair value of derivative financial instruments designated and qualifying as a fair value hedge of a recognized asset or a recognized liability are recognized in the income statement together with changes in the value of the hedged asset or hedged liability. The ineffective portion of the change in the fair value of a derivative financial instrument is presented under financial items.

Cash flow hedges

Changes in the effective portion of the fair value of derivative financial instruments designated and qualifying as hedges of future cash flows are recognized in other comprehensive income and accumulated in a separate hedging reserve under equity until the hedged transaction is realized. The accumulated reserve in equity remains in equity if it is still probable that the hedged cash flows will occur and is transferred from other comprehensive income to the same item as the hedged transaction when it is realized. If the hedged cash flows are no longer expected to be realized, the accumulated reserve in equity is immediately transferred to the income statement. The ineffective portion of the change in the fair value of a derivative financial instrument is recognized immediately in the income statement and presented under financial items.

Other derivative financial instruments

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognized under financial items as they arise.

Section 6 – Group structure

This section describes acquisitions and divestments of businesses during the year and NKT Group structure at end-2019.

Section 6.1 Acquisitions/divestments of businesses

Acquisitions

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.

There were no acquisitions in 2018.

Divestments

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.

There were no divestments in 2018.

6.2 Group companies

NKT Group

Group companies	Domicile
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 Rep.
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
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
Associates	
Ultera GP (50%)	US

NKT Photonics Group

Group companies	Domicile
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
FOPS – Fiber Optic Pipeline Solutions LLC	US
Fianium Inc.	US
Asia/Pacific	
NKT Photonics (Zhenzhen) Co., Ltd.	China
Fianium Asia Ltd.	Hong Kong

Equity shares are wholly owned except where (xx%) appear after the company.

Companies without material interest and dormant companies are omitted from the list.

Section 7 – Other sections

This section contains other statutory sections and sections considered less essential to the understanding of the NKT Groups financial development.

7.1 Fees to auditor elected at the Annual General Meeting

Amounts in EURm	2019	2018
Deloitte:		
Statutory audit	0.9	1.0
Audit-related services	0.1	0.0
Tax and VAT advice	0.0	0.1
Other services	0.1	4.2
Total	**1.1**	**5.3**

NKT Group's auditor fees decreased from EUR 5.3m in 2018 to EUR 1.1m in 2019 mainly driven by lower non-audit services. EUR 0.0m related to non-audit services provided to NKT Group by Deloitte Statsautoriseret Revisionspartnerselskab Danmark.

7.2 Contingent liabilities, pledges and contractual obligations

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.

On 2 April 2014 NKT received a fine of EUR 4m following the investigation conducted by the European Commission into alleged price-fixing activities with regard to high-voltage power cable projects, cf. Company Announcement No. 8 2014. While the European Commission assessed that NKT's role had been substantially limited and the fine was considerably smaller than those imposed on other cable manufacturers, NKT disagrees with the Commission's decision and therefore filed an appeal. The European General Court has rejected all appeals against the decision including NKT's appeal. NKT has initiated a further appeal before the European Court of Justice, which led to an oral hearing before the court in 2019. The Court of Justice is expected to issue its judgment during 2020. As a consequence of the Commission's decision, NKT and other power cable producers face exposure to claims for damages in proceedings brought by customers or other third parties, including claims that have been filed by National Grid and Vattenfall in the UK. In line with its appeal against the Commission's decision, NKT contests any civil claim damages that is based on this decision.

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 2019 these conditions were complied with.

Pledges

Non-current assets with carrying amount of EUR 359.3m (2018: EUR 380.7m) have been pledged as security for mortgage loans and the revolving credit facility of total EUR 211.8m (2018: EUR 274.6m).

Amounts in EURm	2019	2018
Carrying amount of assets pledged as collateral for credit institutions:		
Land and buildings	216.8	226.6
Plant and machinery	135.1	149.8
NKT Photonics net assets	7.4	4.3
Total	**359.3**	**380.7**
Liabilities related to pledged assets	211.8	274.6

Contractual obligations

Amounts in EURm	2019	2018
Contractual obligations relating to purchase of buildings and production plants	0.0	14.2

7.2 Contingent liabilities, securities and contractual obligations – continued

§ 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.

7.3 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.

7.4 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 capital employed.

14. **Equity value, EUR per outstanding share** – Equity attributable to equity holders of NKT A/S per outstanding share at 31 December. Dilutive 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)	$\frac{\text{Operational EBIT}}{\text{Average capital employed}}$
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 and comprehensive income

1 January – 31 December

Amounts in EURm	Section	2019	2018
Income statement			
Sale of services		0.0	3.0
Revenue		**0.0**	**3.0**
Staff costs	2	0.0	-3.0
Other costs	3	-2.0	-0.9
Earnings before interest and tax (EBIT)		**-2.0**	**-0.9**
Financial income	4	27.6	16.9
Financial expenses	5	-17.1	-8.2
Earnings before tax (EBT)		**8.5**	**7.8**
Tax	6	0.5	-1.6
Net result		**9.0**	**6.2**
Statement of comprehensive income			
Net result		9.0	6.2
Other comprehensive income:			
Items that may be reclassified to income statement:			
Foreign exchange adjustment		0.0	-2.7
Value adjustment of hedging instruments		0.0	-0.4
Tax		0.0	0.1
Total comprehensive inccome		**9.0**	**3.2**
Proposed distribution			
Transferred to retained comprehensive inccome and reserves		9.0	3.2
		9.0	**3.2**

Balance sheet

31 December

Amounts in EURm	Section	2019	2018
Assets			
Investment in subsidiaries	7	400.9	400.9
Receivables from subsidiaries		871.8	1,029.4
Deferred tax	6	0.4	0.0
Total non-current assets		**1,273.1**	**1,430.3**
Receivables from subsidiaries		0.1	4.1
Other receivables		4.4	0.5
Income tax receivables		0.0	3.3
Cash at bank and in hand		0.0	0.0
Total current assets		**4.5**	**7.9**
Total assets		**1,277.6**	**1,438.2**
Equity and liabilities			
Share capital		73.2	72.8
Foreign exchange reserve		-2.7	-2.7
Hedging reserve		-0.3	-0.3
Retained comprehensive income		942.2	940.0
Equity attributable to equity holders of NKT A/S		**1,012.4**	**1,009.8**
Hybrid security	8	152.4	152.4
Total equity		**1,164.8**	**1,162.2**
Deferred tax	6	0.0	0.9
Interest-bearing loans and borrowings		31.6	102.4
Total non-current liabilities		**31.6**	**103.3**
Interest-bearing loans and borrowings		0.0	0.5
Payables to subsidiaries		75.0	171.8
Trade payables and other liabilities		6.2	0.4
Total current liabilities		**81.2**	**172.7**
Total liabilities		**112.8**	**276.0**
Total equity and liabilities		**1,277.6**	**1,438.2**

Cash flow statement

1 January – 31 December

Amounts in EURm	2019	2018
Earnings before interest and tax (EBIT)	-2.0	-0.9
Changes in working capital	6.4	-5.4
Cash flow from operations before financial items	4.4	-6.3
Financial income received	27.6	16.9
Financial expenses paid	-17.1	-8.2
Cashflow from ordinary operations	14.9	2.4
Income tax paid	3.6	-1.7
Cash flow from operating activities	**18.5**	**0.7**
Change in loans to/from subsidiaries	59.4	-88.3
Other investments	0.0	0.0
Cash flow from investing activities	**59.4**	**-88.3**
Repayment of non-current loans	-70.7	-61.2
Changes in current loans	-0.8	0.5
Cash from issue of hybrid capital	0.0	148.3
Coupon payments on hybrid capital	-8.1	0.0
Cash from issue of new shares / exercise of warrants	1.7	0.0
Cash flow from financing activities	**-77.9**	**87.6**
Net cash flow for the year	**0.0**	**0.0**
Cash at bank and in hand, 1 January	0.0	0.0
Net cash flow for the year	0.0	0.0
Cash at bank and in hand, 31 December	**0.0**	**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 2018	**72.8**	**0.0**	**0.0**	**937.5**	**0.0**	**1,010.3**	**0.0**	**1,010.3**
Other comprehensive income:								
Other comprehensive income for the year		-2.7	-0.3			-3.0		-3.0
Tax on other comprehensive income				0.4		0.4		0.4
Total other comprehensive income	0.0	-2.7	-0.3	0.4	0.0	-2.6	0.0	-2.6
Net result				3.8		3.8	2.4	6.2
Comprehensive income for the year	**0.0**	**-2.7**	**-0.3**	**4.2**	**0.0**	**1.2**	**2.4**	**3.6**
Transactions with the owners:								
Issue of hybrid capital				-1.7		-1.7	150.0	148.3
Total transactions with owners in 2018	**0.0**	**0.0**	**0.0**	**-1.7**	**0.0**	**-1.7**	**150.0**	**148.3**
Equity, 31 December 2018	**72.8**	**-2.7**	**-0.3**	**940.0**	**0.0**	**1,009.8**	**152.4**	**1,162.2**
Equity, 1 January 2019	**72.8**	**-2.7**	**-0.3**	**940.0**	**0.0**	**1,009.8**	**152.4**	**1,162.2**
Other comprehensive income:								
Other comprehensive income for the year		0.0				0.0		0.0
Tax on other comprehensive income						0.0		0.0
Total other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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**

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.

Section 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 writedown 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 in a subsidiary is lower than our future estimated earnings in a company, we test for impairment. The recoverable amount is calculated based on significant estimates and assumptions related to the future earnings of that company.

Section 2 Staff costs

Remuneration to the Group Executive Management, as well as warrant plans and performance shares programs for NKT Group Leadership Team and employees can be found in section 2.3 and 2.4 of the consolidated financial statements.

All employees were transferred from NKT A/S to NKT Cables Group A/S on January 1, 2019.

Amounts in EURm	2019	2018
Wages and salaries	0.0	2.8
Defined contribution plans	0.0	0.2
Share-based payments	0.0	0.0
	0.0	3.0
Average number of full-time employees	0	13

Section 3 Fees to auditor elected at the Annual General Meeting

Amounts in EURm	2019	2018
Deloitte:		
Statutory audit	0.1	0.1
Other services	0.0	0.1
	0.1	0.2

Section 4 Financial income

Amounts in EURm	2019	2018
Interest from subsidiaries	16.7	12.9
Foreign exchange gains	6.4	3.7
Gains on derivative financial instruments	4.5	0.3
	27.6	16.9

Section 5 Financial expenses

Amounts in EURm	2019	2018
Interest, etc. Relating to financial liabilities measured at amortised cost	-4.6	-6.2
Interest to subsidiaries	-1.5	-0.6
Loss on derivative financial instruments	-5.2	0.0
Foreign exchange losses	-5.8	-1.4
	-17.1	-8.2

Section 6 Tax

Amounts in EURm	2019	2018
Current tax	-0.8	0.0
Deferred tax	1.3	-1.6
Tax for the year	0.5	-1.6
Reconciliation of tax:		
Tax at 22.0% of earnings before tax	-1.9	-1.6
Tax effect:		
Adjustments for previous years	0.6	0.0
Non-deductable expenses	1.8	0.0
	0.5	-1.6

Section 6 Tax - continued

Amounts in EURm	2019	2018
1. January	-0.9	1.7
Deferred tax	1.3	-1.6
Tax recognised in other comprehensive income	0.0	0.5
Transferred to tax receivable	0.0	-1.5
31 December	0.4	-0.9
Deferred tax relates to:		
Tax losses / gains within joint taxation scheme	0.4	-0.9
	0.4	-0.9

Section 7 Investments in subsidiaries

Amounts in EURm	2019	2018
Cost, 1 January	443.9	444.9
Exchange rate adjustments	0.0	-1.0
Cost, 31 December	443.9	443.9
Impairment, 1 January	-43.0	-43.0
Exchange rate adjustments	0.0	0.0
Impairment, 31 December	-43.0	-43.0
Book value, 31 December	**400.9**	**400.9**

Subsidiaries	Domicile	2019	2018
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%

Section 8 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.

Section 9 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.

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	2019	2018
Financial Assets		
Measured at amortized cost:		
Receivables from subsidiaries	871.9	1,033.5
Other receivables	0.4	0.5
Income tax receivables	0.0	3.3
Measured at fair value through profit/loss:		
Derivative financial instruments	4.0	0.0
Financial liabilities		
Measured at amortized cost:		
Interest-bearing loans and borrowings	31.6	102.9
Payables to subsidiaries	75.0	171.8
Trade payables and other liabilities	1.1	0.0
Measured at fair value through profit/loss:		
Derivative financial instruments	5.0	0.4

Maturity of financial liabilities:

2019	Less than 1 year	2-3 years	3-4 years	More than 5 years	Total
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

2018	Less than 1 year	2-3 years	3-4 years	More than 5 years	Total
Interest-bearing loans and borrowings	0.5	0.0	102.4	0.0	102.9
Payables to subsidiaries	171.8	0.0	0.0	0.0	171.8
Trade payables and other liabilities	0.4	0.0	0.0	0.0	0.4
	172.7	0.0	102.4	0.0	275.1

Section 10 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 593.8m (2018: EUR 561.4m), 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	2019	2018
Guarantees for subsidiaries	593.8	561.4
Liability in respect of subsidiaries credit facilities under the cash pool	178.0	256.3
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		

Section 11 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	2019	2018
Transactions with subsidiaries:		
Sale of services	0.0	2.9
Interest received, net	15.2	11.8
Paid joint tax contribution, net	-0.7	1.7
Receivables, non-current	871.8	1,029.4
Receivables, current	0.1	4.1
Payables	75.0	171.8

Section 12 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 2019. 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 7.3 to the consolidated financial statements.

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