NKT

Annual Report 2018

NKT A/S | Vibeholms Allé 20, DK-2605 Brøndby | Company Reg: 6272 5214 | nkt.com

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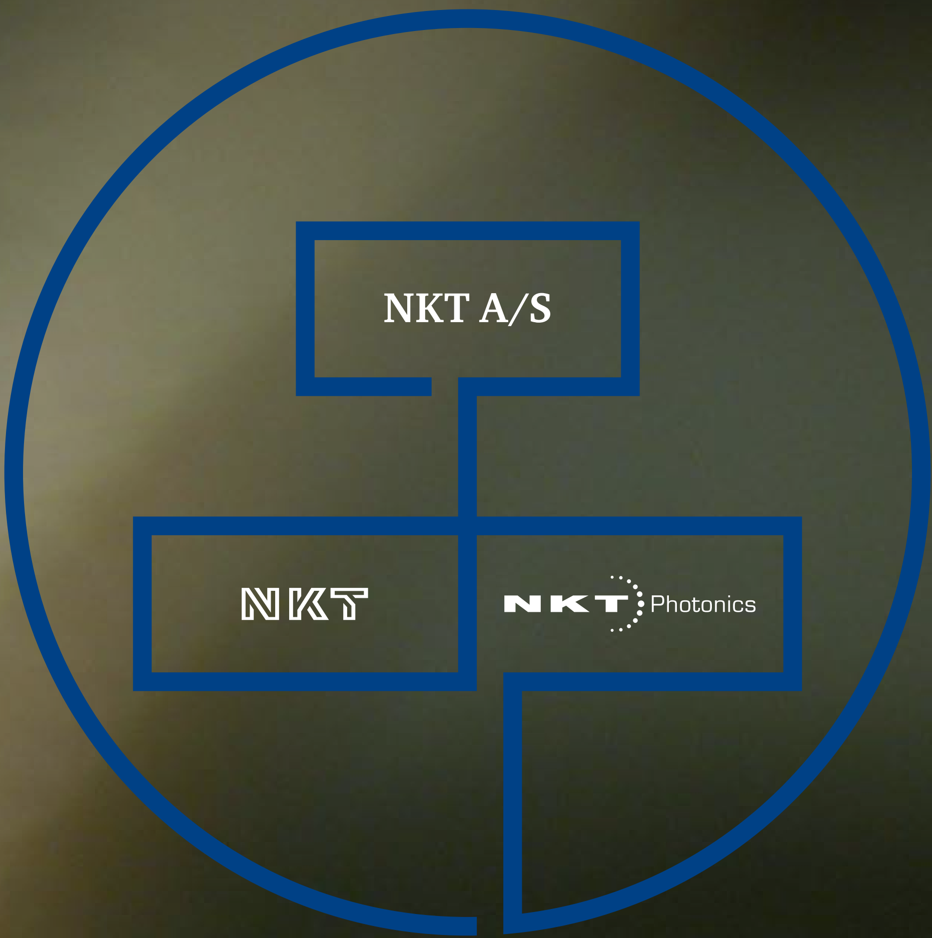
NKT's annual statutory Sustainability report is available at: www.nkt.com/sustainability-report-2018

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.



Letter from the Chairman

"Even though 2018 has been a difficult year for NKT and for our shareholders, we remain positive regarding the future industry outlook"

NKT performed below expectations

In 2018, the entire power cable industry was impacted by the lack of and postponements of high-voltage project awards, which in particular impacted our site in Karlskrona that was acquired from ABB in 2017. Furthermore, our Applications business delivered disappointing results. As a result, the development in the company's share price has been unsatisfactory and not at all reflecting the value creation we anticipated after the demerger of Nilfisk in 2017.

The impact of fewer high-voltage orders on the earnings for 2019 which we communicated in November 2018 took our shareholders by surprise. We need to learn from this and become better in explaining the impact of the order backlog in our Solutions business.

In this context and combined with a need to accelerate results of the company's strategic transformation, CEO Michael Hedegaard Lyng left the company in November 2018. CFO Roland M. Andersen was appointed interim CEO until a permanent solution is found. The CEO search process is ongoing.

We ended the year on a slightly positive note as we were awarded five high-voltage orders totalling more than EUR 800m in the second part of 2018. This demonstrates that the high-voltage market has attractive potential, but also underlines the competencies we possess within this segment as we won our fair share of the market. It has also been positive to note, that our service and accessories business as a separate business line has performed well.

NKT Photonics continued to grow

NKT Photonics accelerated its growth development in 2018. In NKT Photonics, we are building on a solid strategy towards full-scale commercialization of the business. Harvesting the benefits generated by previous years' acquisitions, the company in 2018 consolidated its position as a leading supplier within ultra-fast and super-continuum lasers.

We believe the value creation potential for NKT Photonics is promising, with strong prospects for growth and opportunities to increase profitability further. This belief was supported by the 2018 performance and is confirmed in our financial outlook for 2019.

Looking forward

As previously stated, 2019 will be a challenging year for our power cables business. However, looking ahead we still believe that the overall trends driving both the power cable and photonic markets will support future growth. In NKT, we are well-positioned to contribute to the continued journey towards increased implementation of sustainable green energy. And NKT Photonics has the advanced products and technology in place to enhance the capabilities of our partners. These competencies are of key importance in order to deliver value creation for our shareholders.

The Board of Directors wishes to extend a thank you to all employees for their contribution and commitment in 2018. We also hereby thank all shareholders, customers and business partners for the confidence and support they have given us.

Jens Due Olsen
Chairman of the Board of Directors

NKT A/S
5-year financial highlights

Amounts in EURm	2018	2017	2016	2015	2014
Income statement					
Revenue	1,501.6	1,479.3	1,046.1	1,252.1	1,211.8
Revenue in std. metal prices [1)]	1,147.1	1,108.4	792.8	897.7	851.6
Operational earnings before interest, tax, depreciation and amortization (Oper. EBITDA) [4)]	79.3	141.8	74.9	77.3	63.1
Earnings before interest, tax, depreciation and amortization (EBITDA)	49.8	96.9	27.9	54.1	22.3
Depreciation and impairment of property, plant and equipment	-66.4	-61.3	-33.0	-72.3	-37.7
Amortization and impairment of intangible assets	-20.9	-18.3	-8.6	-11.3	-7.2
Operational earnings before interest and tax (Oper. EBIT) [5)]	-8.0	62.2	33.3	34.2	18.6
Earnings before interest and tax (EBIT)	-37.5	17.3	-13.7	-29.5	-22.6
Financial items, net	-8.0	-14.7	5.7	1.8	-2.8
Earnings before tax (EBT)	-45.5	2.6	-8.0	-27.7	-25.4
Profit for the year from continuing operations	-46.3	-3.4	-17.5	-40.5	-20.2
Profit for the year from discontinued operation	0.0	932.2	29.6	41.7	58.1
Profit for the year	-46.3	928.8	12.1	1.2	37.9
Profit attributable to hybrid capital holders of NKT A/S	2.4	0.0	0.0	0.0	0.0
Profit attributable to equity holders of NKT A/S	-48.7	928.8	12.1	1.0	37.9
Cash flow					
Cash flow from operating activities	-42.2	87.8	153.9	173.2	212.4
Cash flow from investing activities	-60.9	-493.3	-132.0	-87.9	-49.7
hereof investments in property, plant and equipment	-28.5	-50.6	-40.7	-39.0	-32.6
Free cash flow	-103.1	-405.5	21.9	85.3	162.7
Balance sheet					
Share capital	72.8	72.8	72.0	64.9	64.3
Equity attributable to equity holders of NKT A/S	743.2	816.3	951.4	808.6	801.2
Non-controlling interest	0.0	0.0	0.0	0.9	0.8
Hybrid capital	152.4	0.0	0.0	0.0	0.0
Group equity	895.6	816.3	951.4	809.5	802.0
Total assets	1,859.2	1,904.6	1,747.1	1,683.6	1,656.1
Net interest-bearing debt [6)]	248.3	293.2	-68.4	88.9	152.4
Capital employed [7)]	1,143.9	1,109.5	883.0	898.4	954.4
Working capital [8)]	7.7	-83.5	217.0	269.2	301.0
Financial ratios and employees					
Operational EBITDA margin, continuing operations (std. metal prices)	6.9%	12.8%	9.4%	8.6%	7.4%
Gearing (net interest-bearing debt as % of Group equity)	28%	36%	-7%	11%	19%
Net interest-bearing debt relative to oper. EBITDA [9)]	3.1	1.9	-0.4	0.5	0.9
Solvency ratio (equity as % of total assets) [10)]	48%	43%	54%	48%	48%
Return on capital employed (RoCE) [11)]	-0.7%	11.8%	11.7%	10.1%	9.4%
Number of DKK 20 shares ('000)	27,126	27,126	26,835	24,186	23,934
Earnings continuing oper., EUR, per outstanding share (EPS) [12)]	-1.8	-0.1	-0.7	-1.7	-0.8
Earnings, EUR, per outstanding share (EPS) [12)]	-1.8	34.3	0.5	0.0	1.6
Dividend paid, DKK, per share	0.0	0.0	4.0	4.0	3.5
Distribution of shares in Nilfisk Holding A/S, value DKK per share	0.0	285.2	0.0	0.0	0.0
Equity value, EUR, per outstanding share [13)]	27	30	35	34	34
Market price, DKK, per share	89	283	499	357	332
Average number of employees	3,744	3,600	8,958	8,895	9,078

[1) – 13)] Definitions appear in Note 8.5 to the consolidated financial statements.

Key messages 2018

Overall, revenue and earnings in 2018 were in line with the latest financial outlook, from the Q3 2018 Interim Report.

In NKT, the operational EBITDA in 2018 was down compared to 2017. The Solutions business line was negatively impacted by lower average project margins, fewer projects in execution and lower capacity utilization in Karlskrona. Profitability in Applications was unsatisfactory, while Service & Accessories delivered improved results that demonstrated the potential of this business line.

NKT Photonics maintained a strong growth momentum throughout 2018, resulting in improved revenue and earnings.

NKT secured five large high-voltage projects in 2nd half 2018 for Solutions with a total contract value of more than EUR 800m. These projects included the company's largest ever offshore export cable order, the Ostwind 2 grid connection in Germany. However, the orders received will have no material production impact for Karlskrona in 2019. The lower level of activity and profitability in 2019 will therefore reflect the relatively low level of project awards in 2017 and 1st half 2018.

In September 2018, NKT A/S issued a EUR 150m hybrid security and finalized a new committed revolving credit facility of EUR 300m with a 4-year maturity. The new financing structure replaced all existing committed bank facilities. NKT A/S has sufficient financial headroom to manage the lower level of activity expected in 2019.

For 2019 NKT expects that revenue* will be EUR 0.9–1.0bn and operational EBITDA approx. EUR 10–30m. This is in line with the preliminary financial outlook from November 2018. In NKT Photonics, the revenue is expected to grow approx. 15–20% organically and the EBITDA margin is expected to increase to approx. 15–20%.

	NKT				NKT Photonics			
Amounts in EURm	**Q4 2018**	**Q4 2017**	**2018**	**2017**	**Q4 2018**	**Q4 2017**	**2018**	**2017**
Revenue	**309.3**	368.2	**1,434.6**	1,428.9	**22.5**	21.0	**67.7**	50.9
Revenue in std. metal prices	**232.3**	281.5	**1,080.1**	1,058.0	**22.5**	21.0	**67.7**	50.9
Organic growth	**-16%**	-1%	**0%**	7%	**7%**	13%	**16%**	7%
Operational EBITDA	**-8.4**	33.8	**70.2**	138.3	**8.0**	5.7	**9.0**	3.5
Operational EBITDA margin*	**-3.6%**	12.0%	**6.5%**	13.1%	**44.8%**	27.1%	**13.3%**	6.9%
Working capital			**-16.2**	-106.5			**24.0**	23.1
Working capital % of revenue, LTM			**-0.2%**	-2.1%			**32.4%**	32.7%
RoCE**			**neg.**	7.5%			**1.7%**	neg.

** Std. metal prices*
*** RoCE is calculated on Operational EBIT, LTM, as a percentage of average capital employed as defined in Note 8.5 on page 132*

NKT

1,080m

Revenue (std. metal prices), EUR
Up from EUR 1,058m in 2017, primarily due to the two additional months of revenue from the acquired ABB HV Cables activities

0%

Organic growth
Applications and Service & Accessories had organic growth of 5% and 9%, respectively, which was offset by -4% in Solutions

70.2m

Operational EBITDA, EUR
Down from EUR 138.3m in 2017. As anticipated, Solutions reported a decrease in earnings compared to the previous year. Results for Applications were unsatisfactory

1.12bn

High-voltage order backlog, EUR
Up by EUR 0.36bn on end-2017. The improvement was driven by 2nd half 2018, which added five large high-voltage projects to the order backlog worth more than EUR 800m

NKT Photonics

67.7m

Revenue, EUR
Up by EUR 17m compared to 2017, driven by broad-based positive performance across products and business segments and additional revenue from the acquired Onefive activities

16%

Organic growth
Representing a step change in growth momentum. In the previous three financial years, the organic growth was between 7–9%

9.0m

EBITDA, EUR
All-time high EBITDA, which was EUR 5.5m above 2017. The improvement was driven by the growth in revenue. NKT Photonics continues to invest in creating a stronger organizational platform

38%

Order intake growth
Solid improvement across a broad range of business segments, and increased market penetration

Financial outlook

2019

Revenue (std. metal prices) for 2019 is expected to be approx. EUR 0.9–1.0bn. The operational EBITDA is expected to be approx. EUR 10–30m, which is in line with the preliminary 2019 financial outlook announced in November 2018.

The low end of the outlook range is based on the following main assumptions:

- Satisfactory execution on projects in the existing high-voltage order backlog
- NKT will not receive additional large high-voltage orders impacting 2019
- The profitability level in Applications will start to improve, partly due to the ongoing improvement initiatives

The high end of the outlook range is based on the following main assumption in addition to the above-mentioned:

- NKT will secure additional high-voltage projects with some financial impact in 2019 for production in Karlskrona

Based on the planned high-voltage production and project execution during 2019, earnings for NKT are expected to be higher in the 2nd half of the year.

NKT launched a cost programme in February 2019 with the aim to reduce staff costs and general spend. As part of the programme NKT plans to reduce the white-collar organization by around 8% which is equivalent to around 130 white-collar employees. NKT views the market outlook to be attractive in the medium- to long-term, and the cost reduction will be executed without hindering anticipated growth in the coming years. The expected annual positive impact of the cost programme is approx. EUR 15m, of which approx. half of this will materialize in 2019. The expected one-off costs related to the cost programme are approx. EUR 8–10m to be expensed in 2019.

Implementation of IFRS 16 is expected to increase EBITDA by around EUR 4m in 2019.

Medium-term targets

NKT provided medium-term targets at the Capital Markets Day in September 2017. The operational EBITDA is expected to rise to approx. EUR 200–225m and RoCE to be >13%. These targets are to be achieved within a period of 3-5 years after they were announced (2020–2022).

EUR ~0.9–1.0bn
Revenue*

EUR ~10–30m
Operational EBITDA

2019 outlook

EUR ~200–225m
Operational EBITDA

>13%
RoCE

Medium-term targets

** Std. metal prices*

NKT Photonics

2019

NKT Photonics expects revenue to grow approx. 15–20% organically and the EBITDA margin to increase to approx. 15–20% in 2019.

The growth is expected to be driven by broad-based contribution across product categories and business segments. As in previous years, the main part of earnings is expected to be generated in Q4. The financial outlook for 2019 is well-aligned with the company's medium-term targets below.

Implementation of IFRS 16 is expected to increase EBITDA by around EUR 2m in 2019.

Medium-term targets

The medium-term targets were provided at the Capital Markets Day in September in 2017. The annual organic growth is expected to exceed 10%, the EBITDA margin is expected to reach approx. 25% and RoCE is expected to be approx. 20%. These targets are to be achieved within a period of 3–5 years after they were announced (2020–2022).

~15–20% Organic growth

~15–20% EBITDA margin

2019 outlook

+10% Annual organic growth

~25% EBITDA margin

~20% RoCE

Medium-term targets

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


NKT A/S
NKT
NKT Photonics

Letter from the CEO

"Execution challenges and a long wait for the high-voltage market made 2018 a bumpy ride for all of us in NKT"

2018 turned out to be a difficult year with both internal and external challenges. Nevertheless, the year also reaffirmed our belief in the long-term market potential for NKT, which includes both the high-voltage market and the markets where our Applications and Service & Accessories businesses play significant roles.

Overall, execution of our high-voltage project portfolio went largely as expected during 2018. However, two external incidents during Q4 ended up having negative impact to the financial results.

Following the disappointing high-voltage market development in 2017, the low number of project awards in the market continued into 1st half 2018. Postponements of primarily large interconnector projects have negatively impacted the market in the last two years. The reasons are partly political and legislative, and partly due to a number of other specific local issues.

Therefore, it was pleasant to see our efforts finally paying off during 2nd half 2018 when we celebrated high-voltage order intake of more than EUR 800m. This included our largest ever export cable order for offshore wind. The improved order backlog came too late to have material production or financial impact in 2019, however, it gives us increased comfort for the years to come.

In Applications, we did not execute our change initiatives in accordance with our own plans and ambitions and this impacted results negatively. We were also negatively impacted by currency and unfavourable weather conditions in Sweden that led to lower earnings in the medium-voltage segment.

Service & Accessories developed as expected in 2018. We believe that our growth efforts in especially the Service business looks to be promising as the value for the customers is significant and NKT is well positioned in terms of capabilities and knowhow.

Orders, execution focus and cost improvements for 2019

2019 will also be a challenging year. We will need to prioritize and be more operationally focused on initiatives that will improve profitability near-term.

In addition, we must continue the good trend from 2nd half 2018 and win more high-voltage orders to continue to build our high-voltage backlog for the coming years.

We will have to focus our change efforts in the Applications business on restoring acceptable profitability levels. Focus on less, but effective initiatives and make them work one by one with measurable impact on earnings.

Lastly, an already initiated cost programme aims to reduce the white-collar organization by around 8% during 2019.

NKT is fully committed to restore profitability in the coming years. We continue to develop our leading technological platform and position in the power cable industry. An industry that remains well supported by a number of attractive megatrends.

On behalf of NKT I would like to take this opportunity to thank all our colleagues for their contribution, passion and hard work during 2018. Together we will drive NKT forward.

Roland M. Andersen
Interim CEO and CFO

Key financials – 5-year review

Amounts in EURm	2018	2017	2016	2015	2014
Income statement					
Revenue	1,434.6	1,428.9	1,003.7	1,211.9	1,173.0
Revenue in std. metal prices	1,080.1	1,058.0	750.4	857.5	812.8
Operational EBITDA	70.2	138.3	72.5	77.0	65.0
EBITDA	40.8	93.4	26.2	53.8	24.2
Depreciation and amortization	-79.4	-73.5	-36.8	-39.6	-39.7
Impairment	–	-0.9	–	-37.8	-1.7
Operational EBIT	-9.2	63.9	35.7	37.5	24.0
EBIT	-38.6	19.0	-10.6	-23.6	-17.2
Financial items, net	-7.7	-13.8	-3.0	-9.9	-18.2
EBT	-46.3	5.2	-13.6	-33.5	-35.4
Tax	-2.0	-6.4	-8.7	-10.7	7.9
Profit for the year	-48.3	-1.2	-22.3	-44.2	-27.5
Cash flow					
Cash flow from operating activities	-46.3	78.2	33.7	102.6	128.2
Cash flow from investing activities excl. acq. & div.	-49.1	-63.0	-31.5	-21.2	-27.5
Free cash flow	-95.4	15.2	2.2	81.4	100.7
Balance sheet					
Capital employed	1,065.3	1,040.5	348.4	381.3	491.5
Working capital	-16.2	-106.5	57.8	87.1	129.6
Financial ratios and employees					
Organic growth	0%	7%	-10%	4%	-5%
Operational gross margin*	43.2%	47.7%	43.4%	40.6%	39.3%
Operational EBITDA margin*	6.5%	13.1%	9.7%	9.0%	8.0%
RoCE	-0.8%	7.5%	9.3%	8.2%	4.2%
Full-time employees, end of period	3,419	3,393	2,769	3,208	3,211

* *Std. metal prices*

Megatrends driving the power cable industry

Green energy

Legislative goals to reach Paris 2015 goals worldwide

Fast expansion of renewable energy sources

Connected grid

Rapid expansion of transnational grid due to cost efficiency, increased grid reliability and active trade (e.g. Europe)

Legislative goals in Europe

Displacement in electricity production

Large production capacity located far away from consumption

Security of supply ensured by connected grid

Economic & population growth

Growing world economy, population expansion and urbanization are increasing the demand for modern infrastructure

Shift towards underground cables

Ageing grid infrastructure needs to be replaced

Public pressure to use underground cables supported by government initiatives

Industry consolidation

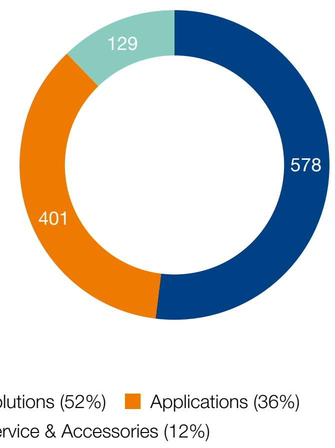
Current cable player landscape fragmented

Further consolidation expected

Segment and market overview

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

Revenue distribution 2018 (EURm)*



* *Std. metal prices*

Solutions

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

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

Applications

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

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

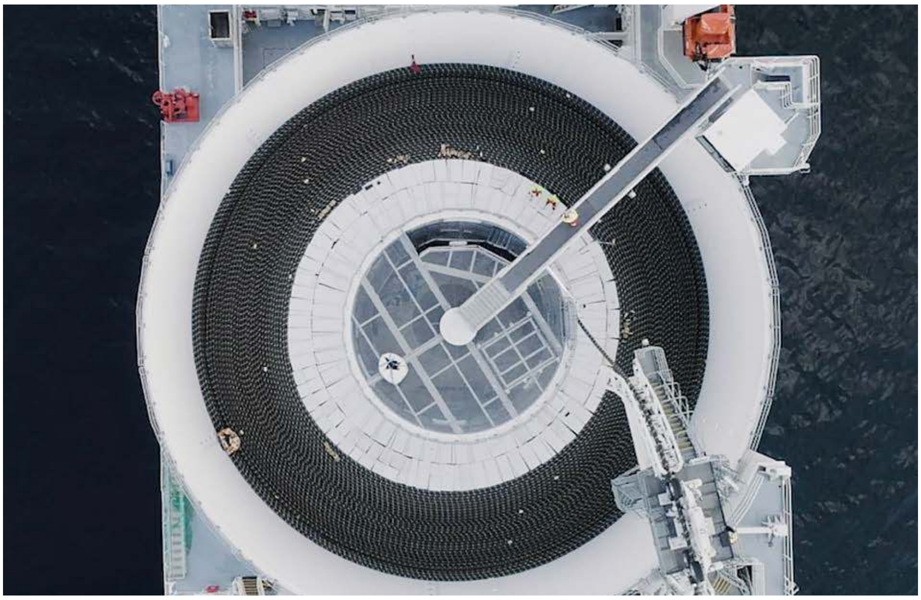
Service & Accessories

This latest established business line focuses on services for onshore and offshore power cables. In addition, a full portfolio of power cable accessories is offered across medium- and high-voltage categories.

The Service business focuses on high-voltage power cables. These generally require limited maintenance, but incidents will occur as a result of external damage, such as anchor drag, excavation works, or other incidents. To avoid incidents and shorten the potential downtime of power cables, solutions to monitor and react fast are in demand. NKT has service teams located in Denmark, Germany and Sweden.

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

High-voltage power cable market (Solutions)



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

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

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

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

Market improved in 2nd half 2018

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

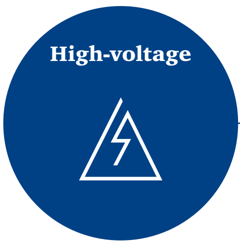
NKT estimates that project awards in the relevant high-voltage market (projects larger than EUR 5m) amounted to approx. EUR 3bn in 2018. In 2017, the market size was estimated to be approx. EUR 1.2bn.

Market conditions at the lower end of the high-voltage AC onshore market were unsatisfactory in 2018, with continued imbalance between supply and demand. However, the high end of this market was characterized by greater stability.

Market outlook remains attractive

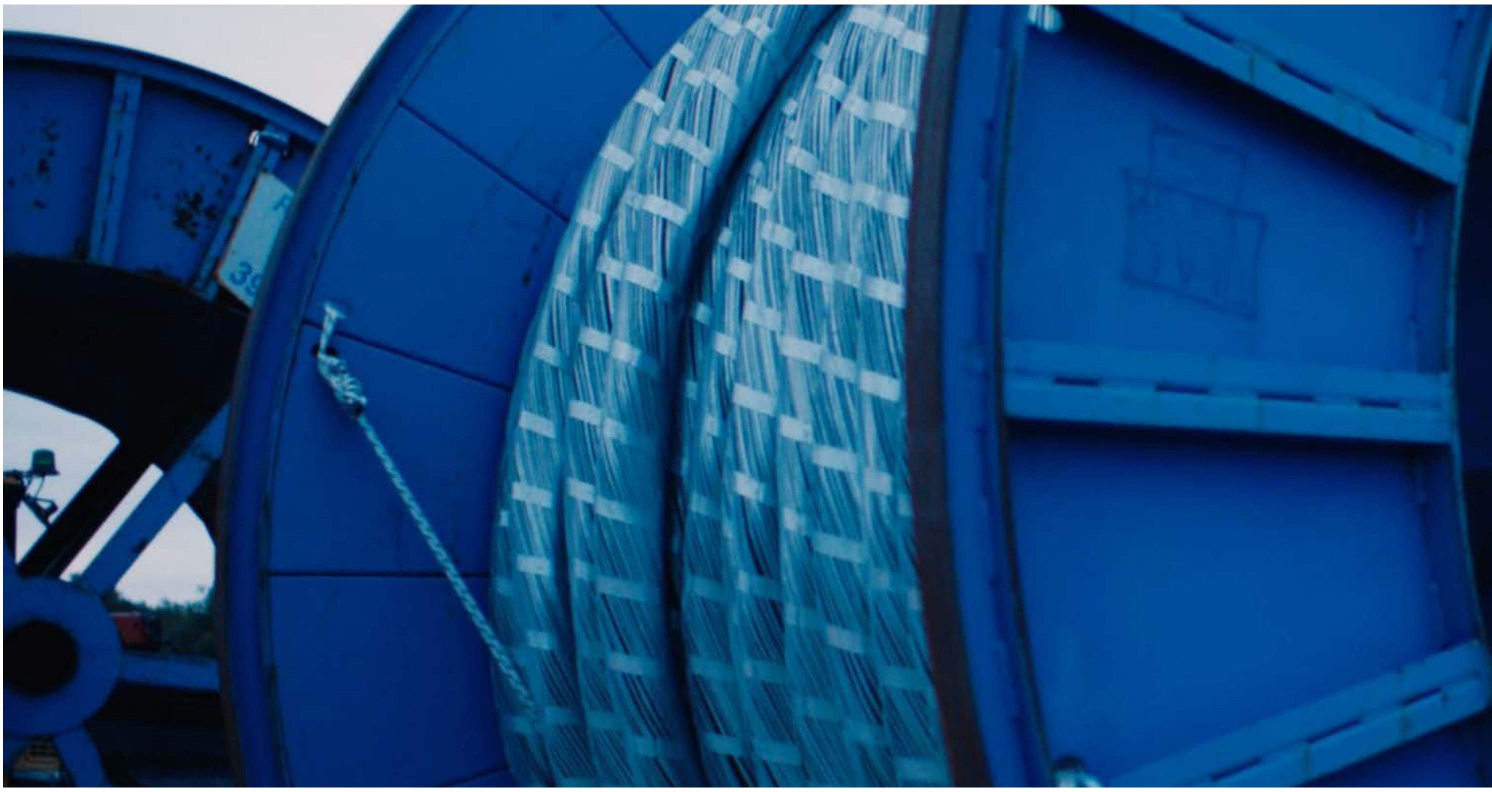
NKT views the outlook for the high-voltage market as attractive in the medium- to long-term. This perspective is primarily based on more mature European markets, but also the potential that resides in less developed offshore wind markets such as the US and Taiwan. Tender activity is in progress on a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

Market overview – Solutions



	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) ▪ Intensified competition in lower voltage levels
AC offshore		
AC onshore	Continental	

Note: DC = Direct Current and AC = Alternating Current



Currently, the market view from NKT is that the value of new high-voltage project awards in 2019 will be at least on par with the level in 2018. This is based on the ongoing progress of a number of projects. The potential project awards are expected to be across the interconnector, offshore wind, and oil & gas segments.

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

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

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

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

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

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

Market overview – Applications

Low- and medium-voltage		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		

in July 2017, has provided the market with improved fire resistant cables.

Mixed market development in 2018

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

Growth to remain modest

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

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

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

Service & Accessories markets

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

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

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

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

Market overview – Service & Accessories

Service and 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		


NKT

Strategic initiatives

The strategic journey has been challenging

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

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

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

Must-win battles

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

Safety, People and Organization

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

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

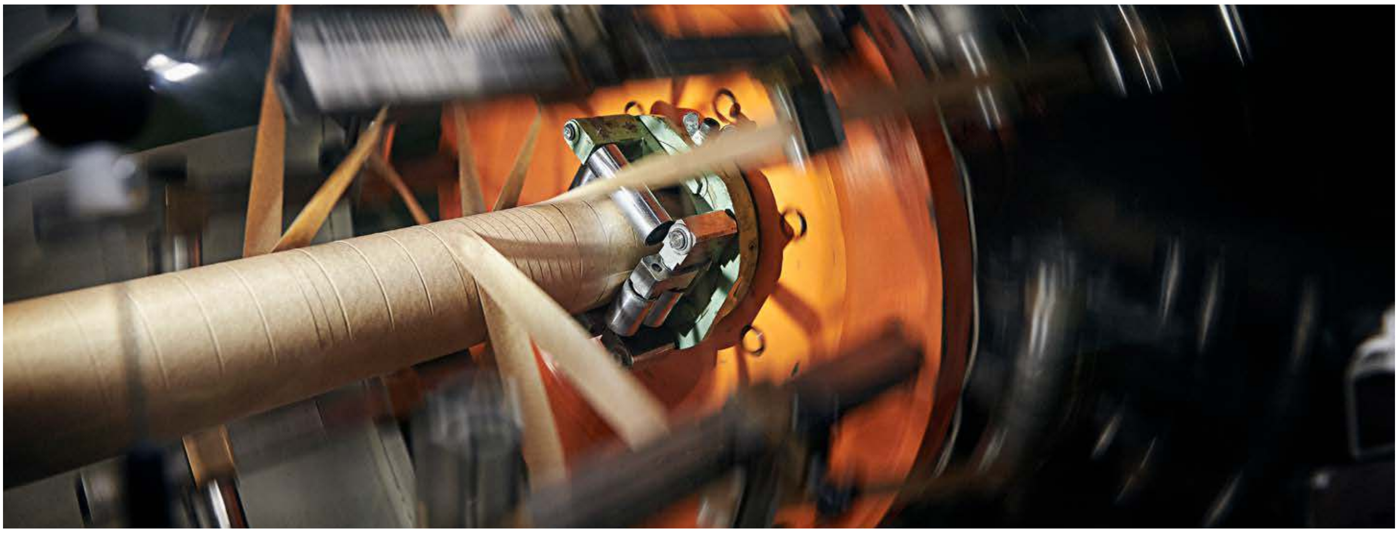
The functions designated in 2017, such as Supply Chain, Lean, QHSE (Quality, Health, Safety, Environment), Commercial Excellence, Procurement and R&D, are in place, but the results of these functions have not yet been harvested. Importantly, however, the focus on safety, which is a core value for NKT,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

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

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

Must-win battles

Safety, People & Organization	Operational & Commercial Excellence	Material & Product Development	Digitalization
Safe, lean, agile and engaged organization.	Improvement of business processes. Pricing and management of commercial operations.	Enhance material and product development.	Digitalization of internal processes, customer interface and offering.



in February 2019 with a cost programme including reduction of an additional approx. 8% of the the white-collar organization.

Operational and Commercial Excellence

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

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

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

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

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

Material and Product Development

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

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

During 2018, NKT continued its work to improve power cable design, with the development of more efficient, large-dimension aluminium conductors. NKT is engaged in ongoing initiatives to develop next-level AC and DC power cables based for example on different materials and offering reduced power loss.

NKT is in the process of testing and qualifying its Cologne facility for DC cable production according to international standards. This will improve production planning flexibility between Cologne and Karlskrona.

In 2018, an experienced Chief Technology Officer joined NKT and became part of the Group Leadership Team.

Digitalization

Optimization of internal production processes and customer service interfaces

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

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

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

Strategic segment directions

NKT has defined three strategic directions for each business segment as development scope of the segments differ.

Develop and grow

Attractive markets with growth potential:
- Focus on innovation and differentiation
- Improve offshore services and expertise

AC/DC HV offshore
Announcement of five large project awards during 2nd half 2018 with an aggregate value of more than EUR 800m.

DC HV onshore
Ongoing progress in qualifying the production site in Cologne for DC production.

Accessories
Fully-integrated offering across voltage levels.

Service and Installation
Solid execution on high-voltage repair orders driven by market-leading capabilities.

Focus on profitable growth

Fragmented commodity markets:
- Focus on costs
- Concentrate on profitable customers and markets
- Service level improvements

Building wires and Low-voltage
Focus on key customer growth, and targeting profiitable growth segments.

Medium-voltage
Access to larger frame contracts in combination with additional contractor business relating to growth in renewable energy.

Turnaround

Market NKT believes in, but with a need to restructure:
- Improve sales excellence & close product gaps
- Fix operating model & reduce costs

AC HV onshore
In 2018, conditions remained challenging in the markets NKT is operating in.

Railway
In 2018, NKT announced to divest its railway cable activities in order to increase focus on core businesses.

See further details about the segment developments on page 26–37

Financial review

NKT revenue and operational EBITDA for 2018 were in line with the adjusted expectations announced in the Q3 2018 Interim Report. Over the year, organic revenue development was flat, positively impacted by Applications and Service & Accessories, which was offset by the development in Solutions. However, operational EBITDA was down compared to 2017 as profitability decreased for Solutions and was unsatisfactory for Applications. The free cash flow was negatively impacted by the lower earnings and higher working capital.

Revenue* increased by EUR 22m

In 2018, the revenue* increased to EUR 1,080m from EUR 1,058m in 2017. This growth was primarily due to the additional two months' revenue contributed by the acquired ABB HV Cables activities. Currency changes, in particular the weakening of SEK against EUR, impacted revenue negatively. In 2017, revenue* of EUR 14.3m was contributed by the divested Automotive business.

NKT delivered flat organic revenue growth in 2018. This was driven by positive contribution from Service & Accessories and by improved sales in selected countries in Applications. However, Solutions was impacted by lower project activity and by two project-specific delays.

Operational EBITDA lower than 2017

NKT reported operational EBITDA of EUR 70.2m in 2018, against EUR 138.3m in 2017. This primarily reflected the composition of projects in Solutions, where average project margins and capacity utilization were lower, combined with unsatisfactory profitability in Applications. Additionally, operational EBITDA was negatively impacted by approx. EUR 20m due to external delaying factors relating to two ongoing high-voltage projects in Q4 2018. The water level was extraordinary low in the river Rhine, and a high-voltage project was delayed during installation which was caused by a sub-supplier.

The operational EBITDA margin* in 2018 was 6.5% compared to 13.1% in 2017.

The total one-off costs in 2018 were EUR 29.4m. Costs relating to the integration of the acquired ABB HV Cables activities amounted to EUR 6.4m. Since the acquisition was announced in September 2016 up until end-2018, integration costs have totalled EUR 29m, and no further costs are expected to occur. Total integration costs were initially expected to be approx. EUR 35–40m.

Costs relating to implementation of EXCELLENCE 2020 strategy initiatives, and cost base adjustments resulting from organizational changes, amounted to EUR 18.7m. In addition, there were costs of EUR 4.3m relating to the European Commission's investigations, concluded in 2014, into alleged cartel activities on high-voltage power cable projects. NKT decided to further appeal the decision before the European Court of Justice.

Revenue development and organic growth

Amounts in EURm	
2017 revenue*	**1,058.0**
Currency effect	-32.7
Acquisitions	68.5
Divestments and reclassifications	-15.2
2017 adjusted revenue*	**1,078.6**
Organic growth	1.5
2018 revenue*	**1,080.1**
Organic growth %	**0%**

** Std. metal prices*

EBT decreased in line with lower EBITDA

As a result of the lower EBITDA, earnings before tax (EBT) decreased from EUR 5.2m in 2017 to EUR -46.3m in 2018. The depreciation and amortization were EUR 5.9m higher in 2018 than in 2017 due to the additional two months' impact from the acquired ABB HV Cables activities.

The reported tax rate in 2018 was -4.3%, and the adjusted tax rate was 34.3%, which primarily to the write down of the deferred tax asset in Germany.

Working capital of EUR -16.2m at end-2018

The working capital at end-2018 amounted to -16.2m. This represents an increase on the extraordinary low level of EUR -106.5m at end-2017, but an improvement of EUR 77.4m compared to end-Q3 2018.

The level of working capital will primarily depend on timing of payments in Solutions, which will cause quarterly fluctuations. NKT increased its high-voltage order backlog towards end-2018, and as expected the inflow of prepayments impacted working capital positively.

The working capital ratio, LTM, was -0.2% at end-2018, which was 1.9%-points higher than at end-2017.

Cash flow reduced due to working capital development

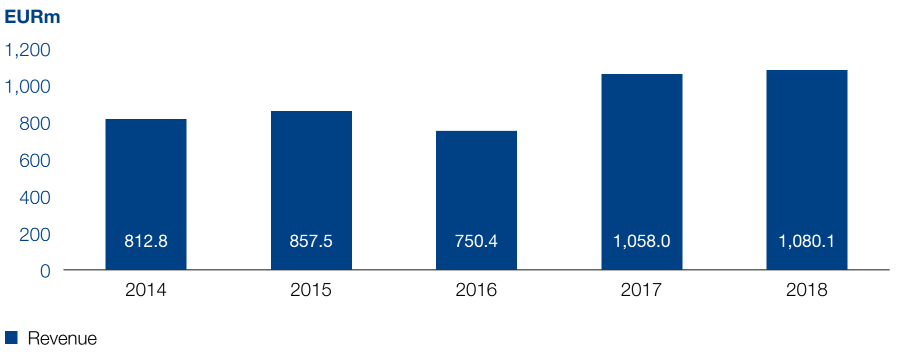
In 2018, the free cash flow was EUR -95.4m, compared to EUR 15.2m in 2017. This development was primarily driven by the lower earnings and the unfavourable change in working capital.

The cash flow from investing activities (excluding acquisitions and divestments) amounted to EUR -49.1m in 2018, against EUR -63.0m in 2017, reflecting the decrease in the level of investments.

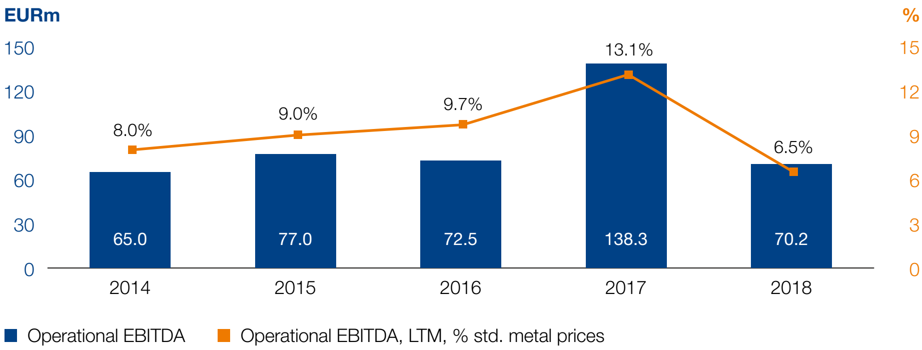
RoCE impacted by lower earnings

The lower earnings level negatively impacted RoCE, which was -0.8% in 2018 against 7.5% for 2017. The capital employed increased by EUR 24.8m from 2017 to 2018, which was mainly caused by the increase in working capital.

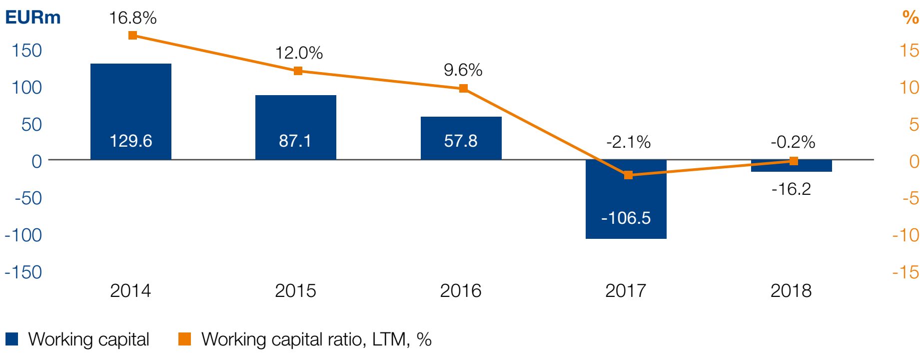
Revenue development



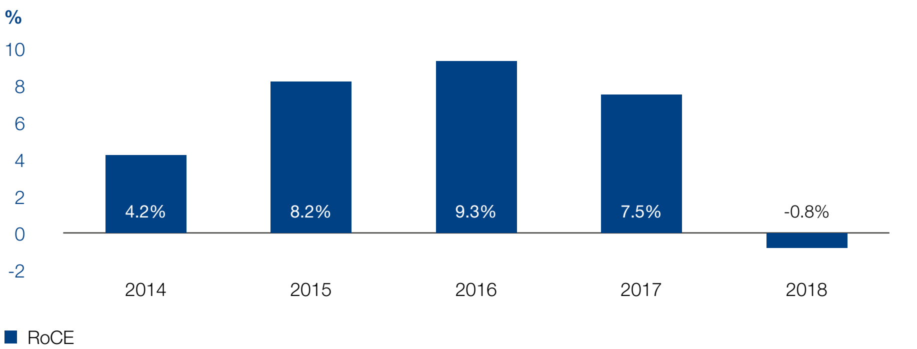
Operational EBITDA



Working capital



RoCE



Business review – Solutions

578m

Revenue*, EUR
(2017: EUR 589m)

-4%

Organic growth

62.9m

Operational EBITDA, EUR
(2017: EUR 110.6m)

Highlights – Solutions

- Two project-specific delays impacted financial performance negatively
- Several high-voltage projects finalized in 2018
- After a slow start, large projects of more than EUR 800m were awarded to NKT in 2nd half 2018

** Std. metal prices*

Underlying revenue development down in 2018

In 2018, the revenue* for Solutions amounted to EUR 577.9m, against EUR 589.0m in 2017. This corresponded to organic growth of -4%, which was driven by two project-specific delays in Q4 2018 as notified in the Q3 2018 Interim Report.

The delays arised from the consequences of extraordinary low water level in the river Rhine, and delays due to cable damage caused by a sub-supplier during installation. Both projects are now following revised timetables and NKT has introduced initiatives to mitigate the potential impact of a low water level in the Rhine going forward.

The revenue development in 2018 was positively influenced by additional two months of revenue from the acquired ABB HV Cables activities, compared to 2017. However, revenue was negatively impacted by currency movements and a reclassification of revenue in which EUR 21m was transferred from Solutions to Service & Accessories as a small department in Solutions has been organizationally moved.

Operational EBITDA met adjusted expectations

NKT reported operational EBITDA of EUR 62.9m for Solutions in 2018, which was in line with the adjusted expectations announced in November 2018, but down from EUR 110.6m in 2017. In 2018, the operational EBITDA margin was 10.9%, compared to 18.8% in 2017.

The earnings development from 2017 to 2018 reflected lower average project margins, fewer projects in execution and lower capacity utilization in Karlskrona. Additionally, the earnings were negatively impacted by the delayed two ongoing high-voltage projects during Q4 2018.

Progress on several projects during 2018

NKT progressed a range of high-voltage projects in 2018 at both the Cologne and Karlskrona production sites. These included the two large interconnector projects, Caithness Moray and Nordlink, and the offshore wind project Hornsea 1.

During 2018, NKT successfully finalized projects in several geographies and segments. Customer handover took place on two offshore wind projects, Galloper and Walney Extension. In addition, NKT Victoria, the company's cable-laying vessel, was utilized for installation on a few of the projects, including the Johan Sverdrup 1 oil platform project and the two offshore wind projects, Kriegers Flak and Rentel.

NKT Victoria registered very satisfactory deployment in 2018, with installation of offshore projects from the order backlog, assignments in the Service business, and sea trials.

In the high-voltage onshore AC segment, NKT continued to be challenged by the market conditions, with imbalance between supply and demand. NKT executed on a number of projects but the volume of new orders was unsatisfactory.

Increased award activity in 2nd half 2018

NKT was awarded five large high-voltage projects in 2nd half 2018 with an aggregate value of more than EUR 800m. This positive development followed a period with a relatively low level of project awards for NKT and the overall market in 2017 and 1st half 2018.

The five project awards span a variety of regions and segments and underline the leading position of NKT in both the offshore wind and oil & gas markets. The awards included the company's largest ever offshore wind export cable order for the Ostwind 2 grid connection in Germany.

Despite the recent positive development, the low number of project awards in 2017 and 2018 will negatively impact the level of activity for Solutions in 2019. The reduced order intake will prevent NKT from achieving optimal production and installation flow during 2019 in Karlskrona as it takes time to return to high capacity utilization across the different production phases.

Of the large offshore projects awarded during 2018 only Hornsea 2 and Moray East will materially affect production at Karlskrona in 2019. This thereby lead to lower absorption of fixed costs. All other projects in the current pipeline are expected to have material financial impact after 2019.

The imbalance between supply and demand in the first part of 2018 also led to increased competitive pressure in the market, impacting profitability on specific projects.

Order backlog of EUR 1.12bn

As a result of the increase in project awards in 2nd half 2018, the high-voltage order backlog at end-2018 was up by EUR 0.36bn (EUR 0.25bn in std. metal prices) compared to end-2017. Around 40% of the current backlog is expected to be realized in 2019, and the remaining approximately 60% in 2020 and beyond.

In November 2018, as the first step towards a final order, NKT signed an export cable Pre-Construction Agreement (PCA) for the Inch Cape offshore wind farm project in the UK. This project is not included in the current high-voltage order backlog and is among other things conditional on the customer being successful in the next UK Contracts for Difference (CfD) auction in 2019.

Ongoing DC qualification in Cologne

NKT is in the process of qualifying its Cologne facility for DC cable production according to international standards. This will improve production planning flexibility between Cologne and Karlskrona. As part of the qualification process, selected machinery in the factory will be upgraded and the investments will be part of the regular investment programme in 2018 and 2019. The factory is expected to be DC compliant in 2019.

Synergy potential unchanged, but dependent on capacity utilization

The annual run-rate synergy potential of approx. EUR 30m from the acquisition of ABB HV Cables remains intact. As previously stated, the majority of the synergies are sales and volume-related, and the timing thereof will depend on the ability to achieve high capacity utilization at both production sites. This will be driven by project awards in the high-voltage market. The synergies realized in 2017 and 2018 have been related to optimization of the cost structure.

Large high-voltage project awards for NKT in 2018

Project	Country	Segment	Contract value (EUR)	Award time	Expected finalization
Hornsea 2	UK	Offshore wind	>145m	Q3/18	2021
Triton Knoll	UK	Offshore wind	~115m	Q3/18	2020
Johan Sverdrup 2	Norway	Oil & gas	~110m	Q4/18	2022
Moray East	UK	Offshore wind	~150m	Q4/18	2021
Ostwind 2	Germany	Offshore wind	~300m	Q4/18	2022
Total			**~820m**		

NKT with important role in innovative offshore project

Power cable systems from NKT are at the heart of the Kriegers Flak Combined Grid Solution, the world's first project to uniquely combine the grid connections of offshore wind farms and an interconnector between two countries.

The national grid operators Energinet in Denmark and 50Hertz in Germany are raising the bar for efficient connection of national power grids with the unique Kriegers Flak project. When finalized, the solution connecting offshore wind parks to shore will also allow electricity to be exchanged in both directions between Denmark and Germany.

NKT was the power cable supplier to the project and delivered the 220 kV HVAC power cable system connecting the Kriegers Flak wind farm to the Danish power grid. Additionally, NKT supplied the 170 kV HVAC cable system that will create the world's first offshore interconnector link by connecting two wind farms in the Baltic Sea. NKT utilized the market leading capabiltiies of its cable laying vessel NKT Victoria for the installation.

The project was executed by NKT in close collaboration with two longstanding customers, Energinet and 50Hertz. The Kriegers Flak Combined Grid Solution is expected to be finalized during 2019.

"NKT brings the value of being a big supplier with extensive experience in handling big offshore cable projects, so we know they can follow through and complete the project successfully."

Johannes Stentoft Clausen
Department Manager, Energinet

Business review – Applications

401m

Revenue*, EUR
(2017: EUR 400m)

5%

Organic growth

5.4m

Operational EBITDA, EUR
(2017: EUR 23.2m)

Highlights – Applications

- Unsatisfactory level of profitability in 2018
- Transformational initiatives impacted earnings negatively. A more focused implementation approach will be introduced in 2019
- Geographical expansion contributing to organic growth

** Std. metal prices*

Flat absolute revenue development

Applications generated revenue* of EUR 400.5m in 2018, compared to EUR 399.9m in 2017. Currency changes, especially the depreciation of SEK against EUR, had a negative impact on reported revenue. The comparison period of 2017 also included revenue* of EUR 14.3m from the divested Automotive business.

The organic growth was 5% in 2018, driven by positive development in a number of countries, including expansion in previously relatively small NKT markets such as the UK and France.

Unsatisfactory operational EBITDA

The operational EBITDA for 2018 amounted to EUR 5.4m, compared to EUR 23.2m in 2017. In the comparison period, the divested Automotive business contributed EUR 3.3m. The unsatisfactory profitability in Applications was due to specific unfavourable market developments and difficulties implementing transformational initiatives aimed at increasing operational efficiency.

The unfavourable market development was mainly related to Sweden, which was negatively impacted by weather-related issues and by the depreciation of the SEK.

Since 2017, NKT has launched a number of transformational initiatives to create a stronger operating platform and increase efficiency in Applications. Key elements of the initiatives were a transition from a country-based to a global supply chain setup, roll-out of a uniform IT platform, implementation of a new operating system across factories, and a partnership agreement with an external provider to optimize machinery maintenance.

However, the plan of implementing most initiatives in parallel proved more difficult than expected. Costs related to implementation and short-term adverse impact on operational efficiency has impacted earnings negatively.

Therefore, a more focused approach on implementation and follow-up has been introduced. Initiatives will for now be limited to those that improve near-term profitability. This includes workforce reductions, initiatives to improve production throughput, supply chain planning and procurement optimizations. The positive effects from these initiatives are expected to gradually materialize during 2019.

Geographical performance and opportunities

Five European countries – Czech Republic, Denmark, Germany, Poland and Sweden – accounted for the majority of the revenue in Applications.

In Sweden, where NKT holds a leading position in the power cable market, revenue and earnings were adversely affected by a colder than normal winter, and a hot and dry summer, which prevented and restricted power cable installation activities respectively.

In 2018, Denmark delivered positive development in the medium-voltage segment, while the low-voltage segment was impacted by intensified competitive pressure.

In Germany, the competitive pressure increased in 2018, impacting the company negatively. NKT has lost market share in certain areas caused by the competitive environment.

Revenue in Poland increased in 2018. The market recovered to normalized levels after a challenging 2017. NKT benefitted from its strong position, driven by sales of building wires. The Czech Republic also delivered satisfactory growth performance in 2018.

In addition to the main markets, NKT is also pursuing opportunities elsewhere such as France and the UK. These markets will still be served from the current production setup.

France was an important contributor to growth in 2018, with NKT delivering power cables to a sizable frame contract in the medium-voltage segment. In Q3 2018, NKT entered a new frame contract that will have impact going into 2019. NKT is also increasing its market footprint in the UK and is well positioned to support the upcoming optimization of the electrical grid.

Although currently a relatively small part of Applications, the telecom power cable business offers attractive growth opportunities as the next-generation 5G mobile network will continue to be rolled out in the years ahead.

In late 2017, NKT established a sales subsidiary in Dallas, Texas, and started generating revenue streams in 2018 from the telecom power cable market in the US and Canada. The North American market offers a potential growth platform for the future.

NKT weatherproofing the Swedish power grid

Since 2003, medium-voltage cables from NKT have been installed in Sweden as part of an ambitious project to improve transmission security by mitigating the risk of damage from bad weather.

In close collaboration with long-term partner Vattenfall, NKT has delivered thousands of kilometres of underground medium-voltage power cable as replacement for existing overhead lines, thereby weatherproofing the power grid.

The project is essential to increase the resilience of the Swedish power grid by minimizing storm-related impacts on industry, cities and local communities.

Recently, Vattenfall has replaced overhead lines with medium-voltage underground cables from NKT in Dalarna in central Sweden to reduce the risk of power outages caused by fallen trees and other weather-related incidents.

The ambitious project to weatherproof and modernize the Swedish grid will continue in the years to come.

Business review – Service & Accessories

129m

Revenue*, EUR
(2017: EUR 89m)

9%

Organic growth

15.7m

Operational EBITDA, EUR
(2017: EUR 11.4m)

Highlights – Service & Accessories

- Satisfactory financial performance in 2018
- Good mix of offshore and onshore service assignments
- Railway business divestment announced in September 2018 and completed in February 2019

* Std. metal prices

Satisfactory organic growth

In 2018, the revenue* from Service & Accessories amounted to EUR 129.4m, compared to EUR 88.7m in 2017. The increase was partly driven by a reclassification of revenue in which EUR 21m was transferred from Solutions to Service & Accessories as a small department in Solutions has been organizationally moved. Furthermore, the development in 2018 was positively influenced by additional two-months of revenue from acquired activities, ABB HV Cables, compared to 2017.

The organic growth in 2018 was 9%, which was primarily driven by offshore cable repairs during 1st half of the year.

Earnings up due to Service business

Driven by improved earnings in the Service business the operational EBITDA increased to EUR 15.7m in 2018 from EUR 11.4m in 2017.

Due to the relatively small size of the Service & Accessories business line and the unpredictable nature of service operations in their existing form, fluctuations in earnings and profitability will occur from quarter to quarter, particularly depending on the number of large offshore cable repairs.

Such quarterly earnings fluctuations did occur in 2018, but earnings from Service operations demonstrated solid performance and attractive potential.

Service business driven by both offshore and onshore repairs

During 2018, the Service business proved its attractiveness to customers in both the offshore and onshore power cable markets, and delivered satisfactory financial performance.

NKT successfully carried out a number of offshore cable repair assignments in the European market, particularly in the 1st half of the year, positively impacting growth and profitability. In the onshore area too, NKT executed on several power cable maintenance and repair projects across the year.

NKT is currently in discussions with several power cable system operators about long- term service agreements for both cable systems supplied by NKT or other suppliers. This will secure a higher recurring revenue base for NKT by expanding its portfolio of service agreements in both the offshore and onshore cable markets.

NKT is gradually developing both its offshore and onshore service model to provide even stronger solutions for customers. Reducing potential power cable downtime is key to customers. Included in the improved model is among other things a guaranteed vessel mobilization time to ensure faster offshore repairs.

Mixed development for Accessories business

In 2018, the company's performance in the accessories segment varied across the different markets.

NKT has strengthened its presence in the less mature markets in Asia, and these contributed positively during the year. Development in the Middle East, which has been targeted as a specific growth region, was positive, and a number of contracts were secured in 2018. Growth perspectives have also started to unfold in India and Australia.

In Europe, the German market was challenged during 2018, which impacted

NKT negatively, but there were signs of improvement towards the end of the year. Performance in the Nordic countries was satisfactory.

NKT is continuously targeting new opportunities to grow its accessories business further, including possible entry into new markets. The company's broad product portfolio in high- and medium-voltage accessories acts as a key prerequisite in this regard.

Divestment of railway business

In September 2018, NKT announced an agreement to divest its railway cable activities to the Swedish company Elcowire Group AB. In line with earlier published expectations the transaction closure took place in February 2019 and marks the completion of the divestments of non-core activities.

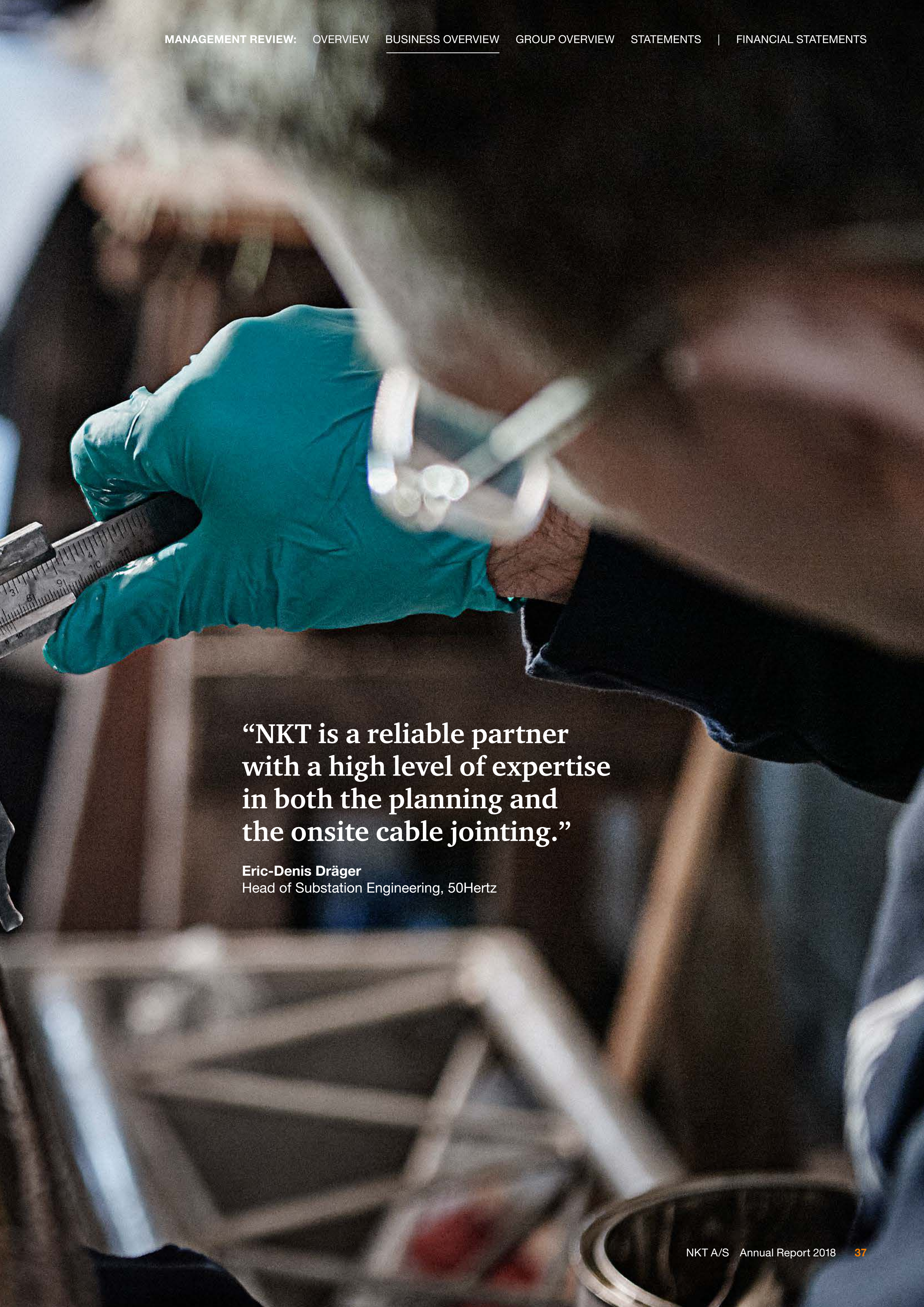
The financial impact of the transaction is immaterial. In Q1 2019, NKT will recognize an acconting gain following the divestment, which will be treated as a one-off item.

NKT keeps important power link between Denmark and Germany running

Focused service and preventive maintenance to the existing power grid are essential to ensure the reliable, safe and efficient power transmission needed to power modern societies.

In close collaboration with the German grid operator 50Hertz, NKT has successfully completed service on parts of the Kontek HVDC interconnector between Denmark and Germany.

NKT executed the operation to plan ensuring the important exchange of energy between the two countries. Interconnectors play a key role in driving efficient energy distribution across Europe.



"NKT is a reliable partner with a high level of expertise in both the planning and the onsite cable jointing."

Eric-Denis Dräger
Head of Substation Engineering, 50Hertz

Risk management

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

The goal for the company 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 awareness of risks and places focus on efficient day-to-day business operation and in line with the company strategy.

The company's main revenue streams originate from separate markets with independent market dynamics. To some degree this has the effect of spreading the risk, but in 2018 NKT was challenged in more than one market.

Solutions, which is primarily driven by sizeable infrastructure projects, is largely decoupled from short-term developments in the general economy. On the other hand, a part of sales in Applications is linked to cyclical construction activities. Finally, development in Service & Accessories partly depends on large power cable repair projects. In the business reviews on page 26–37, the development per business line in 2018 is described.

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 nine risk reporting units. Each unit, representing the NKT business lines and the support functions, performs 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 a year to evaluate whether satisfactory actions are being taken.

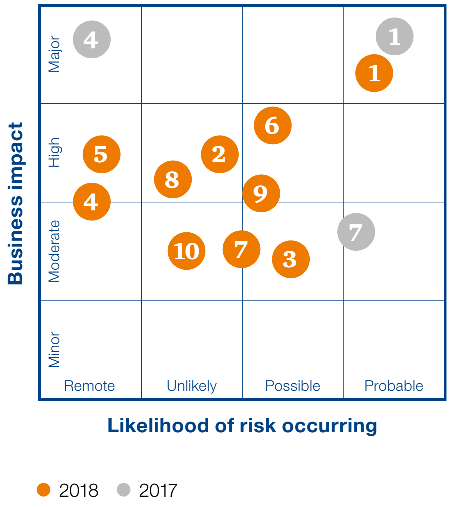
NKT risk matrix

The company's primary specific risks are charted in the risk matrix according to probability and impact. The overall risk picture is relatively stable compared to 2017.

In addition to the risks reported in 2017, three additional risks have been included: Key Supplier, Price Pressure and Key Customers.

Although NKT has decided to add three additional risks, these have been identified for some time and included in the ongoing work within the ERM framework. It is viewed prudent to highlight the top 10 risks to the NKT business in the risk matrix.

NKT risk matrix



As a complex, international business NKT is also exposed to financial risks that are 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 protect earnings and assets from significant fluctuations.

See note 6.5 on page 118–124.

ERM 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 development to identify opportunities and quickly respond to any market developments. Recently the market has been more volatile than expected primarily driven by postponement of sizeable interconnector projects	Overall, the high-voltage market is viewed as attractive with a promising order pipeline in the coming years. Although NKT is expected to be in a good position to capture a fair share of these orders, the competition in the high-voltage market will be intense. NKT is analyzing relevant markets to find new market and customer opportunities that have not been pursued in the past
2	Product claims	Product and warranty claims are closely monitored to identify potential failures in either production and/or product designs	Strengthening the Quality department to ensure solid products and increased cooperation across sites. Systematic root cause analysis on product issues and subsequent setting up corrective measures
3	Operational breakdowns at factories	Close monitoring of performance on bottleneck equipment	Maintenance programme with collaboration between Cologne and Karlskrona sites in the high-voltage segment. The outsourced maintenance function is steadily increasing the usability and availability, thus reducing the risk of operational breakdowns
4	Compliance	Continuous monitoring of regulatory developments	NKT has mandatory e-learning and test in Business Code of Conduct and data privacy, an established Ethics & Compliance Procedure monitored by the corresponding Committee. Issues reported to the whistleblower Hotline are investigated and corrective measures taken
5	DC qualification in Cologne	Monitoring of ongoing test and qualification processes	The DC qualification is ongoing, adequate resources are 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)	Identified risks will be mitigated via risk management activities and to the extent possible through insurance, contract provisions combined with pre-production testing. Defined work groups are closely monitoring and addressing specific projects
7	Cyber risk	General security surveillance of cyber- and IT-related risks	Assessment of cyber security risks and materiality are conducted and controls implemented. Awareness campaigns among relevant employees. Structured authorization processes for approvals
8	Key suppliers	NKT is working with a range of suppliers, of which some are suppliers of key materials, compounds and metals	Close working relationship with identified key suppliers to reduce risks, and investigation and qualification of alternative sourcing opportunities
9	Price pressure	In several power cable markets, NKT experiences a pressure on pricing for solutions, products and services	The macro economic and market dynamics vary across markets leading to a different mitigation approach in each business line. Among actions taken NKT is establishing focused working groups qualifying new markets and strengthening its value proposition
10	Key customers	In a few markets in the Applications segment a range of customers contribute with a significant share of sales. NKT has close and regular interactions with all identified key customers	NKT is expanding its market presence and strengthening its value proposition to reduce the dependence of individual customers

Note: The risks are not shown in prioritized order

NKT Group Leadership Team

Roland M. Andersen
Interim CEO & CFO
Born 1968
Joined NKT in 2015

Andreas Berthou
Executive Vice President,
Head of HV Solutions
Born 1976
Joined NKT in 2017

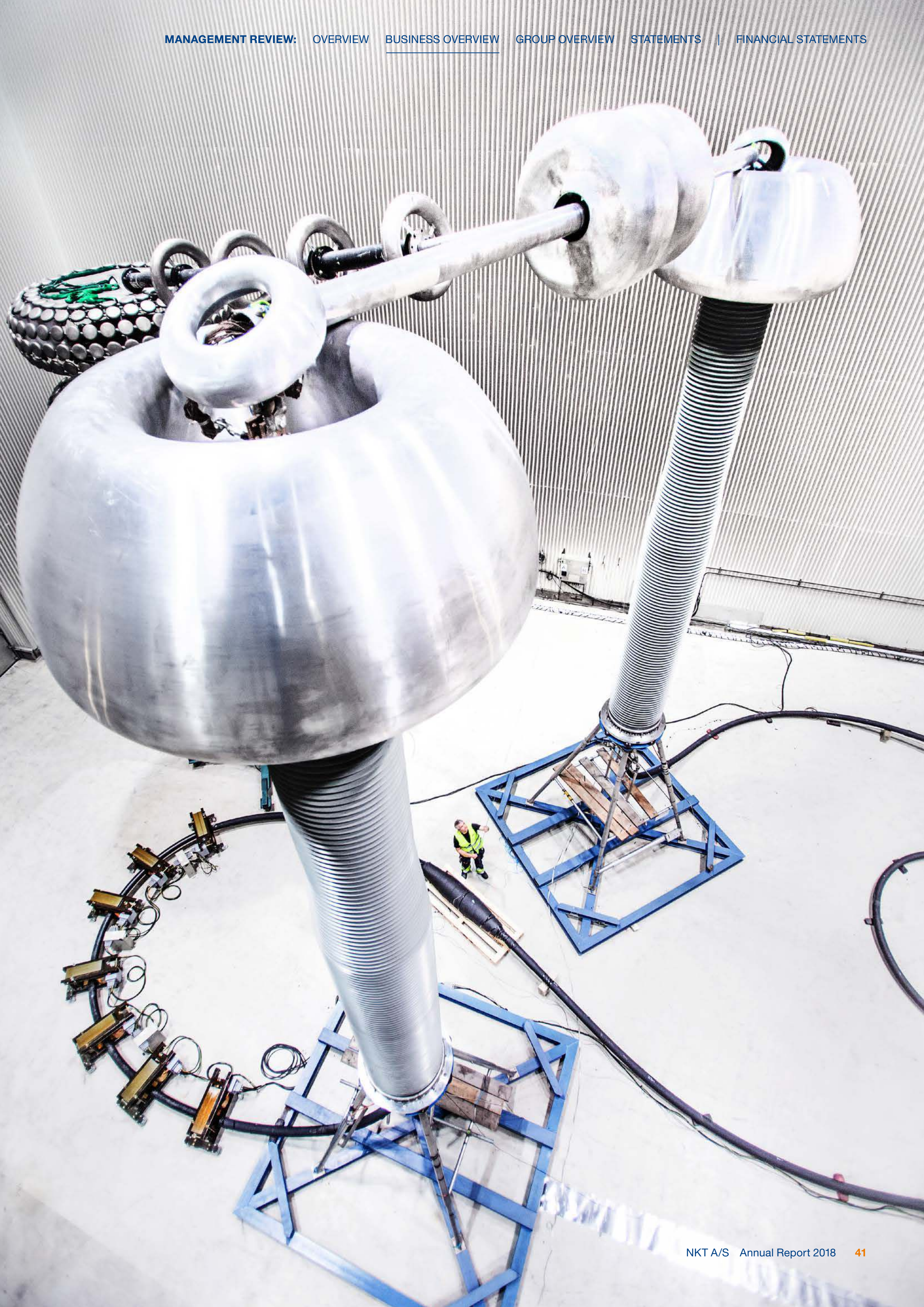
Anders Jensen
Executive Vice President,
Chief Technology Officer
Born 1964
Joined NKT in 2018

Dietmar Müller
Executive Vice President,
Chief Operations Officer
Born 1964
Joined NKT in 2016

Frida Norrbom Sams
Executive Vice President,
Head of Applications
Born 1971
Joined NKT in 2016

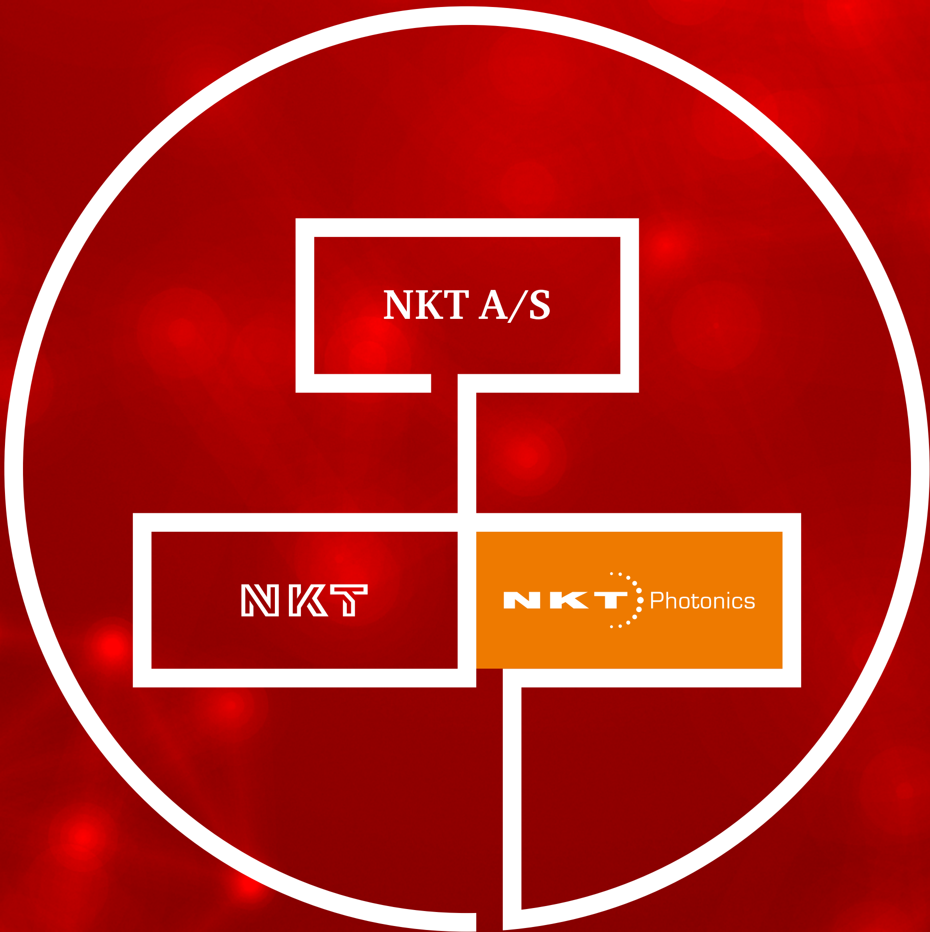
Oliver Schlodder
Executive Vice President,
Head of Service & Accessories
Born 1980
Joined NKT in 2013

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



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 employees, customers and stakeholders.


NKT A/S
NKT
NKT Photonics

Letter from the CEO

"2018 was a broad transformative growth year for NKT Photonics"

We improved our revenue by EUR 17m against the previous year to EUR 68m in 2018, 16% of which was organic growth. This was a marked improvement over recent years. The higher revenue benefitted our earnings, where we achieved the highest EBITDA in our company's history.

In 2018, we continued to execute on our commercialization strategy. We strengthened our organizational footprint and added further employees to support our growth. The integration of Onefive, acquired in September 2017, was completed, and the new activities are an integrated part of NKT Photonics.

We released a number of new products in 2018, several of which have been presented with awards for their capabilities. With the opening of our optical materials facility in Sweden in April 2018, NKT Photonics continued its transition towards a more vertically integrated company.

In 2019, we will extend our geographical focus with the establishment of a US facility in Boston, signalling an ambitious increase of our presence in the global photonics market. The growth delivered in 2018 was broad-based across product categories and markets, and we expect this tendency to continue in the coming years.

The management team is fully committed to delivering on the financial targets announced for the medium-term, and we believe the foundation is in place to achieve this. Global megatrends will continue to provide support in this regard, benefitting the products and technology we have available in the market.

Our growth journey is set to continue in 2019 and I am excited to be part of it. Finally, I would like to thank all our employees for their hard work and contribution to our results in 2018.

Basil Garabet
President & CEO

Key financials – 5-year review

Amounts in EURm	2018	2017	2016	2015	2014
Income statement					
Revenue	67.7	50.9	43.1	40.6	39.1
EBITDA	9.0	3.5	6.3	3.7	2.9
Depreciation and amortization	-7.9	-5.2	-4.8	-3.6	-3.0
Impairment	–	–	–	-2.6	-0.5
EBIT	1.1	-1.7	1.5	-2.5	-0.6
Financial items, net	-0.3	-0.9	-1.2	-0.5	-0.3
EBT	0.8	-2.6	0.3	-3.0	-0.9
Tax	1.2	0.4	-0.1	-0.1	0.0
Profit for the year	2.0	-2.2	0.2	-3.1	-0.9
Cash flow					
Cash flow from operating activities	4.1	-0.4	-1.4	4.3	1.7
Cash flow from investing activities excl. acq. & div.	-11.8	-7.5	-3.3	-3.8	-3.2
Free cash flow	-7.7	-7.9	-4.7	0.5	-1.5
Balance sheet					
Capital employed	78.6	69.0	49.3	19.2	26.8
Working capital	24.0	23.1	18.5	8.5	11.7
Financial ratios and employees					
Organic growth	16%	7%	7%	9%	9%
Gross margin	74.0%	70.9%	70.9%	69.4%	67.7%
EBITDA margin	13.3%	6.9%	14.7%	9.6%	7.2%
RoCE	1.6%	-3.1%	4.1%	0.4%	-0.6%
Full-time employees, end of period	349	302	240	174	209

Market overview

NKT Photonics operates in the global photonics market, generating around 60% of revenue in Europe, 25% in the US and the balance in Asia. The annual addressable market for the company is estimated at around EUR 4bn and is expected to grow more than 10% per year. NKT Photonics has divided this addressable portion into three main segments which are considered to be among the fastest growing areas of the photonics market.

Imaging & Metrology

The Imaging & Metrology segment is the largest segment for NKT Photonics and accounted for 35% of revenue in 2018. The company mainly serves this market through its SuperK supercontinuum white light lasers and a portfolio of ultrafast lasers.

NKT Photonics is the biggest 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 ones 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 completely new measurements not possible with any other laser type.

The SuperK lasers are used in a wide field of applications ranging from confocal microscopes in life science, over industrial component characterization and quality control, to processes within high-end semiconductor tools supplied to chip manufacturers. In addition, both the supercontinuum lasers and the ultrafast lasers are sold for a variety of research applications that are typically at the forefront of what later becomes industrial processes. Examples of these applications are research into new materials and advanced bio-imaging.

The overall market is worth an estimated EUR 1bn and growing at approx. 10% per year.

NKT Photonics mainly manufactures the products in Denmark, UK and Switzerland.

Imaging & Metrology – business example

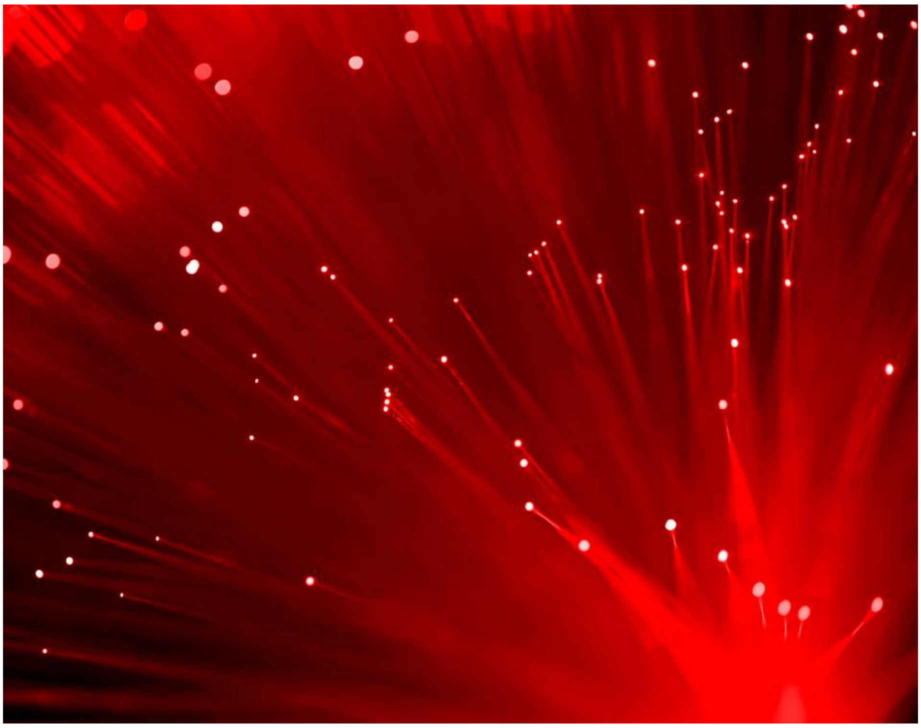
NKT Photonics has supplied its industry-leading SuperK supercontinuum white light lasers to Leica Microsystems for many years. The SuperK powers Leica's unique TCS SP8 X confocal microscope – the only supercontinuum confocal microscope on the market.

Using the laser from NKT Photonics, the user can perfectly match the wavelength of any fluorophore with up to eight fully tunable excitation lines simultaneously. This means more information can be extracted from the samples and damage to biological specimens is minimized.

Moreover, since the SuperK is a pulsed laser source, the microscope can be used for fluorescence lifetime measurements, adding a whole new dimension of information about the environment of the studied molecules, such as local pH or binding to another molecule.

Sensing & Energy

In 2018, NKT Photonics generated 32% of its revenue in the Sensing & Energy market. This market is served through the Koheras single-frequency lasers and LIOS distributed sensing systems.



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 as even very small disturbances can be observed 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 monitoring, and intrusion detection. Koheras lasers are also used in quantum technology and atomic research.

One of the main sensing product lines within the Sensing & Energy segment is the LIOS EN.SURE long-range optical fiber based temperature- and strain sensing measurement system. This system is designed to monitor underground transmission and distribution power cables and overhead transmission lines. Using an optical fiber embedded in the power cable or installed externally, the system can continuously monitor and predict power cable load, cable core temperature, and strain profile over single-ended lengths of up to 70 km per system. With LIOS EN.SURE, transmission system operators and utilities can ensure effective, efficient, safe, and sustainable supply of energy and data in all communities today and in the future.

Similar technology is used in the DE.TECT linear heat detection systems supplied to the global fire detection market with Siemens as one of the main customers.

The market is dominated by major infrastructure projects such as pipelines, power cables and tunnels/metros. The revenue can therefore fluctuate significantly between quarters. The Sensing & Energy market is relatively mature and estimated at around EUR 0.5bn, growing at approx. 5% annually.

NKT Photonics manufactures the products for this market in Germany and Denmark.

Sensing & Energy – business example

Siemens is one of NKT Photonics' long-term partners within fire detection where NKT Photonics supply linear heat detection systems. The systems are used in large fire detection systems worldwide such as the Gotthard Base Tunnel project.

The Gotthard Base Tunnel is the centrepiece of the transalpine route for rail transport into and through Switzerland. With a length of 57 km it is the world's longest rail tunnel, and approx. 200 trains are to traverse it every day at speeds of up to 250 km/h.

Among a number of a safety measures being implemented is a sophisticated fire protection solution. Based on NKT Photonics' FibroLaser technology and operated by Siemens, the solution can quickly identify and localize a fire and then automatically activate comprehensive exhaust ventilation. This technique will prevent smoke from spreading and ensure a smoke-free environment for firefighters and passenger evacuation.

Material Processing

The Material Processing segment is a focus area for NKT Photonics and has grown from approx. 10% of revenue in 2015 to 33% in 2018. The primary product lines in this segment are the Onefive ultrafast lasers and the aeroGAIN fiber gain modules.

The majority of the applications in this segment relate to ultrafast lasers. These are lasers that emit very short bursts of high-intensity light that can be used to manipulate material with very high precision. The Onefive ultrafast lasers are used directly in material processing applications within the medical and industrial sectors. The aeroGAIN modules are supplied to other manufactures of ultrafast lasers where they constitute the main "engine" of the lasers.

The market pull to move to ultrafast lasers is driven by the need for high accuracy and simplification of processes. The very short pulses enable removal and manipulation of extremely small amounts of material, drastically increasing the precision of the processing, and thereby allowing greater complexity and smaller features in the components – features much sought-after in industries like semiconductors and micro-electronics. Moreover, whereas components processed with other methods or slower lasers often need several additional processing steps to be finalized, components manufactured with ultrafast lasers require fewer processing steps and can often be used directly, thereby increasing throughput and lowering the component cost. Finally, the short pulses of the ultrafast lasers enable processing of materials that cannot easily be processed with conventional lasers, paving the way for novel high-tech materials.

The company's unique and heavily-protected Photonics Crystal Fiber technology is at the core of most of the products in this segment and one of the main drivers behind the growth.

The market for ultrafast fiber- and diode-pumped solid-state lasers was EUR 2.5bn in 2018 and growing at approx. 24% per year.

NKT Photonics manufactures the products in Denmark, UK and Switzerland.

Growth supporting macro trends

Growing and aging 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, and
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.

Material Processing – business example

NKT Photonics supplies the Onefive ORIGAMI femtosecond lasers to one of the biggest suppliers of ophthalmic equipment for use in their femtosecond laser assisted cataract surgery (FLACS) systems. The systems are used in more cataract surgeries than any other femtosecond lasers and have been applied in more than 500,000 cataract refractive procedures worldwide.

Compared to manual techniques, cataract surgery using femtosecond lasers offers a greater level of precision and repeatability. The ultra-stable and clean femtosecond pulses from the ORIGAMI laser enables the customer to offer a system capable of very precise flap cuts in the eye.

Commercialization strategy

Since 2015, the strategic direction of NKT Photonics has been to grow the business and increase profitability by prioritizing focus on commercialization over focus mainly on the scientific markets. During 2018, the company took further steps on this journey and launched 14 initiatives within four key focus areas as outlined below.

1

Move up in value chain

As part of the progression from primarily serving the scientific market towards a more industrial profile, the products which NKT Photonics offers are rising higher in the value chain. This is to capture a larger part of the value in the market. This 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 organic growth

Following the acquisitions of Fianium and Onefive in 2016 and 2017, the company's product and competence matrix is more balanced. As a result, the primary focus of NKT Photonics in the coming years will be on integration and growing existing business areas that offer significant growth opportunities, particularly in the Imaging & Metrology and Material Processing segments.

3

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. The operation of these sites as efficiently as possible across borders and the drive of LEAN process is anchoered under the Chief Operating Officer.

4

4. Fast introduction of new products

The NKT Photonics product technology platform is maturing, and focus has changed 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

NKT Photonics delivered organic revenue growth of 16% in 2018, as compared to growth rates of 7–9% in the three previous years. The improvement was broad-based across all segments. EBITDA more than doubled to EUR 9.0m compared to 2017 and order intake increased by 38%.

Revenue increased by EUR 17m

The revenue for NKT Photonics was EUR 67.7m in 2018, compared to EUR 50.9m in 2017, corresponding to organic growth of 16%. The company therefore returned to double-digit organic growth for the first time since 2013. The increase in revenue was driven by improved performance across product categories and business segments, reflecting satisfactory execution on the strategic initiatives.

The order intake increased by 38% in 2018, reflecting improvement across all product lines. The highest product growth was achieved in Koheras single-frequency lasers, fibers and ultrafast lasers. Regionally, the greatest growth was 57% in the US, followed by 42% in the EMEA region.

EBITDA up by EUR 5.5m

The EBITDA more than doubled to EUR 9.0m in 2018 from EUR 3.5m in 2017. The improved profitability was mainly driven by the growth in revenue and is well on track towards the company's medium-term targets.

During 2018, NKT Photonics continued to invest in creating a stronger organizational platform capable of capturing future opportunities, and this was reflected in new staff recruitment. The company is currently expanding its presence in the US, adding more people to serve this market. Entering 2019, a new global ERP system is also being implemented across the company.

The EBITDA margin was 13.3% in 2018, against 6.9% in 2017.

EBT and tax

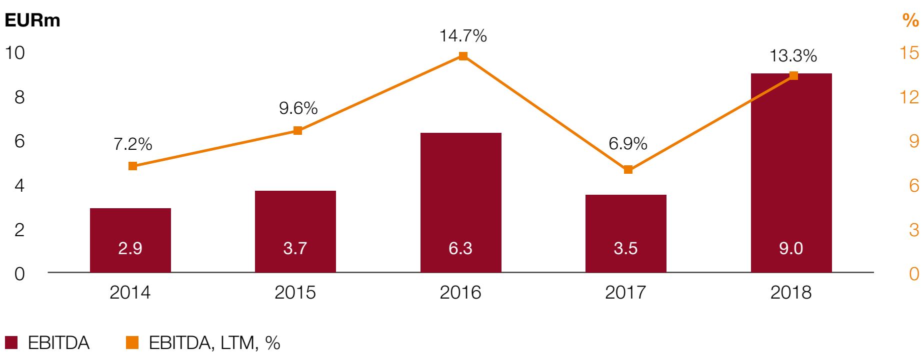
The development in earnings before tax, EBT, mirrored the improvement in EBITDA. EBT amounted to EUR 0.8m in 2018, against EUR -2.6m in 2017.

The tax rate in 2018 was -131% compared to 15% in 2017. The difference was mainly due to a prior year adjustment in Germany.

Working capital maintained in spite of increased revenue

Despite the higher level of revenue, the working capital at end-2018 amounted to EUR 24.0m, which was slightly up from

EBITDA



EUR 23.1m at end-2017. As in previous years, Q4 was the largest revenue contributor in 2018, which was the main reason for the increase in working capital of EUR 3.1m since end-September 2018.

The free cash flow (excl. acquisitions and divestments) amounted to EUR -7.7m in 2018 as the company continued to invest in R&D activities and strengthen the operations. In 2017, the comparable free cash flow was EUR -7.9m.

Positive RoCE development

Driven by the improvement in earnings, the company posted a positive RoCE of 1.6% in 2018, compared to a negative RoCE in 2017. The capital employed amounted to EUR 78.7m at end-2018, up from EUR 69.0m at end-2017.

Revenue development and organic growth

Amounts in EURm	
2017 revenue	**50.9**
Currency effect	-0.1
Acquisitions	7.6
Divestments and reclassifications	0.0
2017 adjusted revenue	**58.3**
Organic growth	9.4
2018 revenue	**67.7**
Organic growth %	**16%**

Imaging & Metrology

In 2018, the Imaging & Metrology segment continued to be an important driver for growth, posting a solid increase in revenue and order intake. The product line of supercontinuum white light lasers delivered positive performance.

The growth was broadly based across markets, including semiconductors, life sciences, and scientific markets, which are also where the majority of segment revenue is generated.

Sensing & Energy

The Sensing & Energy segment showed positive revenue development in 2018, primarily driven by the Koheras single-frequency fiber laser product line, and the LIOS product series. This progress particularly related to products for fire detection, power cable monitoring and other remote-sensing applications.

During Q1 2018, NKT Photonics won the prestigious 2018 Prism Award in the category Detectors and Sensors. The award was presented for the new LIOS EN.SURE long-range cable monitoring system that can measure temperature and strain in power cables and transmission lines at distances up to 70 km.

Material Processing

The Material Processing segment generated positive revenue development in 2018. This growth came mainly from ultrafast lasers for medical applications and from components for ultrafast lasers used in industrial micromachining. Several new and improved ultrafast lasers targeted at the industrial micromachining markets were released in 2018.

An important task in the early part of 2018 was the integration of Onefive, a manufacturer of ultrafast lasers acquired in September 2017. This process was successfully completed in Q2 2018, and the company's organization and products are now an integral part of NKT Photonics.

Risk management

As a core part of the company's strategy, NKT Photonics has increasingly turned its primary focus away from the scientific segment and towards the industrial markets. This trend has been further strengthened in recent years through a targeted approach and acquisitions. The growth in size of NKT Photonics and the changes in market approach also impact the management of risks and opportunities.

NKT Photonics operates in a relatively complex market environment characterized by highly advanced and specialized products. This provides attractive opportunities, but also presents challenges.

The Board of Directors and the management team of NKT Photonics continuously review the company's ERM model to ensure that risk management is always one step ahead of developments.

In 2018, the NKT Photonics management team reviewed the company's strategy to address both new opportunities as well as monitoring of risks. On the back of this exercise the previous risk profiles were confirmed.

NKT Photonics risk matrix

Risk	Risk identification	Monitoring	Mitigating actions
1	Current market leaders find alternatives to NKT Photonics that enable them to compete in the form of new technology.	Track the moves of both market leaders and customers.	Ongoing development and improvement of offerings, and protection by patents, etc.
2	Recent acquisitions bring with them new demands for transparency, coordination and alignment to work as one company. It is imperative to ensure timely and relevant decision support and avoid sub-optimization of businesses.	Evaluate whether relevant and consistent data is available, e.g. a best practice standard.	Implement new ERP system to strengthen transparency and common global procedures to promote simplicity and lean behaviour. The ERP system will go live during 2019.
3	Intellectual Property (IP) Rights relating to commercial opportunities are challenged either by infringements or lawsuits.	Closely supervise the specific area of technology by reviewing competitors' product offerings, and track the development and registration of IP 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.	Track and evaluate negative trends in key supplier performance.	Selective implementation of dual sourcing wherever possible, and avoidance of critical dependency on single-source components as far as possible through design solutions.
5	Attraction, motivation and retention of talent.	Track talents from main photonics industry and education clusters in order to attract new people, and increase focus on existing personnel through employee engagement surveys.	Cooperation with universities to ensure recognition and focus from students and schools.

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

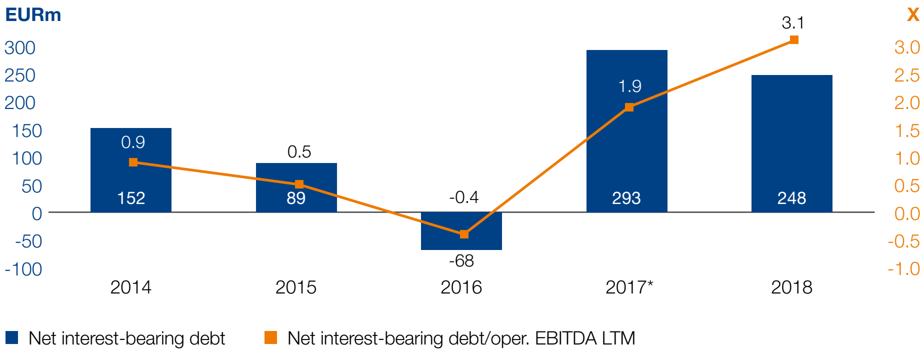
Realized financial performance versus outlook

The financial development for NKT A/S in 2018 was in line with the most recent financial outlook published in the Q3 2018 interim report.

In NKT, the financial during 2018 was negatively impacted by external factors relating to two ongoing high-voltage projects towards the end of the year, and profitability in Applications was unsatisfactorily low.

NKT Photonics, as in previous years, generated a high portion of earnings in the final quarter.

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.*

Operational and reported EBITDA

The operational EBITDA for NKT A/S amounted to EUR 79.3m in 2018, against EUR 141.8m in 2017. This decrease was driven by a reduced contribution from NKT, which outweighed the improved earnings in NKT Photonics. The operational EBITDA margin* decreased from 12.8% in 2017 to 6.9% in 2018.

In 2018, the reported EBITDA for NKT A/S was EUR 49.8m, against EUR 96.9m in 2017. The one-off costs were EUR 15.4m lower in 2018 compared to 2017.

Financial items, earnings before tax and tax

In 2018, the net financial items amounted to EUR -8.0m compared to EUR -14.7m in 2017. The lower costs were the result of a lower debt position compared to 2017, when Nilfisk was part of NKT A/S.

Despite the decrease in financial item costs, the earnings before tax (EBT) amounted to EUR -45.5m in 2018, against EUR 2.6m in 2017. This was mainly due to the lower EBITDA level, and an increase in depreciation and amortization which reflected the full impact of the acquired ABB HV Cables activities.

The reported tax rate in 2018 was -1.8%. The tax rate adjusted for prior years' deferred tax liability of EUR -5.7m as well as a write down of the deferred tax asset in Germany of EUR 20m was 28.8%.

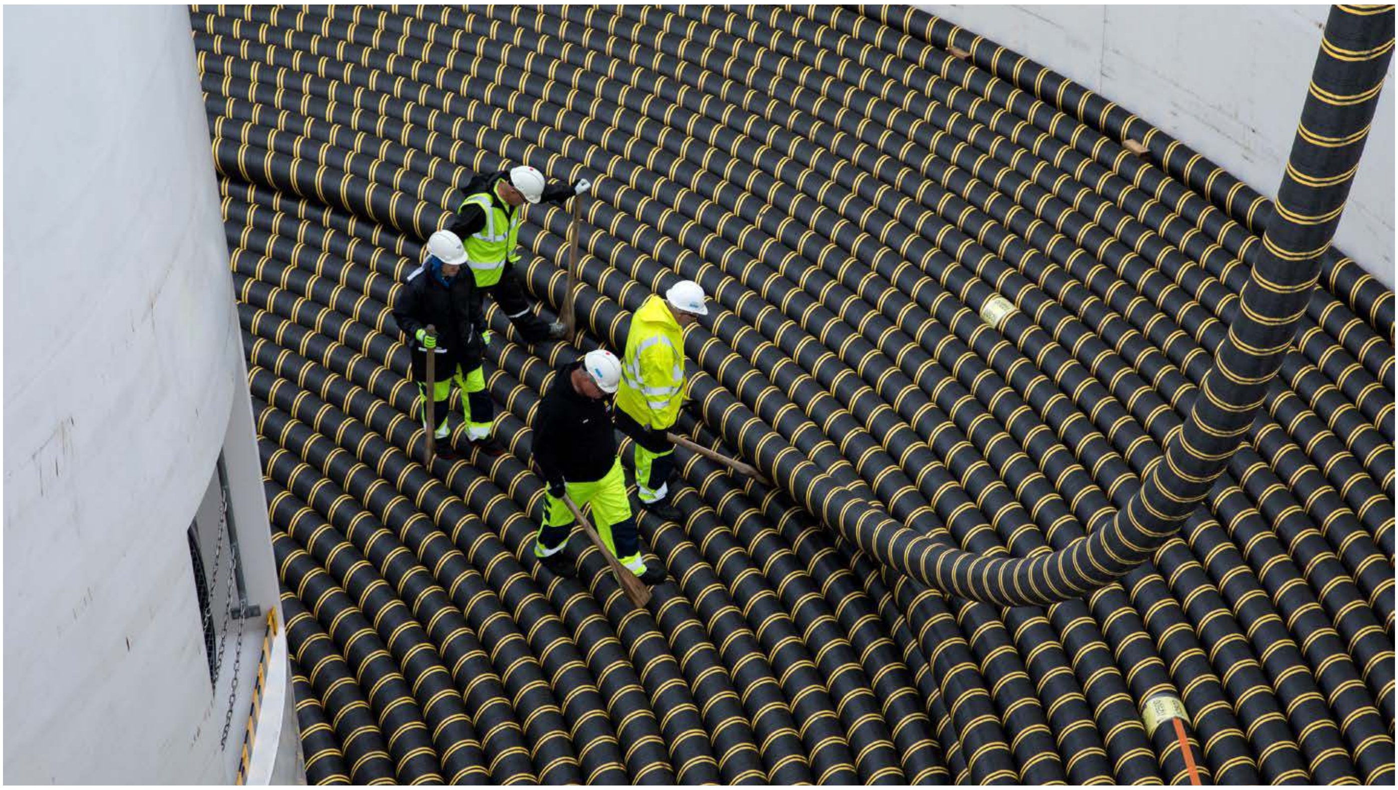
Cash flow

Three main factors have resulted in the decrease in cash flow from operating activities from EUR 87.8m in 2017 to EUR -42.2m in 2018. These were the lower EBITDA referred to above, the unfavourable development in working capital following the extraordinary low level at end-2017, and finally the inclusion of the discontinued Nilfisk operations in the first 9 months of the comparison period in 2017.

2018 financial outlook versus realized figures

Amounts in EURm	Initial in 2017 Annual Report	Adjustment in August 2018	Adjustment in November 2018	Realized
NKT				
Revenue*	~1.0–1.1bn	~1.0–1.1bn	~1.0–1.1bn	1.08bn
Operational EBITDA	~90–110m	Lower end of ~90–110m	~70m	70.2m
NKT Photonics				
Revenue	~65–70m	~65–70m	~65–70m	67.7m
EBITDA	~10m	~10m	~10m	9.0m

** Std. metal prices*



The cash flow from investing activities (excl. acquisitions and divestments) amounted to EUR -60.9m in 2018, compared to EUR -94.2m in 2017. This was due to lower level of investment in NKT in 2018, and the inclusion of the discontinued Nilfisk operations until October 2017.

Liquidity, debt leverage and equity

At end-2018, the net interest-bearing debt of NKT A/S amounted to EUR 248m, against EUR 293m at the close of 2017. The 2018 figure does not include the hybrid security referred to below.

In September 2018, NKT A/S issued a EUR 150m hybrid security, which is accounted for as equity in accordance with IFRS. Following this issuance, a new committed revolving credit facility (RCF) of EUR 300m with a 4-year maturity was established. The new financing structure has replaced all existing committed bank facilities and concluded the refinancing process initiated in the first part of 2018.

NKT A/S has sufficient financial headroom to manage the lower level of activity expected in 2019.

The net interest-bearing debt relative to operational EBITDA amounted to 3.1x at end-2018, against 1.9x at end-2017. NKT A/S targets a leverage ratio up to approx. 1.5x in the medium-term. The targeted ratio is to be achieved through the expected improvement in earnings in the coming years.

At end-2018, NKT A/S had total available liquidity reserves of EUR 246.3m, comprising cash of EUR 28.2m and undrawn credit facilities of EUR 218.1m. The equity amounted to EUR 895.6m and included the hybrid security. The solvency ratio was 48%. Excluding the hybrid security, the solvency ratio was 40% compared to 43% at end-2017.

2018 financial development by business

	Revenue*			Oper. EBITDA			Oper. EBITDA margin*	
Amounts in EURm	**2018**	**2017**	**Change**	**2018**	**2017**	**Change**	**2018**	**2017**
NKT	1,080.1	1,058.0	22.1	70.2	138.3	-68.1	6.5%	13.1%
NKT Photonics	67.7	50.9	16.8	9.0	3.5	5.5	13.3%	6.9%
Other/eliminations	-0.7	-0.5	-0.2	0.1	0.0	0.1		
NKT A/S	**1,147.1**	**1,108.4**	**38.7**	**79.3**	**141.8**	**-62.5**	**6.9%**	**12.8%**

* *Std. metal prices*

Financial review Q4 2018

Organic growth in Q4 2018

-16%
NKT

-30%
Solutions

8%
Applications

-9%
Service & Accessories

7%
NKT Photonics

NKT

NKT posted revenue* of EUR 232.3m in Q4 2018. This was EUR 49.2m lower than in Q4 2017 and was attributable to Solutions. NKT reported decreased production activity in Karlskrona, and delays of two ongoing high-voltage projects due to external factors. The weakening of SEK against EUR also drove down revenue.

The slowdown in Solutions led to overall organic growth of -16% in Q4 2018, and thereby outweighed the positive revenue development in Applications. This business line delivered 8% organic growth in Q4 2018, which was primarily driven by improved presence in the company's relatively smaller markets in France and the UK. Organic growth for Service & Accessories was impacted by low offshore repair activities in the service business.

In line with the revised expectations published in November 2018, NKT delivered operational EBITDA of EUR -8.4m for Q4 2018. The profitability in Solutions was reduced by the project-specific delays referred to above. Despite Q4 being a seasonally smaller quarter for Applications, business profitability was unsatisfactory. The earnings improved slightly compared to Q3 2018, but remained negatively impacted by execution issues.

NKT Photonics

NKT Photonics achieved record-high quarterly revenue of EUR 22.5m in Q4 2018. This was up from EUR 21.0m in Q4 2017, corresponding to organic growth of 7%. This development reflected solid performance in all product categories and segments, further evidencing that a stronger and broader platform is being created across the company.

As in the previous years, the final quarter of 2018 was the most significant earnings contributor. EBITDA in Q4 2018 was EUR 8.0m, which equalled 89% of total earnings for the year. In comparison, the final quarter of 2017 produced EBITDA of EUR 5.7m. The improved EBITDA performance was achieved despite continued increase in staff, and costs relating to preparedness for future growth opportunities.

Q4 financial development for NKT A/S

	Revenue*			Oper. EBITDA			Oper. EBITDA margin*	
Amounts in EURm	**Q4 2018**	**Q4 2017**	**Change**	**Q4 2018**	**Q4 2017**	**Change**	**Q4 2018**	**Q4 2017**
NKT – Solutions	111.1	177.8	-66.7	-9.4	31.9	-41.3	-8.5%	17.9%
NKT – Applications	96.5	86.8	9.7	1.2	3.1	-1.9	1.2%	3.6%
NKT – Service & Accessories	31.5	24.6	6.9	4.0	2.3	1.7	12.7%	9.3%
Eliminations / non-allocated costs	-6.8	-7.7	0.9	-4.2	-3.5	-0.7		
NKT	232.3	281.5	-49.2	-8.4	33.8	-42.2	-3.6%	12.0%
NKT Photonics	22.5	21.0	1.5	8.0	5.7	2.3	35.6%	27.1%
Eliminations / non-allocated costs	-0.2	-0.5	0.3	0.1	0.0	0.1		
NKT A/S	**254.6**	**302.0**	**-47.4**	**-0.3**	**39.5**	**-39.8**	**-0.1%**	**13.1%**

* *Std. metal prices*

Shareholder information

NKT A/S shares

At end-2018 the NKT A/S share price was DKK 88.95, compared to DKK 283.30 at end-2017. As no dividends were paid, this equals a share price return of -69% for the year. In the same period, the dividend-adjusted share price returns for the company's largest European competitors, Prysmian and Nexans, were -34% and -52%, respectively. The Danish OMX C25 index' dividend-adjusted return was -11% in 2018.

The average daily turnover in NKT A/S shares on all trading markets was EUR 9m in 2018, as compared to EUR 13m in 2017. In the comparison period Nilfisk was still part of the stock-listed entity until October 2017. Average daily trading volume was 398,000 shares in 2018, compared to 219,000 in 2017. In 2018, Nasdaq Copenhagen was the main trading market for the company's shares with 59% of the total traded volume, an increase from 46% in 2017.

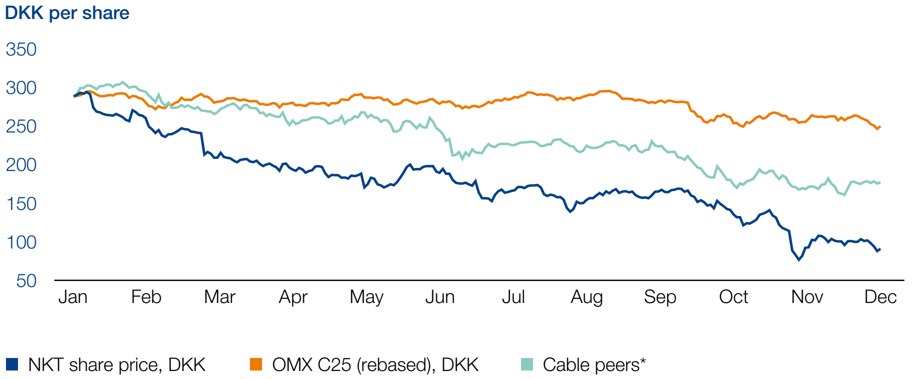
NKT A/S entered as member of the Nasdaq Copenhagen Mid Cap index in December 2018.

The total share capital of NKT A/S consists of 27,126,369 shares, each with a nominal value of DKK 20, corresponding to a total nominal share capital of EUR 72,822,500 (DKK 542,527,380).

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. No dividend payment is proposed to be paid out in 2019 on the basis of the 2018 results due to focus on achieving the medium-term leverage target (net interest-bearing debt relative to operational EBITDA) of 1.5x.

NKT Share price



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

Shareholder structure

The NKT A/S share is 100% free float with no dominant shareholders. At end-2018 the company had approx. 26,300 registered shareholders, compared to approx. 20,300 at end-2017. 98% of the registered shareholders were Danish, against 97% at the end of 2017. At end-2018, 91% of the total share capital was registered, which was on par with end-2017.

At end-2018, four NKT A/S investors had reported shareholdings of between 5.00–9.99%: ATP (Denmark), Ferd AS (Norway), Kirkbi INVEST A/S (Denmark), and Nordea Funds Ltd, Danish Branch (Finland).

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

At year-end 2018, the members of the Board of Directors held a total of 8,510 NKT A/S shares, corresponding to a total market value of EUR 0.1m. The Executive Management team did not own shares. As part of the long-term incentive programme, interim CEO Roland M. Andersen has been awarded performance shares. Vesting will start from 2021.

Persons deemed to possess inside knowledge 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 64–66.

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 that 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 AGM.

The Investor section on the NKT website includes current and historical share information, 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 543m)

Number of shares: 27.1 million

Nominal value: DKK 20

Share classes: 1

Financial calendar 2019

21 Mar: Annual General Meeting

16 May: Interim Report, Q1 2019

15 Aug: Interim Report, Q2 2019

21 Nov: Interim Report, Q3 2019

Corporate governance

Management bodies

The management structure 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 2018. The Board of Directors also comprises three employee-elected members serving on 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.

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 are 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, traditionally comprises two people; the President & CEO and the CFO of NKT. Currently, the Executive Management only has one member as Roland M. Andersen is acting as Interim CEO and CFO.

See pages 64–65 for particulars of the Board of Directors. See pages 40 and 53 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 accounting and internal controls as defined in an annual plan, and establishes conditions and a framework for the work of the external auditors. Its principal tasks are:

- To monitor the financial reporting process and compliance with existing legislation, standards and other regulations for listed companies relating to presentation and publication of financial reporting
- To monitor whether the company's internal control and risk management systems are properly designed and function effectively

Corporate governance framework

- 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 EuroSox framework at NKT A/S 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 NKT A/S Controlling 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.

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	7
Remuneration	Jutta af Rosenborg (Chair), Jens Maaløe	7
Nomination	Lars S. Sørensen (Chair), Jens Due Olsen	6
NKT Photonics	Jens Maaløe (Chair), Jens Due Olsen	7

* *Members and meetings held in the period AGM 2018 – AGM 2019. Full terms of reference for the Audit, Remuneration and Nomination Committees can be found at investors.nkt.com.*

Scope

During the present reporting period, the company continued its work of strengthening the EuroSox framework by including newly acquired entities in its scope.

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. Furthermore, the Audit Committee 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

Remuneration Committee

The Remuneration Committee is responsible for establishing the remuneration policy for the Board of Directors and the Executive Management for NKT A/S, for making proposals on 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 Board of Directors receives a fixed salary, while the Executive Management for NKT A/S 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 strategic goals set. All parties must receive competitive pay which is commensurate with the duties assigned and which represents an attractive incentive for long-term commitment. Severance arrangements related to 'Change of control' are described in Note 3.3 on page 96.

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 2019 the company will propose that the remuneration for the Board of Directors be unchanged from 2018. 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 to NKT A/S. 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 so as to be competitive but not excessive. The short-term and long-term incentive pay are based on financial measures and key performance indicators that directly link to our vision and strategic focus as a leading supplier in the relevant industries.

See Note 3.2–3.3 on page 92–96 and the remuneration report published at investors.nkt.com

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.

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 summer of 2018.

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 quantitative target for the under-represented gender among AGM-elected Board members is at least 17%, corresponding to one individual. This target was met in 2018. 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-2018.

Terms of reference for the Nomination Committee at investors.nkt.com

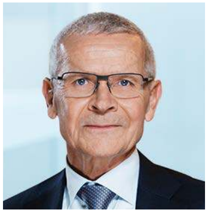
Corporate governance

As a listed company on the Nasdaq Copenhagen stock exchange, NKT A/S is subject to rules governing share issuers and also to 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 of the 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	▪ Nomination ▪ NKT Photonics		▪ Remuneration ▪ Audit ▪ NKT Photonics (C)		▪ Audit (C) ▪ Remuneration (C)
Other positions and directorships	▪ Nilfisk Holding A/S, Chairman ▪ Huscompagniet A/S, Chairman ▪ KMD A/S, Deputy 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	President & CEO, Terma A/S ▪ Grundfos Holding A/S ▪ Nilfisk Holding A/S ▪ Niras A/S ▪ Innovation Fund Denmark, Chairman ▪ Member of the General Council of Confederation of Danish Industries	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 ▪ PGA European Tour, Chairman of Audit and Risk Committee ▪ BBGI SICAV S.A., Chairman of the Audit Committee
NKT shares at 31 December 2018	2,500	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 ▪ Specialst expertise in technology and large infrastructure projects	▪ International management ▪ Management of listed companies ▪ Specialist expertise in finance, risk management and optimization of business processes

(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	**Stig Nissen Knudsen** Born 1969, Denmark First elected in 2018 Production Development Engineer, NKT Photonics A/S Elected by the employees	**Peter Wennevold** Born 1966, Denmark First elected in 2018 Finance Business Partner (SCM), NKT Cables A/S Elected by the employees
NKT Committees	▪ Nomination (C)			
Other positions and directorships	Deputy President & COO, SAS ▪ Nilfisk Holding A/S ▪ Wexøe Holding A/S ▪ Industry Foundation of Denmark ▪ Fund of 3 June ▪ General Council of the Confederation of Danish Industries			
NKT shares at 31 December 2018	1,495	0	0	0
Special qualifications	▪ International business development ▪ Management of listed companies ▪ Specialist expertise in leadership development, operations excellence and sales and marketing			

(C) = Chairman

Executive Management

Roland M. Andersen
Interim CEO and CFO

Born 1968, Denmark
Joined NKT in 2015

MSc. Corporate Finance 1993
Executive Management Programme 1999

NKT positions	▪ Interim CEO, NKT 2018 ▪ Member of Executive Management 2018 ▪ CFO, NKT 2015
Directorships	▪ –
NKT shares at 31 December 2018	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 2018.

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

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, 28 February 2019

Executive Management

Roland M. Andersen
Interim CEO and CFO

Board of Directors

Jens Due Olsen
Chairman

René Svendsen-Tune
Deputy Chairman

Jack Ejlertsen*

Stig Nissen Knudsen*

Jens Maaløe

Andreas Nauen

Jutta af Rosenborg

Lars Sandahl Sørensen

Peter Wennevold*

** 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 01.01.2018 – 31.12.2018, 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 31.12.2018, and of the results of their operations and cash flows for the financial year 01.01.2018 – 31.12.2018 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 6 years up to and including the financial year 2018.

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 01.01.2018 – 31.12.2018. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of construction contracts
Refer to notes 1.1, 2.2 and 5.2 in the consolidated financial statements

Significant judgements are required by Management in determining stage of completion and estimating profit on each project, including assessment of provisions for specific project risks. Minor changes in the stage of completion and specific project risks can have a significant impact on the valuation and recognition of construction contracts and income for the year.

Accordingly, the valuation of construction contracts especially relating to high voltage offshore contracts is considered to be a key audit matter.

How the matter was addressed in the audit
Based on our risk assessment, we have assessed the relevant internal controls for construction contracts primarily relating to contract acceptance, change orders, monitoring of project development, costs incurred and estimation of costs to complete and assessment of specific project risks.

We obtained from Management an overview of the Group's construction contracts at 31 December 2018 relating to high voltage offshore contracts covering both in progress contracts as of year-end and contracts completed during the year. Based on assessed project risks and materiality, we selected a sample of contracts where we obtained the underlying contracts, including change orders, original budget and any changes made to original budgets, including estimates of costs to complete, project reports and overview of the risk register and corresponding risk provision, where deemed relevant by us.

For the selected contracts, we assessed and challenged Management's assumptions for determining stage of completion with due consideration to its assessment of project risks and risk provisions and estimated profit/loss through interviews with project controllers, project management, legal department and management representatives as well as our understanding and assessment of the contract terms, associated project risks, including valuation of change orders under discussion with customers and final acceptance. Additionally, we attended project steering committee meetings at which project performance, cost to complete and project risk register, including likelihood of the risk materialising, were discussed and assessed in detail.

For the selected completed contracts, we performed retrospective reviews of assessment of project risk and development and utilisation of risk provisions to assess the completeness and accuracy of Management's assumptions applied throughout the contract period.

Impairment test of non current assets

Refer to notes 1.1, 4.1, 4.2 and 4.3 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 2019 and financial forecasts for 2020–2022, 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 2019 and financial forecasts for 2020–2022. We used our valuation specialists to assist us in evaluating the appropriateness of key market-related assumptions in Management's valuation models, including discount rates and terminal growth rates. We assessed and challenged key assumptions applied in Management's future forecasts of growth, investments and margins included in the cash flow forecasts.

In assessing the level of headroom at Solutions level we performed downside sensitivity analyses around the key assumptions, using a range of higher discount rates, lower terminal growth rates and lower EBITDA levels.

Valuation of deferred tax assets

Refer to notes 1.1 and 2.4 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 2019 and financial forecasts for 2020–2023.

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 2019 and financial forecasts for 2020–2023 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, 28.02.2019

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Anders Vad Dons
State-Authorised
Public Accountant
MNE no 25299

Lars Siggaard Hansen
State-Authorised
Public Accountant
MNE no 32208

Consolidated financial statements

Income statement

1 January – 31 December

Amounts in EURm	Note	2018	2017
Revenue	2.1 / 2.2	1,501.6	1,479.3
Other operating income		11.9	5.5
Changes in inventories of finished goods and work in progress		-0.4	21.1
Work performed by the Group and capitalised	2.3	13.6	13.3
Costs of raw materials, consumables and goods for resale		-988.6	-955.1
Staff costs	3.1	-277.8	-247.4
Other costs	2.3 / 7.1 / 8.1	-210.4	-219.7
Shares of profit after tax in associates		-0.1	-0.1
Earnings before interest, tax, depreciation and amortization (EBITDA)		**49.8**	**96.9**
Depreciation of property, plant and equipment	4.3	-66.4	-60.4
Impairment of property, plant and equipment	4.3	0.0	-0.9
Amortization of intangible assets	4.2	-20.9	-18.3
Earnings before interest and tax (EBIT)		**-37.5**	**17.3**
Financial income	6.4	65.5	43.2
Financial expenses	6.4	-73.5	-57.9
Earnings from continuing operations before tax (EBT)		**-45.5**	**2.6**
Tax on continuing operations	2.4	-0.8	-6.0
Profit/loss for the year from continuing operations		**-46.3**	**-3.4**
Profit/loss for the year from discontinued operations	9.1	0.0	932.2
Profit/loss for the year		**-46.3**	**928.8**
To be distributed as follows:			
Equity holders of NKT A/S		-48.7	928.8
Hybrid capital holders of NKT A/S		2.4	0.0
Profit/loss for the year		**-46.3**	**928.8**
Basic earnings, EUR, per share (EPS)		-1.8	34.3
Diluted earnings, EUR, per share (EPS-D)		-1.8	34.3
Earning from continuing operations, EUR, per share (EPS)		-1.8	-0.1
Diluted earnings from continuing operations, EUR per share (EPS-D)		-1.8	-0.1

The Board of Directors proposes a dividend for the year of DKK 0.0 per share (2017: DKK 0.0 per share) for approval at the Annual General Meeting.

Statement of comprehensive income

1 January – 31 December

Amounts in EURm	Note	2018	2017
Profit/loss for the year		**-46.3**	**928.8**
Other comprehensive income			
Items that may be reclassified to income statement:			
Foreign exchange adjustment, foreign companies		-32.3	-28.0
Transferred to financial income		0.0	-1.6
Transferred to profit from discontinued operations		0.0	9.5
Value adjustment of hedging instruments:			
Value adjustment for the year	6.5	10.0	-17.5
Transferred to costs of raw materials, consumables and goods for resale		0.4	-2.9
Transferred to profit from discontinued operations		0.0	2.2
Fair value adjustment of available for sale securities		0.0	0.3
Transferred to profit from discontinued operations		0.0	-1.7
Tax on other comprehensive income	2.4	-2.6	4.7
Items that may not be reclassified to income statement:			
Actuarial gains/losses on defined benefit pension plans	4.4	2.0	0.2
Tax on actuarial gains/losses		-0.2	0.0
Total other comprehensive income		**-22.7**	**-34.8**
Comprehensive income for the year		**-69.0**	**894.0**
To be distributed as follows:			
Equity holders of NKT A/S		-71.4	894.0
Hybrid capital holders		2.4	0.0
Comprehensive income for the year		**-69.0**	**894.0**

Balance sheet

31 December

Amounts in EURm	Note	2018	2017
Assets			
Intangible assets	4.1 / 4.2		
Goodwill		401.2	417.5
Trademarks, etc.		0.3	0.4
Customer-related assets		9.2	16.2
Development projects completed		27.6	12.2
Patents and licences, etc.		79.3	85.9
Development projects in progress incl. prepayments		71.6	65.2
		589.2	**597.4**
Property, plant and equipment	4.1 / 4.3		
Land and buildings		267.0	279.8
Manufacturing plant and machinery		303.6	334.8
Fixtures, fittings, tools and equipment		51.9	57.9
Property, plant and equipment under construction, incl. prepayments		22.7	26.4
		645.2	**698.9**
Other non-current assets			
Other investments and receivables		2.0	2.4
Deferred tax	2.4	27.7	49.5
		29.7	**51.9**
Total non-current assets		**1,264.1**	**1,348.2**
Inventories	5.1	219.8	226.1
Receivables	5.2	339.0	267.3
Income tax receivable		8.0	16.2
Interest-bearing receivables		0.1	2.1
Cash at bank and in hand	6.3	28.2	44.7
Total current assets		**595.1**	**556.4**
Total assets		**1,859.2**	**1,904.6**

Balance sheet

31 December

Amounts in EURm	Note	2018	2017
Equity and liabilities			
Equity			
Share capital	6.2	72.8	72.8
Reserves		-28.9	-5.1
Retained comprehensive income		699.3	748.6
Proposed dividends		0.0	0.0
Equity attributable to equity holders of NKT A/S		743.2	816.3
Hybrid capital	6.1	152.4	0.0
Total equity		**895.6**	**816.3**
Non-current liabilities			
Deferred tax	2.4	46.3	59.9
Pension liabilities	4.4	49.9	52.5
Provisions	4.5	18.5	28.5
Interest-bearing loans and borrowings	6.3/6.5	268.4	332.8
		383.1	**473.7**
Current liabilities			
Interest-bearing loans and borrowings	6.3/6.5	8.2	7.2
Trade payables and other liabilities	5.3/6.5	558.3	582.2
Income tax payable		0.8	11.7
Provisions	4.5	13.2	13.5
		580.5	**614.6**
Total liabilities		**963.6**	**1,088.3**
Total equity and liabilities		**1,859.2**	**1,904.6**

Cash flow statement

1 January – 31 December

Amounts in EURm	Note	2018	2017
Earnings before interest, tax, depreciation and amortization (EBITDA) from continuing operations		49.8	96.9
Earnings before interest, tax, depreciation and amortization (EBITDA) from discontinued operations	9.1	0.0	83.2
		49.8	180.1
Non-cash operating items:			
Profit on sales of non-current assets, use and increase of provisions, and other non-cash operating items, etc.		-10.8	-11.8
Changes in working capital		-76.0	-23.7
Cash flow from operations before financial items, etc.		-37.0	144.6
Financial income received		65.4	32.7
Financial expenses paid		-73.7	-57.4
Income tax paid		3.1	-32.1
Cash flow from operating activities		**-42.2**	**87.8**
Acquisition of businesses	7.1	0.0	-685.8
Acquisition of vessel committed by acquired business	7.1	0.0	-115.0
Divestment of business		0.0	33.0
Nilfisk demerger		0.0	368.7
Investments in property, plant and equipment		-28.5	-50.6
Disposal of property, plant and equipment		1.2	0.2
Intangible assets and other investments, net		-33.6	-43.8
Cash flow from investing activities		**-60.9**	**-493.3**
Free cash flow		**-103.1**	**-405.5**
Changes in non-current loans from credit institutions		-64.4	250.0
Changes in current loans from credit institutions		3.5	33.5
Cash from issue of hybrid capital		148.3	0.0
Cash from issue of new shares / exercise of warrants		0.0	10.1
Cash flow from financing activities		**87.4**	**293.6**
Net cash flow for the year		**-15.7**	**-111.9**
Cash at bank and in hand, 1 January		44.7	158.1
Currency adjustments		-0.8	-1.5
Net cash flow for the year		-15.7	-111.9
Cash at bank and in hand, 31 December*		**28.2**	**44.7**

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 2017	**72.0**	**24.1**	**4.1**	**1.7**	**849.5**	**0.0**	**951.4**	**0.0**	**951.4**
Other comprehensive income:									
Foreign exchange translation adjustments		-28.0					-28.0		-28.0
Transferred to financial income		-1.6					-1.6		-1.6
Transferred to profit from discontinued operations		9.5					9.5		9.5
Value adjustment of hedging instruments:									
Value adjustment for the year			-17.5				-17.5		-17.5
Transferred to consumption of raw materials			-2.9				-2.9		-2.9
Transferred to profit from discontinued operations			2.2				2.2		2.2
Fair value adjustment of available for sale securities				0.3			0.3		0.3
Transferred to profit from discontinued operations				-1.7			-1.7		-1.7
Actuarial gains/losses on defined benefit pension plans					0.2		0.2		0.2
Tax on other comprehensive income			4.7				4.7		4.7
Total other comprehensive income	**0.0**	**-20.1**	**-13.5**	**-1.4**	**0.2**	**0.0**	**-34.8**	**0.0**	**-34.8**
Profit/loss for the year					928.8		928.8		928.8
Comprehensive income for the year	**0.0**	**-20.1**	**-13.5**	**-1.4**	**929.0**	**0.0**	**894.0**	**0.0**	**894.0**
Transactions with owners:									
Distribution of shares in Nilfisk Holding A/S to shareholders in NKT A/S (EUR 38.3 per share)					-1,039.3		-1,039.3		-1,039.3
Share-based payment					0.1		0.1		0.1
Exercise of warrants	0.8				9.3		10.1		10.1
Total transactions with owners in 2017	**0.8**	**0.0**	**0.0**	**0.0**	**-1,029.9**	**0.0**	**-1,029.1**	**0.0**	**-1,029.1**
Equity, 31 December 2017	**72.8**	**4.0**	**-9.4**	**0.3**	**748.6**	**0.0**	**816.3**	**0.0**	**816.3**
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**
Profit/loss for the year					-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	**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**

Notes

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

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

Note 1 – Basis for preparation

This section describes the applied reporting framework, including a definition of materiality for disclosures as well as any changes in the accounting policies.

Note 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 2018 comprises both the consolidated financial statements for NKT A/S and its subsidiaries (the Group) and separate financial statements for the parent company.

The 2018 Annual Report for NKT A/S is 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 the following assets and liabilities which are measured at fair value: derivatives and financial instruments at fair values through profit or loss.

The accounting policies described in the individual notes have been applied consistently during the financial year and for the comparative figures. For standards implemented prospectively the comparative figures are not restated. As the new standards and new interpretations implemented did not influence the balance sheet at 1 January 2017 and associated notes, the balance sheet at 1 January 2017 and associated notes have been omitted.

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 financial statement users.

Changes to accounting policies

NKT has implemented the following new standards effective for 2018:

- IFRS 15 "*Revenue from Contracts with Customers*", that replaces IAS 18 "*Revenue*" and IAS 11 "*Construction Contracts*" and related interpretations, introduce one single new model for recognition of revenue which includes a 5-step approach and detailed guidelines. Among other, such guidelines are on allocation of revenue to performance obligations within multi-element arrangements, measurement and recognition of variable consideration and the timing of revenue recognition. According to IFRS 15 revenue is recognized over time (percentage of completion) either when the performance creates an asset that the customer controls as the asset is created (e.g. work in progress) or when the performance creates an asset with no alternative use and an enforceable right to payment as performance is completed to date has been secured. Revenue is also recognized over time if the customer simultaneously receives and consumes the benefits from goods and services as performed. Under IAS 11 construction contracts with a high degree of individual adjustment were recognized as revenue by reference to the percentage of completion. NKT A/S has assessed the effect of the new standard and has concluded that apart from providing more extensive disclosures the application of IFRS 15 has not had significant effect on recognition and measurement of revenue.

- IFRS 9: "*Financial Instruments*" that replaces IAS 39 "*Financial Instruments: Recognition and Measurement*", introduced new provisions for classification and measurement of financial assets, impairment of financial assets, and hedge accounting.

  Under IFRS 9 the classification and measurement is based on the contractual cash flows from and the underlying business model for holding the assets. IFRS 9 has not changed the classification and measurement, thus NKT A/S measures all financial assets including trade receivables at amortized costs except for derivative financial instruments and other investments that are measured at fair value.

Note 1.1 General accounting policies – continued

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. This means that credit losses will be recognized earlier under IFRS 9, however, because NKT often receive advance payments from customers, and has few and creditworthy customers the credit losses are very low and thus moving from recognizing incurred credit loss to expected credit loss has an insignificant impact on the consolidated financial statements.

The new hedge accounting requirements retain the three types of hedge accounting – fair value hedges, cash flow hedges and hedge of a net investment. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. However, enhanced disclosure requirements about the Group's risk management activities have been introduced.

IFRS 9 requires hedging gains and losses to be recognized as an adjustment to the initial carrying amount of non-financial hedged items (basis adjustment, e.g. purchase on inventory) by transferring the gains or losses from the hedging reserve in equity directly to the initial carrying amount of the hedged item, i.e. they are not reclassified through other comprehensive income.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Group's qualifying hedging relationships in place as at 1 January 2018 also qualify for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships.

The implementation of other new and amended standards and interpretations has not influenced recognition and measurement in 2018.

Significant judgements and estimates

When preparing the Annual Report, Group Management makes a number of accounting estimates, judgements and assumptions which form the basis for recognition and measurement of assets and liabilities.

The judgements, estimates and assumptions made are 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.

Particular risks referred to in the 'Risk management' sections of the Management review and in Note 6.5 Financial risks and financial instruments to the consolidated financial statements as well as Note 8.4 Contingent liabilities, may have substantial influence on the financial statements.

Significant judgements and estimates

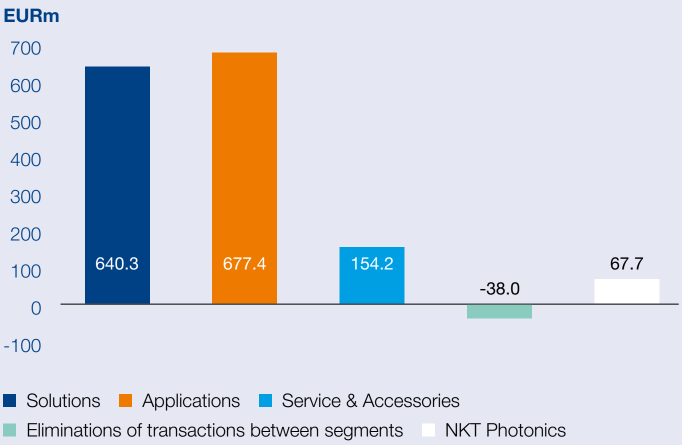
	Note
Deferred tax	2.4
Impairment test	4.1
Pension liabilities	4.4
Provisions	4.5
Inventories	5.1
Construction contracts	5.2
Hybrid capital	6.1
Contingent liabilities	8.4

Note 2 – Profit for the year

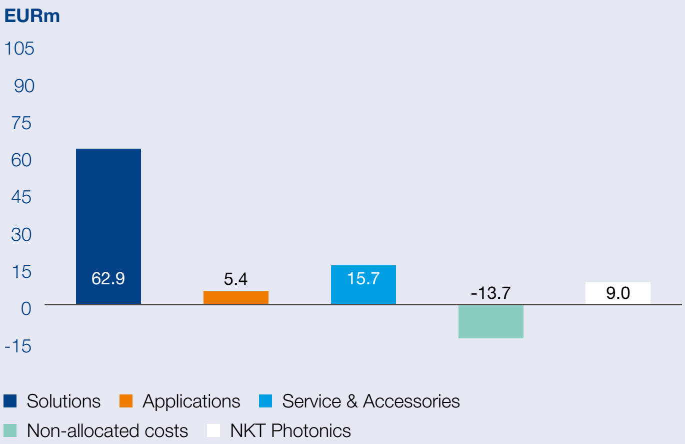
This note relates to profit for the year, including revenue, segment information, research and development costs, corporate tax and deferred tax.

Key developments 2018

Revenue



Operational EBITDA



In 2018, NKT had an organic growth of 0% and revenue of EUR 1,434.6m. Organic growth was impacted by a positive development in Applications realizing 5% and Service & Accessories realizing 9%, while Solutions delivered -4%. Operational EBITDA was EUR 70.2m and operational EBITDA margin, in std. metal prices, was 6.5%. Compared to last year, operational EBITDA decreased by EUR 68.1m. The earnings development from 2017 to 2018 reflected lower average project margins and lower capacity utilization in Karlskrona.

NKT Photonics realized organic growth of 16% and revenue of EUR 67.7m. In 2018, EBITDA was EUR 9.0m and the EBITDA margin 13.3%. Compared to last year, EBITDA increased by EUR 5.5m and the margin by 6.4%-points. The main contributing factors were the aquisition of OneFive in 2017 and organic growth.

Note 2 Profit for the year – continued

§ 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, adjustments of earn-out and negative goodwill on acquisition of subsidiaries. Gains on disposal of tangible and intangible assets are determined as the selling price less selling costs and the carrying amount at the time of sale.

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

Work performed by the Group and capitalised
Work performed by the Group and capitalised 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 capitalised 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 writedowns 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.

Note 2.1 Segment information

2018

Amounts in EURm	Solutions	Appli-cations	Service & acces-sories	Non-allocated	Inter-segment transact.	Total NKT	NKT Photonics	Inter-segment transact.	Total NKT A/S
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
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
Profit/loss for the year						-48.3	2.0	0.0	-46.3
Balance sheet									
Working capital	-108.1	46.4	9.7	35.8	0.0	-16.2	24.0	-0.1	7.7

In 2018, NKT has introduced a new segment reporting structure comprimising three new business lines: Solutions, Applications and Service & Accessories.

NKT Photonics is unchanged.

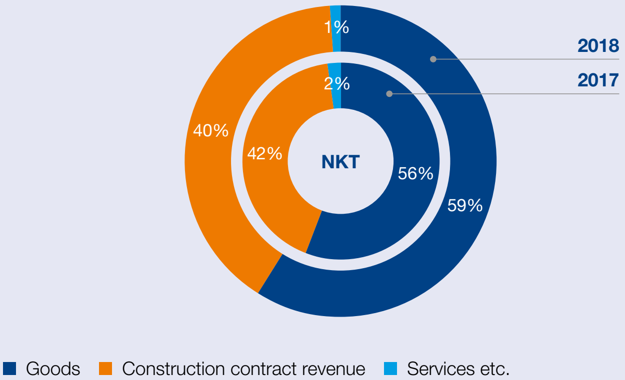
Note 2.1 Segment information – continued

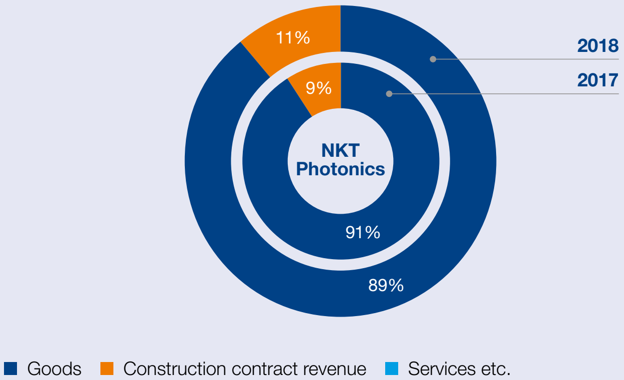
2017

Amounts in EURm	Solutions	Appli-cations	Service & acces-sories	Non-allocated	Inter-segment transact.	Total NKT	NKT Photonics	Inter-segment transact.	Total NKT A/S
Income statement									
Revenue (market prices)	680.2	668.3	106.9	0.0	-26.5	1,428.9	50.9	-0.5	1,479.3
Revenue (std. metal prices)	589.0	399.9	88.7	0.0	-19.6	1,058.0	50.9	-0.5	1,108.4
Costs and other income, net (excl. one-off items)	-569.5	-645.1	-95.5	-6.9	26.5	-1,290.5	-47.4	0.5	-1,337.4
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	**110.6**	**23.2**	**11.4**	**-6.9**	**0.0**	**138.3**	**3.5**	**0.0**	**141.8**
Operational EBIT	**51.4**	**11.7**	**9.4**	**-8.6**	**0.0**	**63.9**	**-1.7**	**0.0**	**62.2**
One-off items included in EBITDA						-44.9	0.0	0.0	-44.9
EBITDA						93.4	3.5	0.0	96.9
Depreciation and amortization						-73.5	-5.2	0.0	-78.7
Impairment loss						-0.9	0.0	0.0	-0.9
EBIT						19.0	-1.7	0.0	17.3
Financial items, net						-13.8	-0.9	0.0	-14.7
EBT						5.2	-2.6	0.0	2.6
Tax						-6.4	0.4	0.0	-6.0
Profit/loss for the year						-1.2	-2.2	0.0	-3.4
Balance sheet									
Working capital	-134.6	22.1	7.9	-1.9	0.0	-106.5	23.1	-0.1	-83.5

Note 2.2 Revenue

Revenue composition





The composition of revenue in 2018 shows no major changes compared to 2017. Please see business reviews in the Management review for further information.

Geographical information, revenue

Amounts in EURm	2018	2017
Germany	410.2	363.3
Denmark	214.9	195.2
Sweden	160.7	229.8
Poland	114.0	107.7
UK	113.3	170.6
Netherlands	79.1	13.8
Czech Republic	67.5	68.1
Norway	62.5	50.2
France	37.2	17.2
Austria	33.1	30.6
Other	209.1	232.8
Total	**1,501.6**	**1,479.3**

Revenue breakdown is based on the geographical location of costumers.

Note 2.2 Revenue – continued

Timing of revenue of major goods and services

Amounts in EURm	Solutions	Applications	Service & Accessories	Intersegment transaction	Total NKT	NKT Photonics	Intersegment transaction	Total
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 recognized 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**
2017								
Revenue at a point in time:								
Goods	63.3	666.2	91.8	-26.5	794,8	46.2	-0.5	840.5
Services etc.	12.1	2.1	15.1	0.0	29.3	0.0	0.0	29.3
Revenue recognized over time:								
Construction contracts	604.8	0.0	0.0	0.0	604.8	4.7	0.0	609.5
Total	**680.2**	**668.3**	**106.9**	**-26.5**	**1.428.9**	**50.9**	**-0.5**	**1,479.3**

Management expects that around 40% of the revenue on uncompleted contracts as of 31 December 2018 will be recognized in 2019. The remaining 60% of the revenue will be recognized from 2020–2022.

§ Accounting policy

Revenue from sales of goods for resale and finished goods is recognized in the income statement when control of the goods has been transferred to the buyer, 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. All discounts granted are recognized in the revenue.

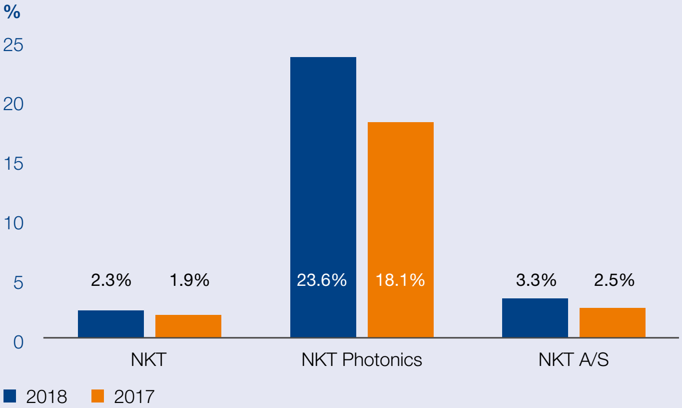
Construction contracts with a high degree of individual adjustment and no alternative use, are recognized as revenue over time, provided that the Group has secured an enforceable right to payment for work performed at any time. The revenue therefore corresponds to the sales price of work performed during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

See Note 5.2 for further information concerning construction contracts.

Note 2.3 Research and development costs

	NKT		NKT Photonics		NKT A/S	
Amounts in EURm	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Research and development costs – staff costs	5.1	5.7	9.0	7.7	14.1	13.4
Research and development costs – other costs	28.2	21.7	7.0	1.6	35.2	23.3
Total research and development costs	33.3	27.4	16.0	9.3	49.3	36.7
Recognized as follows:						
Expensed in income statement	6.8	6.0	8.8	6.0	15.6	12.0
Capitalised in balance sheet	26.5	21.4	7.2	3.3	33.7	24.7
	33.3	27.4	16.0	9.3	49.3	36.7

Research and development ratio (% of revenue)



The R&D spend for NKT increased in percentage of revenue compared to 2017.

The R&D spend for NKT Photonics increased in percentage of revenue compared to 2017. This is also impacted by R&D spend in OneFive which is included fully in 2018.

§ Accounting policy

Clearly defined and identifiable development projects for which the technical feasibility, adequacy of resources and a potential future market or internal utilization 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 for finalising the project. Other development costs are expensed in the income statement as incurred.

Capitalised 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 and for patents up to 15 years. The amortization base is reduced by any impairment losses.

Note 2.4 Tax

Tax management

NKT A/S complies with the tax legislation of the countries in which the Company operates and seek to pay the right amount of tax in the countries where the Company creates value.

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

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

NKT A/S 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.

28.8%

Reported tax rate (adjusted for one-offs) (2017 = 25.8%)

NKT A/S realized earnings before tax, EBT, of EUR -45.5m which resulted in a reported tax rate of -1.8%.

The reported tax rate of -1.8% was primarily impacted by a write down of the deferred tax asset in Germany of EUR 20m. This was primarily driven by a delay in the turnaround of AC on-shore.

Adjusted for this and for an adjustment for prior years, the effective tax rate for NKT A/S was 28.8%.

For 2019, the reported tax rate is expected to be around 24%.

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

Earnings realized in the Group's Danish companies resulted in payable corporate tax of EUR 0m in 2018, as the Danish Group has realized negative taxable income. Globally, NKT A/S received a net amount of EUR 3.1m in corporate income tax in 2018 compared to tax paid in 2017 of EUR 32.1m.

Amounts in EURm	2018	2017
Tax on continuing operations recognized in the income statement		
Current tax	0.6	7.2
Current tax, adj. prior years	-3.8	0.5
Deferred tax	5.9	-1.7
Deferred tax, adj. prior years	-1.9	0.0
	0.8	6.0
Tax rate for the year	-1.8%	230.8%
Reconciliation of tax on continuing operations		
Calculated 22.0% tax on earnings before tax	-10.0	0.6
Tax effect of:		
Foreign tax rates relative to Danish tax rate	-3.0	0.2
Non-taxable income/non-deductible expenses, net	-0.1	4.7
Adjustment for previous years	-5.7	0.5
Value adjustment of tax assest	19.6	0.0
	0.8	6.0

Note 2.4 Tax – continued

Significant judgements and 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 some uncertainty.

The majority of the deferred tax assets relate to NKT's German tax unit. The utilization of the German tax asset is depending on a successful turn-around of the high-voltage on-shore business. The tax losses carry forward from the German Tax unit increased from EUR 92m in 2017 to EUR 111m in 2018. The total deferred tax value amounts at EUR 35.7m. Management has recognized a tax asset hereof of EUR 15.7m at year-end.

The tax losses carried forward at end-2018 in the Danish Tax Unit sums up to EUR 45.0m which lead to a deferred tax asset of EUR 9.9m. The net deferred tax position amounts to EUR 8.3m per end-2018.

The capitalised net deferred tax assets of the German Unit and the Danish Tax Unit are expected to be utilized within five years.

NKT A/S's total net deferred tax liability amounted to EUR 18.6m at year-end 2018.

Amounts in EURm	2018	2017
Deferred tax, 1 January, net	-10.4	26.7
Addition from Acquisitions	0.0	-43.9
Foreign exchange adjustment	1.8	0.7
Tax recognized in other comprehensive income	-2.6	4.1
Deferred tax recognized in income statement continuing operations	-4.0	1.7
Transferred to payable tax	-3.4	0.3
Deferred tax, 31 December, net	-18.6	-10.4
Recognized deferred tax:		
Deferred tax assets, 31 December	27.7	49.5
Deferred tax liabilities, 31 December	-46.3	-59.9
Deferred tax, 31 December, net	-18.6	-10.4

Note 2.4 Tax – continued

Amounts in EURm	2018	2017
Specification of deferred tax liabilities, net		
Intangible assets	-23.5	-24
Tangible assets	-27.9	-34.1
Other non-current assets	0.0	0.1
Current assets	70.5	110.7
Non-current liabilities	6.0	6.4
Current liabilities	-71.3	-119.9
Tax losses	52.6	57.5
Valuation allowance, unrecognized tax assets	-24.7	-7.1
Other	-0.3	0.0
Deferred tax liabilities, 31 December, net	-18.6	-10.4

§ Accounting policy

Tax for the year, consisting of the year's current tax and change in deferred tax, is recognized in profit for the year, in other comprehensive income or directly in equity.

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 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 loss allowed for carry forward, are recognized under other non-current assets at their expected utilization value, 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.

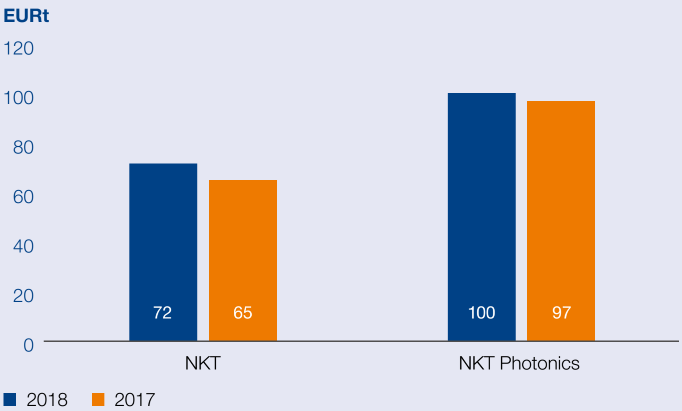
Deferred tax is adjusted for elimination of unrealized intra-Group profits and losses.

Note 3 – Remuneration

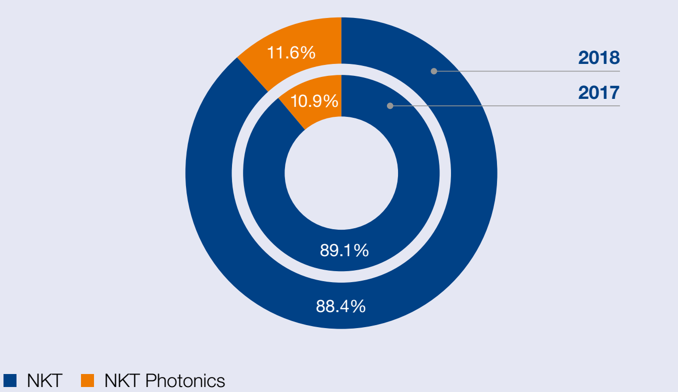
This note relates to remuneration for Group Management and employees, including long-term incentive plans for the Executive Management and employees.

Key developments 2018

Cost per FTE



Distribution of staff costs (% of total staff costs)



Note 3.1 Staff costs

Amounts in EURm	2018	2017
Wages and salaries	218.8	196.6
Social security costs	42.2	39.2
Defined contribution plans	15.6	10.2
Defined benefit plans	1.2	1.3
Share-based payments, NKT A/S (parent company)	0.0	0.1
Total continuing operations	**277.8**	**247.4**
NKT	245.6	221.3
NKT Photonics	32.2	26.1
Average number of full-time employees	3,744	3,600
NKT	3,423	3,328
NKT Photonics	321	272

Note 3.1 Staff costs – continued

In 2018, the NKT A/S staff costs increased by 12%, while the average number of full time employees increased by 4%. In NKT, the average numbers of FTE's increased by 3% and staff cost by 11%, mainly driven by the build-up of the Shared Service Center in Lithuania and by the centralisation of functions in the headquarter. NKT Photonics increased average number of FTE's and staff costs by 17% and 23%, respectively, to support the strategy and due to the acquisition of Onefive in 2017.

§ Accounting policy

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

Note 3.2 Remuneration to Board of Directors

Remuneration to Board of directors

Amounts in EURm	2018	2017
Board of Directors remuneration	**0.6**	**0.7**

The remuneration approved at the Annual General Meeting in 2018 with effect from Q2 2018 is shown in the table below. Members of the Board of Directors are not granted performance shares and do not receive variable remuneration components. Base remuneration must be commensurate with that of comparable listed companies.

Remuneration to Board members – election period 2018/2019

		Committees				
Amounts in EURt	Base remuneration	Audit	Nomination	Remuneration	NKT Photonics	Total remuneration
Jens Due Olsen, Chairman	120					120
René Svendsen-Tune, Deputy Chairman	80					80
Jens Maaløe	40	13		7	20	80
Jutta af Rosenborg	40	27		13		80
Lars Sandahl Sørensen	40		13			53
Andreas Nauen	40					40
Peter Wennevold*	40					40
Stig Nissen Knudsen*	40					40
Jack Ejlertsen*	40					40
Total remuneration 2018/2019	**480**	**40**	**13**	**20**	**20**	**573**

* Elected by employees.

Note 3.2 Remuneration to Board of Directors – continued

Remuneration to Board members – last three years

	2018							
Amounts in EURt	**Base remune-ration**	**Audit Com.**	**Nomination Com.**	**Remune-ration Com.**	**NKT Photonics Com.**	**Total 2018**	**Total 2017**	**Total 2016**
Jens Due Olsen	120					120	178	188
René Svendsen-Tune	80					80	90	70
Jens Maaløe	40	13		7	20	80	80	78
Andreas Nauen	40					40	9	0
Kurt Bligaard Pedersen						0	0	13
Jutta af Rosenborg	40	27		13		80	80	80
Anders Runevad						0	31	30
Kristian Siem						0	0	24
Lars Sandahl Sørensen	40		13			53	64	67
Niels-Henrik Dreesen*	10					10	40	40
Jack Ejlertsen*	30					30	0	0
Stig Nissen Knudsen*	30					30	0	0
René Engel Kristiansen*						0	32	40
Gitte Toft Nielsen*						0	30	40
Peter Wennevold*	30					30	0	0

* Elected by employees.
Note: In 2016 and 2017, Nilfisk was part of NKT A/S and had a working committee.

Note 3.3 Remuneration to Executive Management

Remuneration policy
A remuneration policy has been formulated defining the guidelines for determining and approving remuneration for the Board of Directors and Executive Management. The remuneration for the Board of Directors is approved prospectively for one year at a time at the Annual General Meeting. The Management's salary is reviewed every 12 months. The components which form part of the Management's salary package, and all material adjustments thereof, are approved by the Board of Directors based on discussions and recommendation by the Remuneration Committee. Empowered by a mandate from the Annual General Meeting, the Board of Directors also approves the basis for calculating and granting any share-based incentive plans and determines their ceilings.

An overall remuneration policy is submitted to the Annual General Meeting for approval.

Composition of remuneration
The Executive Management's remuneration for 2018 consisted of a fixed base salary, including pension and other customary non-monetary benefits such as a company car. The remuneration further included short-term and long-term incentive programmes.

In 2018, NKT A/S utilized both short-term and long-term incentive pay to ensure an optimal balance between short-term optimization and long-term value creation.

Note 3.3 Remuneration to Executive Management – continued

Yearly remuneration to Executive Management (max remuneration per year-end 2018)

Amounts in EURt	Members	Salary and pension	Bonus max.****	Long-term incentive		Other benefits	Total
NKT A/S Executive management	2	1,431	525	406	**	69	2,431
Michael Hedegaard Lyng		819	285	286		40	1,430
Roland M. Andersen*		612	240	120		29	1,001
NKT Group Leadership Team	6	1,648	723	362	**	143	2,876
NKT Photonics CEO	1	382	52	611	***	17	1,062
Total		**3,461**	**1,300**	**1,379**		**229**	**6,369**

* The remuneration for Roland M. Andersen includes a supplement of payment for the interim CEO position as of 16 November 2018.

** Long-term incentives for NKT represents the award value of the performance shares.

*** Maximum Long-term cash incentive. Long-term cash incentive is calculated per year-end 2019. If the equity value of the business is increased with at least 100% a cash incentive of EUR 1.3m will be paid. If the equity value is increased with 200% a maximum cash incentive of EUR 2.0m will be paid.

**** The bonus maximum represents the maximum bonus opportunity, depending fullfillment of the numbers of strategic and financial KPI's. The NKT A/S Executive Management is a part of NKT Group Leadership Team. However, they are separated out in above table.

Remuneration to Executive Management – last three years

	Roland M. Andersen			Michael Hedegaard Lyng		
Amounts in EURt	2018	2017	2016	2018	2017	2016
Salary and pension	612	–	–	819	803	726
Bonus max	240	–	–	285	279	252
Long-term incentive	120	–	–	286	281	254
Other benefits	29	–	–	40	40	40
Total	**1,001**	–	–	**1,430**	**1,403**	**1,272**

§ Related parties

The Company has no related parties who hold control.

The Company's related parties comprise 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 Note 7.2.

Note 3.3 Remuneration to Executive Management – continued

Short-term incentive programme for Executive Management and Group Ledership Team

The annual bonus scheme for the Executive Management and NKT Group Leadership Team comprises two elements. The first element is weighted with 70% and consists of 4 KPI's relevant to the NKT:

- Sales Revenue
- New project orders
- Group EBITDA
- Group Working Capital

The second element has a weight of 30% and is made up by 3–4 KPIs reflecting the area of responsibility of each management member, e.g. business line specific sales targets, productivity KPIs or concrete business achievements.

All bonus scheme elements are derived from the strategy and reflect the objectives set forth in the strategic plans for this year.

Short-term incentive programme

	Short-term incentive	
2018	Max. percentage	Type
NKT A/S Executive management:		
Michael Hedegaard Lyng	40%	Cash bonus
Roland M. Andersen	50%	Cash bonus
NKT Group Leadership Team	50%	Cash bonus
NKT Photonics CEO	40%	Cash bonus

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

In any given year, the Executive Management may be awarded performance shares. Performance shares represent a conditional right to receive shares after a three-year performance period at nil payment. At this point, the performance shares vest, subject to continuous service and the achievement of performance targets over a period of three financial years.

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.

No performance shares are vesting in 2018.

Long-term incentive programmes

	Long-term incentive	
2018	Share	Type
NKT A/S Executive management:		
Michael Hedegaard Lyng	35% *	Performance shares
Roland M. Andersen	25% *	Performance shares
NKT Group Leadership Team	25%	Performance shares
NKT Photonics CEO	<150% **	Cash bonus

* Measured at date of award. Actual value at time of exercise can exceed this threshold.

** Measured on salary level in 2015.

Note 3.3 Remuneration to Executive Management – continued

Outstanding warrants 2018 & 2017

A majority of the below warrants are held by former employees of NKT who are no longer in active employment.

Up until 2015, an incentive plan was in place for NKT A/S (Parent company) employees that convey 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. It was the Board of Directors, empowered by a mandate from the Annual General Meeting, which approved the basis for calculation and allocation of any share-based incentive plans and establishes their ceilings.

In all cases condition of exercise is three years' employment.

In 2018, 650 warrants was forfeited.

Due to decrease in share price, the value of the warrant programme was EUR 0.1m at year-end 2018 (2017: EUR 4.0m).

		Exercise price DKK	Total
Granted in January 2015*	1 January		154,552
(Exercise 2019/2020)	31 December	91.3	154,552
Total:	Warrants, 1 January 2018		155,202
	Forfeited		-650
	31 December 2018		154,552
Outstanding warrants 2017:	Warrants, 1 January 2017		446,844
	Exercised		-291,142
	Forfeited		-500
	31 December 2017		155,202

* The exercise periods are determined as two weeks after publication of the company's annual financial 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. Dividend payments after 1 January 2019 and until the date when the shares are received are deducted from the exercise price.

Term of notice

The term of notice for the CEO for NKT A/S is 12 months. In conjunction with changes of control, the above term of notice is extended for a transitional period by a further twelve months. Beyond this there is no pre-defined severance package agrement for the CEO.

Terms of notice for business line managements are generally 12 months.

The term of notice for Michael Hedegaard Lyng is 18 months and no severance has been paid in 2018. As previously communicated a total of EUR 2 mill. has been accrued for future severance payment.

§ Accounting policy

The Group's incentive plans include share-based payments. The value of services received in exchange for share-based payments is measured at the fair value at the grant date and recognised in the income statement under staff costs over the vesting period and with a similar amount recognised directly in equity as an owner transaction.

On initial recognition of the share-based payments an estimate is made of the number of shares expected to vest. This estimate is subsequently revised for changes and total recognition is therefore based on the number of shares ultimately vested.

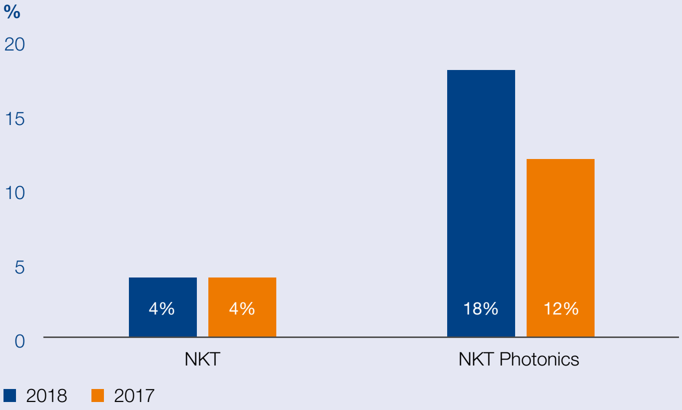
The fair value of share-base payments is estimated using a valuation model that takes into account the terms and conditions upon which granting took place.

Note 4 – Non-current assets and liabilities

This note covers NKT A/S investments in non-current assets that form a basis for the company's operations, and non-current liabilities arising as a result thereof. 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 Note 6, Capital structure.

Key developments 2018

Investment ratio (Additions in % of revenue)



NKT 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 invested approximately the same percentage of revenue compared to 2017.

NKT Photonics has a high level of investment due to its scientific nature and development of high-tech products. Investments are mainly related to R&D, upgrading facilities and production equipment. The ratio of investment has increased from 2017.

Geographical information, property, plant and equipment and intangible assets

Amounts in EURm	2018	2017
Sweden	759.0	821.5
Germany	225.7	219.9
Norway	103.7	110.0
Czech Republic	43.9	44.8
Denmark	36.3	33.1
Switzerland	21.7	22.5
UK	18.0	16.6
Netherlands	12.9	13.7
Poland	10.5	11.6
Other	2.7	2.6
Total continuing operations	**1,234.4**	**1,296.3**

Note 4.1 Impairment test

Result of annual impairment test

At 31 December 2018, the carrying amount of goodwill, other intangible assets and tangible assets were tested for impairment. The impairment test showed no impairment for 2018 (2017: EUR 0.9m impairment relating to tangible assets).

Change in cash-generating units

Following the changed organization from the beginning of 2018 the cash generating units were reassessed to 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 cables 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 certainty by which the carrying amount of the intangible assets can reasonably be allocated and monitored.

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

§ Accounting policy

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment. Development projects in progress are also tested annually for 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 reviewed annually for indication of impairment. If such an indication exists, 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.

Note 4.1 Impairment test – continued

Significant judgements and estimates

Goodwill

Goodwill has been allocated to the four independent business lines similar to reportable segments in the Group: Solutions, Applications, Service & Accessories and NKT Photonics. The carrying amount of Goodwill was as follows:

Amounts in EURm	2018	2017
Solutions	320.5	337.1
Applications	6.3	6.3
Service & Accessories	49.2	48.8
NKT Photonics	25.2	25.3
	401.2	417.5

Key Assumptions

The recoverable amount is based on value in use calculation. For all cash-generating units's the calculation uses cash flow projections (budget period) based on financial budgets for 2019 and financial forecasts for 2020–2022. 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 NKT operates.

Investments reflect both maintenance and expectations of organic growth. Yearly average investment is to be below depreciation for the periods 2019–2022 and for the terminal period the investments are higher than the depreciations.

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:

Key assumptions

Cash-generating unit	Average EBITDA margin in budget period	Annually 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%
Applications	2.9%	5.0%	2.5%	7.5%	9.6%	9.0%
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%

Note 4.1 Impairment test – continued

Solutions
In the 1st half of 2018 the high-voltage market was impacted by postponement of large interconnector projects. While there were no material cancellations, some projects were postponed among others due to political decisions and for legal approval and permit reasons. The market improved in 2nd half 2018 with several large project awards to NKT and across the industry. The market outlook is viewed as attractive in the medium- to long-term. This perspective is primarily based on more mature European markets, but also the potential that resides in less mature markets such as the US and Taiwan. Tender activity is high on a number of projects across geographies and market segments.

Applications
The European markets in the low- and medium-voltage segments are expected to deliver moderate growth in the years ahead. The annual volume growth in the market is anticipated to around 2% from 2018 to 2020. In the markets relevant for NKT, the expectation is that higher tax revenues will allow for increased civil engineering investments in public construction, transport networks and other infrastructure projects. Geographically, the markets in eastern Europe are expected to grow at a faster pace than more developed markets like Denmark, Germany and Sweden.

Service & Accessories
The market for servicing power cables is relatively immature and the cable owners differ in their approach. However, as cable failures can be costly for the cable owners and operators of both off- and onshore power cables, the interest in establishing service agreements is increasing.

The customers are increasingly demanding services that will help them improve power cable efficiency and solutions that can help predict, prevent and mitigate cable failures. And if an incident does occur, cable operation must be restored as fast as possible. In light of this, the Service market is expected to see attractive growth in the years ahead, driven by the installation of further power cables both off- and onshore in line with the megatrends driving the power cable market.

As accessories are necessary components of power cable systems, the market for these products will be closely tied to that for medium- and high-voltage power cables.

NKT Photonics
NKT Photonics operates in the laser industry within three segments: Imaging & Metrology, Sensing & Energy, and Material Processing. The laser industry is generally expecting above-average growth, and fiber lasers – which is the technology used by NKT Photonics – is a high-growth area within this industry.

Note 4.1 Impairment test – continued

Sensitivity

Sensitivity to changes in assumptions:
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) amount equals the value in use			
	Discount rate after tax		Growth rate in terminal period	
Cash-generating units*	2018	2017	2018	2017
Solutions	8.0%		2.5%	
Applications	7.5%		2.5%	
Service & Accessories	7.5%		2.5%	
NKT Photonics	10.0%	10.0%	3.0%	3.0%

* Following the changed organization since the start of 2018 the new cash generating units have no prior year comparisons, while in 2017 the NKT starting point post-tax discount rate amounts to 7.5% and growth rate amounts to 2.5%.

	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*	2018	2017	2018	2017	2018	2017
Solutions	9.5%		1.3%		-11.0%	
Applications	15.0%		-6.3%		-44.4%	
Service & Accessories	16.5%		-8.8%		-59.5%	
NKT Photonics	18.2%	19.9%	-10.0%	<-15%	-33.5%	<-15%

* Following the changed organization since the start of 2018 the new cash-generating units have no prior year comparisons, while in 2017 the NKT post-tax discount rate amounts to 10.5%, growth rate amounts to -1.8% and change in EBITDA of <-15%.

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 2018:

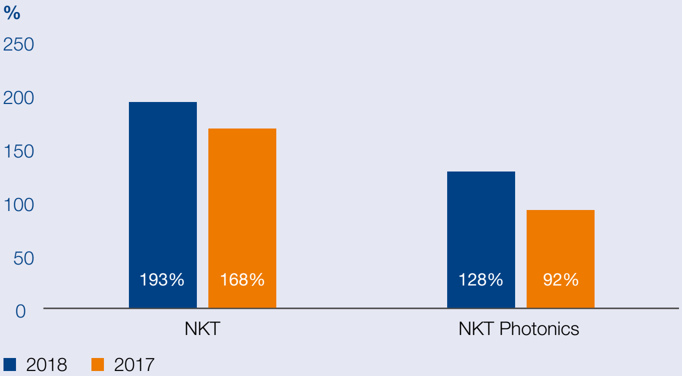
Cash-generating units	Headroom in EURm
Solutions	186
Applications	195
Service & Accessories	148
NKT Photonics	107

Note 4.2 Intangible assets

There has been no major divestments or acquisitions in 2018. Investments in IT continued to be the main driver for the high investment ratio.

NKT Photonics amortization was at the level of 2017 while a higher R&D project spend increased the investment ratio.

Investment ratio (Additions in % of amortization)



Breakdown of additions of intangible assets for the business units (excl. business combinations):

Amounts in EURm	2018	2017
NKT	29.3	24.5
NKT Photonics	7.3	3.4
Total continuing operations	**36.6**	**27.9**

§ 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 the 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 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 business units shown. The reportable units are comprised by the Group's operating units without aggregation (Note 2.1 Segment information).

Other intangible assets

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

Capitalised development projects are measured at cost less accumulated amortization and impairment losses. The cost includes wages, amortization and other direct costs relating to the individual development projects

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

Trademarks, etc.	3–10 years
Customer-related assets	3–15 years
Development projects	3–10 years
Patents and licences, etc.	5–15 years

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 basis of amortization is reduced by impairment losses.

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

Intangible assets with an indefinite useful life are not amortized but are tested annually for impairment.

Note 4.2 Intangible assets – continued

Amounts in EURm	Goodwill	Trademarks etc.	Customer related assets	Completed development projects	Patents and licences etc.	Development projects in progress	Total Intangible assets
Costs, 1 January 2017	28.3	0.4	12.7	40.7	38.2	18.6	138.9
Additions through business combinations	401.1	0.4	18.8	0.0	78.3	29.4	528.0
Additions	0.0	0.0	0.0	3.2	3.2	21.5	27.9
Disposals	-0.1	0.0	-7.9	0.0	-3.5	-0.2	-11.7
Transferred between classes of assets	0.0	0.0	0.0	2.8	0.5	-3.3	0.0
Exchange rate adjustments	-10.5	0.0	-0.2	-0.1	-1.6	-0.8	-13.2
Costs, 31 December 2017	**418.8**	**0.8**	**23.4**	**46.6**	**115.1**	**65.2**	**669.9**
Amortization and impairment, 1 January 2017	-1.3	-0.4	-10.1	-29.2	-24.4	0.0	-65.4
Amortization for the year, continuing operations	0.0	0.0	-5.0	-5.3	-8.0	0.0	-18.3
Disposals	0.0	0.0	7.9	0.0	3.4	0.0	11.3
Exchange rate adjustments	0.0	0.0	0.0	0.1	-0.2	0.0	-0.1
Amortization and impairment, 31 December 2017	**-1.3**	**-0.4**	**-7.2**	**-34.4**	**-29.2**	**0.0**	**-72.5**
Carrying amount, 31 December 2017	**417.5**	**0.4**	**16.2**	**12.2**	**85.9**	**65.2**	**597.4**
Cost, 1 January 2018	418.8	0.8	23.4	46.6	115.1	65.2	669.9
Additions	0.0	0.0	0.0	1.8	2.9	31.9	36.6
Disposals	0.0	0.0	0.0	-7.8	-5.1	-1.2	-14.1
Transferred between classes of assets	0.0	0.0	0.0	19.3	1.9	-22.7	-1.5
Exchange rate adjustments	-16.3	0.0	-0.5	0.0	-3.3	-1.6	-21.7
Costs, 31 December 2018	**402.5**	**0.8**	**22.9**	**59.9**	**111.5**	**71.6**	**669.2**
Amortization and impairment, 1 January 2018	-1.3	-0.4	-7.2	-34.4	-29.2	0.0	-72.5
Amortization for the year	0.0	-0.1	-6.5	-5.7	-8.6	0.0	-20.9
Disposals	0.0	0.0	0.0	7.8	5.1	0.0	12.9
Transferred between classes of assets	0.0	0.0	-0.3	0.0	0.3	0.0	0.0
Exchange rate adjustments	0.0	0.0	0.3	0.0	0.2	0.0	0.5
Amortization and impairment, 31 December 2018	**-1.3**	**-0.5**	**-13.7**	**-32.3**	**-32.2**	**0.0**	**-80.0**
Carrying amount, 31 December 2018	**401.2**	**0.3**	**9.2**	**27.6**	**79.3**	**71.6**	**589.2**

Regarding impairment test, please refer to Note 4.1.

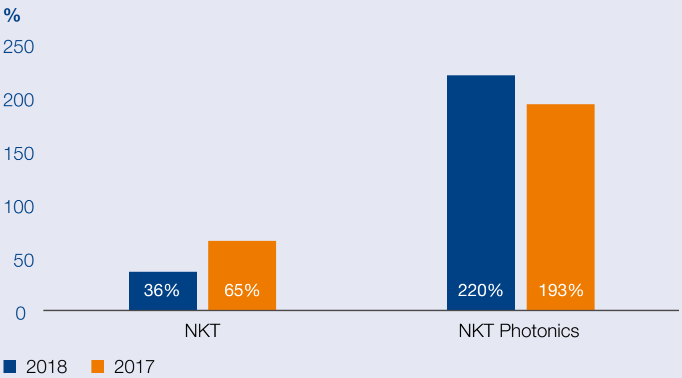
Additions through business combinations in 2017 relates to NKT's acquisition of ABB HV Cables and NKT Photonics' acquisitions of OneFive. For further comments relating there to, please see Note 7.1 Acquisitions/divestments of businesses.

Note 4.3 Property, plant and equipment

In NKT the investment ratio decreased to 36%. There were no major investments in 2018 but investments in factories and equipment in prior years took depreciation to a higher level relative to the investment level.

In NKT Photonics the investment ratio increased due to investment in production equipment and investments associated with rebuilding the Danish facilities.

Investment ratio (Additions in % of depreciation)



Breakdown of additions of property, plant and equipment for the business units (excl. business combinations):

Amounts in EURm	2018	2017
NKT	23.2	38.4
NKT Photonics	4.8	2.7
Total continuing operations	**28.0**	**41.1**

§ 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.

The cost of assets held under finance leases is stated at the fair value of the assets or the present value of the future minimum lease payments, whichever is the lower. For calculation of the present value, the interest rate implicit in the lease or the Group's alternative rate of interest is applied as the discount rate.

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	25 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 therefore are measured at cost. When ready for use the asset is transferred to the relevant category and depreciated.

Note 4.3 Property, plant and equipment – continued

Amounts in EURm	Land and buildings	Plant and machinery	Fixtures, tools and equipment	Tangible assets under construction	Total tangible assets
Costs, 1 January 2017	174.5	333.7	61.3	12.3	581.8
Additions through business combinations	157.8	116.1	37.2	34.3	345.4
Acquisition of vessel committed by acquired business	0.0	108.0	0.0	0.0	108.0
Additions	1.7	11.1	5.5	22.8	41.1
Disposals	-0.2	-2.4	-1.5	-0.1	-4.2
Transferred between classes of assets	10.0	20.4	11.9	-41.4	0.9
Exchange rate adjustments	-2.5	4.7	1.5	-0.7	3.0
Costs, 31 December 2017	**341.3**	**591.6**	**115.9**	**27.2**	**1,076.0**
Depreciation and impairment, 1 January 2017	-52.0	-212.1	-45.0	0.1	-309.0
Depreciation for the year, continuing operations	-9.2	-38.9	-12.3	0.0	-60.4
Impairment, continuing operations	0.0	-0.9	0.0	0.0	-0.9
Transferred between classes of assets	0.0	0.0	0.0	-0.9	-0.9
Disposals	0.1	1.6	1.5	0.0	3.2
Exchange rate adjustments	-0.4	-6.5	-2.2	0.0	-9.1
Depreciation and impairment, 31 December 2017	**-61.5**	**-256.8**	**-58.0**	**-0.8**	**-377.1**
Carrying amount, 31 December 2017	**279.8**	**334.8**	**57.9**	**26.4**	**698.9**
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
Transferred between classes of assets	3.0	10.9	5.3	-17.7	1.5
Exchange rate adjustments	-7.4	-6.6	-2.4	-0.5	-16.9
Costs, 31 December 2018	**338.1**	**597.6**	**120.6**	**23.5**	**1,079.8**
Depreciation and impairment, 1 January	-61.5	-256.8	-58.0	-0.8	-377.1
Depreciation for the year, continuing operations	-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	**267.0**	**303.6**	**51.9**	**22.7**	**645.2**

Regarding impairment test, please refer to Note 4.1

Additions through business combinations in 2017 relates to NKT's acquisition of ABB HV Cables and NKT Photonics' acquisitions of OneFive. For further comments relating there to, please see Note 7.1 Acquisitions/divestments of businesses.

Note 4.4 Pension liabilities

Most employees in NKT A/S are covered by pension schemes, primarily in the form of defined contribution-based plans or alternatively defined benefit plans. The 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 liability relates to pensions for already retired staff as well as for employees retiring in the future.

NKT A/S's defined benefit plans primarily relate to Germany. If a plan is not fully hedged, a plan liability is recognized in the consolidated balance sheet. In accordance with accounting policy, 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	**2018**	**2017**
Recognized plan liabilities net, at 1 January	51.3	51.9
Recognized in staff costs in income statement:		
Current service cost	0.4	0.5
Calculated interest cost/income	0.8	0.8
Total	**1.2**	**1.3**
Recognized in other comprehensive income:		
Actuarial gain/loss from changes in financial assumptions	-2.0	-0.2
Total	**-2.0**	**-0.2**
Other changes:		
Benefits paid	-1.7	-1.7
Total	**-1.7**	**-1.7**
Recognized plan liabilities net, at 31 December	48.8	51.3
Other long-term employee benefits	1.1	1.2
Recognized at 31 December	**49.9**	**52.5**

Significant judgements and estimates

Principal actuarial assumptions at the balance sheet date	**2018**	**2017**
Discount rate	1.9%	1.7%
Future salary increases	3.0%	3.0%
Future pension increases	2.0%	2.0%

Note 4.4 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.

	2018	2017
0.5% point increase in discount rate	-3.4	-3.7
0.5% point decrease in discount rate	3.8	4.1
0.5% point increase in future salary increases	0.0	0.3
0.5% point decrease in future salary increases	0.0	-0.2

Accounting policy

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

Liabilities in respect of defined contribution-based pension plans, where the 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 the 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.

Note 4.5 Provisions

Amounts in EURm	Guarantee/ Warranty provision	Restructuring provision	Other provision	Total provision
Provisions, 1 January 2018	18.7	1.6	21.7	42.0
Provisions made during the year	0.8	2.3	11.7	14.8
Used during the year	-1.0	-1.3	-1.9	-4.2
Reversed during the year	-6.7	0.0	-13.8	-20.5
Foreign exchange adjustment	-1.0	0.0	0.6	-0.4
Provisions, 31 December 2018	**10.8**	**2.6**	**18.3**	**31.7**
Provisions are recognized in the balance sheet as:				
Non-current liabilities	7.2	0.0	11.3	18.5
Current liabilities	3.6	2.6	7.0	13.2
	10.8	**2.6**	**18.3**	**31.7**

Provision decreased with EUR 10.3m from EUR 42.0m in 2017 to EUR 31.7m in 2018. The decrease was mainly related to reversal of provision in the Solutions business.

Significant judgements and estimates

Warranty provision relate to NKT's Solutions business. The liability is based on an individual assessment. Other provisions mainly relate to NKT's provision for restoring the site in Cologne.

§ Accounting policy

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

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

When measuring provisions, the costs required to settle the obligation are discounted if they significantly affect the measurement of the liability. A pre-tax discount rate is applied that reflects the current market interest rate and the specific risks relating to the obligation. Changes in present values during the year are recognized under financial expenses.

Warranty provisions are recognized in step with 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.

Provisions relating to restructuring measured in acquired companies are only included in goodwill when a restructuring liability exists for the acquisition at the acquisition date.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the Group's unavoidable costs for meeting its contract 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 increase in the present value over time is recognized in the income statement under financial expenses.

Note 5 – Working capital

NKT's working capital represents the assets and liabilities necessary to support the company's day-to-day operations. Working capital is defined as current assets less current liabilities, excluding interest-bearing items and provisions, but including derivatives which hedge working capital elements with currency exposure.

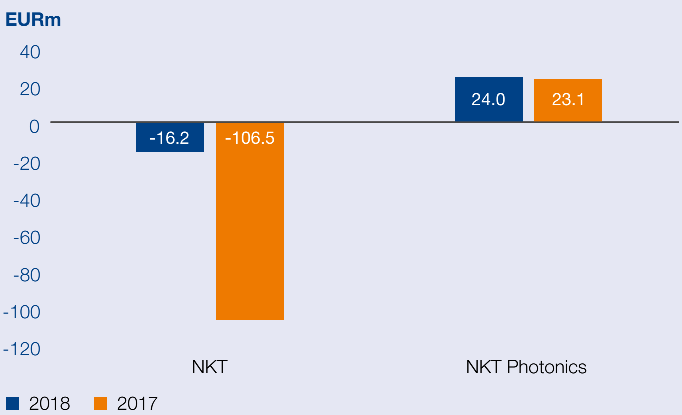
Composition and drivers

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

NKT A/S's working capital is only to a minor degree impacted by NKT Photonics.

Key developments 2018

Working capital



NKT increased working capital by EUR 90.3m from EUR -106.5m in 2017 to EUR -16.2m in 2018. The working capital ratio, LTM, increased by 1.9%-points from -2.1% in 2017 to -0.2% in 2018. The working capital development was driven by a change in advance payments in Solutions and increase in trade receivables and inrease in trade payables.

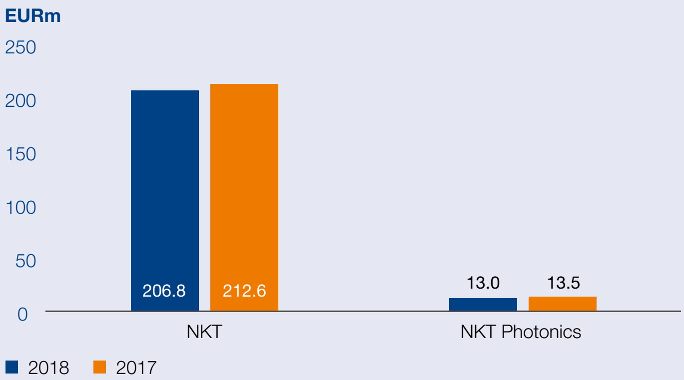
NKT Photonics working capital was unchanged compared to last year.

	NKT	NKT Photonics	NKT	NKT Photonics	NKT	NKT Photonics
Amounts in EURm	**2018**	**2018**	**2017**	**2017**	**Change**	**Change**
Inventories	206.9	12.9	212.6	13.5	-5.7	-0.6
Trade receivables	161.6	23.5	136.9	25.9	24.9	-1.5
Construction contracts	72.7	–	47.6	–	25.1	–
Other assets	85.0	4.3	77.8	3.6	7.2	0.7
Trade payables	-266.1	-4.3	-302.2	-11.2	35.9	6.0
Other liabilities	-276.3	-12.4	-279.2	-8.7	2.9	-3.7
Working capital	-16.2	24.0	-106.5	23.1	90.3	0.9
Working capital ratio (LTM)	-0.2%	32.4%	-2.1%	32.7%	1.9%	-0.3%

Note 5.1 Inventories

The NKT A/S businesses carry inventory to support their operations. Continuous efforts are made to maintain inventory at a low level, while maintaining customer service through short lead times.

Inventories developments



NKT and NKT Photonics maintained a stable inventory level compared to last year.

Amounts in EURm	2018	2017
Raw materials, consumerables and goods for resale	83.3	88.0
Work in progress	54.0	70.3
Finished goods	82.5	67.8
Inventories, continuing operations	219.8	226.1
Impairments on inventories, continuing operations, 1 January	14.1	15.6
Impairments on inventories for the year expensed in the income statement	3.6	0.3
Disposals from sales	-2.8	-1.5
Scrapping	-0.8	-0.3
Impairments on inventories, continuing operations, 31 December	14.1	14.1

Significant judgements and estimates

Impairments on inventory are carried out if the net realizable value is lower than costs, e.g. in case of obsolescence.

§ 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.

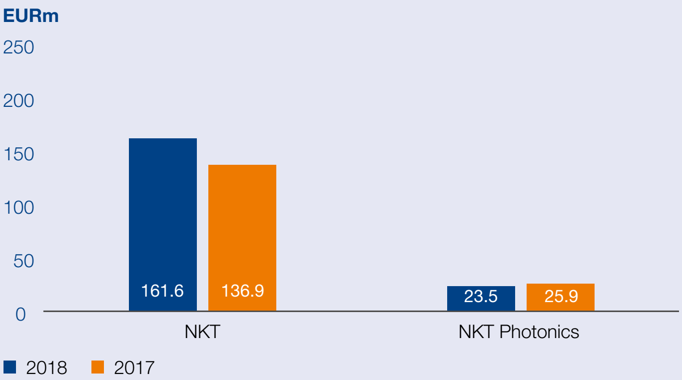
Finished goods and work in progress are measured at costs, which comprises costs of raw materials, consumables, direct wages/salaries and production overheads. Production overheads include indirect materials and wages/salaries, as well as maintenance and depreciation of production machinery, buildings 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.

Note 5.2 Receivables

In NKT, receivables comprise trade and other receivables from external and associated companies, construction contracts, 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.

Trade receivables developments



In NKT, trade receivables increased from 2017 to 2018. Net construction contracts decreased slightly but remained at a stable level.

Writedowns on trade receivables amounted to 2%. For further information on credit risks, please see Note 6.5.

Amounts in EURm	2018	2017
Trade receivables	185.1	154.5
Construction contracts	72.7	47.6
Other receivables incl. derivative financial instruments	63.6	36.5
Prepayments	17.6	28.7
Receivables, continuing operations	339.0	267.3
Of which receivables falling due later than 12 months from the balance sheet date	0.1	0.2
Construction contracts:		
Contract value of work in progress	1,852.3	1,659.1
Progress billings	-1,853.3	-1,651.9
	-1.0	7.2
Recognized construction contracts:		
Recognized as assets	72.7	47.6
Recognized as liabilities	-73.7	-40.4
	-1.0	7.2
Payments withheld	–	–

The opening balance as of 1 January 2017 for trade receivables was EUR 135.2m and for construction contacts it was EUR 30.6m.

Significant judgements and estimates

Construction contracts relating to NKT are to a certain degree measured based on management judgement in terms of stage of completion and estimated profit on each project, which affects the value recognized in the balance sheet. The estimate includes a risk provision, which is based on an assessement of the specific risk that each project is exposed to.

The stage of completion is based on costs incurred against budget. In essence, the total budget costs are therefore to a large extent based on judgements and estimates.

Note 5.2 Receivables – continued

§ 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 subsequent measured at amortized cost adjusted for change in 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 credit risk management policy.

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.

Construction contracts

Construction contracts are measured at the selling price of the work performed less progress billings and anticipated losses. Construction contracts are characterised by a high degree of individualisation in the design of the goods 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 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 receivables. If progress billings and anticipated losses exceed the contract value of a construction contract, the deficit is recognized in trade payables and other 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 the costs are occurred that the contract will materialise.

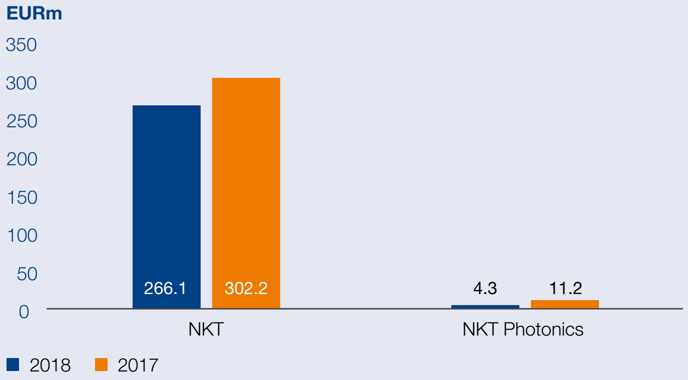
Prepaid expenses

Prepaid expenses are measured at cost.

Note 5.3 Trade payables and other liabilities

Trade payables and other liabilities comprise trade payables, other payables including VAT, employee-related payables, and derivative financial instruments. Liabilities and prepayments related to construction contracts and prepayments from customers and deferred income are also included.

Trade payables developments



In NKT, trade payables and other liabilities decreased from end-2017 to end-2018 due to timing.

Amounts in EURm	2018	2017
Trade payables	270.4	305.2
Other payables (VAT, employeeerelated tax. Holiday pay, derivative financial instruments)	141.8	150.3
Construction contracts (cf. Note 5.2)	73.7	40.4
Prepayments regarding construction contracts	65.0	83.3
Prepayments from customers	5.4	1.6
Deferred income	1.3	1.4
Total continuing operations	**558.3**	**582.2**

The opening balance as of 1 January 2017 for construction contacts was EUR 30.8m and for prepayment from costomers it was EUR 0.0m.

§ Accounting policy

Liabilities are measured at amortized cost. Deferred income is measured at cost.

If progress billings and anticipated losses exceed the value of a construction contract in progress, the deficit is recognized in trade payables and other liabilities.

Prepayments from customers are recognized under trade payables and other liabilities.

Note 6 – Capital structure and financial risk management

This note covers NKT A/S' capital structure, financial items, and financial risk management.

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

NKT A/S 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 EBITDA leverage (ratio up to 1.5x). In periods where the capital structure targets are satisfied NKT A/S' cash flows are used for value adding investments/acquisitions and shareholder distributions. If not, cash flows are prioritized to repay debt.

At end-2018 solvency ratio was 48% and the EBITDA leverage (Net interest-bearing debt relative to Operational EBITDA) was 3.1x. No dividend payment is proposed to be paid out in 2019 based on the 2018 results due to focus on reducing the debt level.

Key developments 2018

END-YEAR NIBD

EUR 248m

Decrease of EUR 45m in 2018

AVERAGE FUNDING RATE

2.2%

Up from 2.1% in 2017

AVAILABLE LIQUIDITY RESOURCES

EUR 246m

Down from EUR 378m in 2017

Note 6.1 Hybrid capital and financing

In September 2018, NKT A/S issued a EUR 150m hybrid security. Following the issuance, a new committed revolving credit facility (RCF) of EUR 300m with a 4-year maturity came into force. The new financing structure has replaced all existing committed bank facilities, and concluded the company's refinancing process initiated in the first part of 2018.

The hybrid security is subordinated to all other creditors and 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 dicretionary decision of NKT be deferred and ultimately any deferred coupons outstanding in 3018 will be cancelled. However, deferred coupon payments become payable if NKT A/S (Parent company) decides to pay dividends to shareholders. As a consequence of the terms of the hybrid security, it is accounted for as equity according to IFRS, and coupon payments are recognized in equity.

In addition to the RCF and hybrid security, NKT A/S has mortgage debt of EUR 171m.

NKT A/S has sufficient financial headroom to manage the lower level of activity expected in 2019.

Note 6.1 Hybrid capital and financing

Significant judgements

The issued EUR 150m callable subordinated capital securities due in 3018 are accounted for as a hybrid capital reserve in equity. The reserve includes at initial recognition the net proceeds received at the time of issuance less the present value of the discounted liability component. Subsequent on allocation of profit for the year the reserve is increased by accrued not yet paid coupons (interest) to the hybrid capital holders. Coupon payments are discretionary and ultimately lapse upon maturity of the hybrid capital. The carrying amount of the liability component is measured at nil on initial recognition because of the 1,000-year term of the hybrid capital. Subsequently, the liability part is measured at amortised costs and will only impact profit (loss) for the year towards the end of the 1,000-year term of the hybrid capital. Coupon payments are accounted for as dividends, which are deducted from the hybrid capital reserve in equity at the time of payment.

Note 6.2 Share capital

NKT'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 NKT 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-2018, NKT A/S did not hold any treasury shares (2017: 0 treasury shares).

Number of DKK 20 shares ('000)	2018	2017
Shares, 1 January	27,126	26,835
Increase in capital by exercise of warrants	0	291
Shares outstanding, 31 December	27,126	27,126

Four mandates have been issued by the General Meeting related to capital structure management:

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 management and employees of NKT A/S, 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.

Note 6.3 Net interest-bearing debt and maturity of financial liabilities

Net interest-bearing debt at end-2018 was EUR 248.3m. This corresponded to a net debt decrease of EUR 44.9m compared to end-December 2017. The net interest-bearing debt consisted of gross debt of EUR 276.6m and cash and interest-bearing receivables of EUR 28.3m.

Amounts in EURm	2018	2017
Net interest-bearing debt comprises:		
Non-current loans	268.4	332.8
Current loans	8.2	7.2
Interest-bearing debt, gross	276.6	340.0
Interest-bearing receivables	-0.1	-2.1
Cash at bank and in hand	-28.2	-44.7
Net interest bearing debt	248.3	293.2

Changes in current and non-current loans

Amounts in EURm	1. January 2018	Changes from cash flow	Effect of changes in exchange rates	Total
Current and non-current loans	340.0	-60.9	-2.5	276.6

Maturity of Group financial liabilities

	2018						
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	8.2	0.0	0.0	102.4	0.0	166.0	276.6
Trade payables	270.7						270.7
Prepayments	5.4						5.4
Derivative financial instruments	15.4						15.4
Other financial liabilities	126.8						126.8
Total, continuing operations	426.5	0.0	0.0	102.4	0.0	166.0	694.9

	2017						
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	7.2	8.1	171.7	8.2	10.0	134.8	340.0
Trade payables	305.2						305.2
Prepayments	1.6						1.6
Derivative financial instruments	20.2						20.2
Other financial liabilities	130.1						130.1
Total, continuing operations	464.3	8.1	171.7	8.2	10.0	134.8	797.1

Note 6.3 Net interest-bearing debt and maturity of financial liabilities – continued

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 respects 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 capitalised residual lease obligation on finance leases measured at amortized cost.

Note 6.4 Financial items

The net financial items represented an expense of EUR 8.0m in 2018 compared to an expense of EUR 14.7m in 2017. The decrease was mainly caused by lower net interest expenses.

Net interest expenses were EUR 8.7m in 2018 compared to EUR 13.8m in 2017, while net gains on foreign exchange and derivative financial instruments amounted to EUR 0.7m in 2018, against a loss of EUR 0.9m in 2017.

Although the most significant currency exposures were neutralised by hedging activity, currency adjustments from unhedged cash flows caused modest foreign exchange gains or losses. The EUR 0.7m net gain in 2018 was within the expected range of the hedging policy and should be seen in the context of the significant cash flows in foreign currency.

	Financial income		Financial expenses		Net financial items	
Amounts in EURm	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Interest etc relating to financial assets/liabilities measured at amortized cost	0.8	3.4	-9.5	-17.2	-8.7	-13.8
Foreign exchange gains/losses	53.3	35.3	-53.6	-35.8	-0.3	-0.5
Gains/loss on derivative financial instruments	11.4	4.5	-10.4	-4.9	1.0	-0.4
Total from continuing operations	65.5	43.2	-73.5	-57.9	-8.0	-14.7

§ 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.

Note 6.5 Financial risks and financial instruments

Financial risk management policy
NKT A/S is exposed to and manages several financial risks due to its operations, investments and financing activities. As a matter of policy, NKT A/S does not actively speculate in financial risks.

The financial risk management policy is managed by Group Treasury. The general principle is that financial risks exceeding a defined threshold are hedged. The thresholds are defined to provide NKT A/S with sufficient protection while taking hedging costs into consideration.

NKT A/S uses financial instruments, such as forwards, swaps, interest rate caps, and options to hedge exposures relating to currency, interest rates, and commodities. At end-2018 and 2017 no option contracts were active.

The financial risks are divided into:
1. Currency risks
2. Interest rate risks
3. Raw material price risks
4. Credit risks
5. Liquidity risks

Currency risks
With presence in several countries NKT A/S 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. Management and hedging of existing and anticipated currency risks are initiated by the individual businesses within the framework of existing policies and 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 2018 exchange rate would reduce NKT A/S' equity by EUR 75m, compared to EUR 74m in 2017.

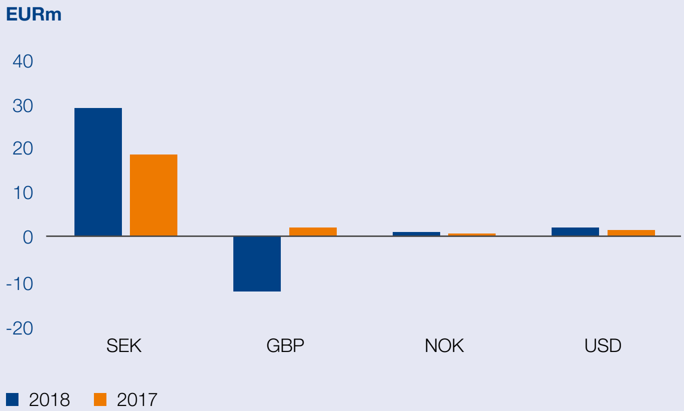
Significant currency risks relating to receivables and payables are hedged to the functional currency of the businesses. Balances with credit institutions are mainly denominated in DKK and EUR and do, therefore, not result in a significant currency risk for the Group.

The principal currency exposure relates to sales and purchases in currencies other than the functional currency of the businesses. Hedging of these currency risks is based on assessments of the likelihood of the future transaction being performed and whether the associated currency risk is significant.

Expected cash flows with significant currency risk are hedged as they become known. Currency risks from project-related sales are considered on an individual basis. The fair value of the effective part of the hedge is recognized in other comprehensive income on a continuous basis.

The 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 currently only uses forwards and spots to hedge the FX risks, the likelihood of inefficiency is very low. Changes in the fair value of the hedging instrument should therefore offset changes in the hedged item. All currency hedges are expected to be 100% effective, as the size and maturity of the hedging instrument should match the underlying.

Note 6.5 Financial risks and financial instruments – continued

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

Cash flow hedges related to main currencies

		Average exchange rate		Notional value foreign currency in mio.		Notional value EURm		Fair value EURm
Currency		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018
SEK	**Buy**							
	Less than 1 year	0.10	0.10	2,678.4	3,025.4	267.9	305.3	-4.5
	More than 1 year	0.10	0.10	1,464.2	1,023.9	141.5	107.1	1.2
	Sell							
	Less than 1 year	0.10	0.10	1,265.9	1,553.1	125.2	159.0	0.3
	More than 1 year	0.10	0.10	730.9	264.4	70.5	27.7	-0.9
USD	**Buy**							
	Less than 1 year	0.86	0.90	40.6	48.6	35.0	43.6	-0.6
	More than 1 year	0.85		35.0		29.6		-0.6
	Sell							
	Less than 1 year	0.86	0.86	11.5	32.0	9.9	27.4	0.0
	More than 1 year	0.84		41.4		34.9		0.7
GBP	**Buy**							
	Less than 1 year	1.11	1.15	48.0	28.0	53.4	32.2	-0.9
	More than 1 year	1.12	1.14	13.8	5.6	15.5	6.3	-0.6
	Sell							
	Less than 1 year	1.13	1.13	111.5	21.4	126.1	24.3	3.9
	More than 1 year	1.12	1.12	60.3	0.3	67.5	0.3	2.3
NOK	**Buy**							
	Less than 1 year	0.10	0.11	141.3	125.3	14.4	12.9	-0.2
	More than 1 year	0.10		13.5		1.4		0.0
	Sell							
	Less than 1 year	0.10	0.10	67.0	68.4	6.8	6.9	0.1
	More than 1 year							

Note 6.5 Financial risks and financial instruments – continued

Fair value hedges related to main currencies

Currency		Average exchange rate		Notional value foreign currency in mio.		Notional value EURm		Fair value EURm
		31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018	31/12/2017	31/12/2018
SEK	Buy							
	Less than 1 year	0.10		0.5		0.1		0.0
	Sell							
	Less than 1 year	0.10		86.1		8.4		-0.1
GBP	Sell							
	Less than 1 year	1.11		1.7		1.9		0.0

Interest rate risks

Interest rate risks refer to the influence of changes in market interest rates on future cash flows concerning interest-bearing assets and liabilities.

At year-end, NKT A/S' NIBD was EUR 248.3m. By comparison, at year-end 2017 NKT A/S' NIBD was EUR 293.2m.

At year-end, an interest rate hedge of EUR 125m was in place in the form of an interest rate cap with a strike of 0% maturing in June 2021. The notional amount of the cap has been reduced from EUR 137.5m since end-2017.

As of end-2018, the market value of the interest rate cap was EUR -0.4m (2017: EUR 0.0m).

Based on interest rates as of end-2018, a 1%-point rise in market interest rate would increase pre-tax financial expenses by EUR 0.8m.

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 A/S uses financial instruments to hedge the price risks.

Exposures and hedging of current and expected future raw material risks are managed by the businesses based on adopted guidelines.

NKT hedge raw material via LME, 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 recognising 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 2018, NKT A/S had current financial hedging instruments relating to future raw material supplies of a value of EUR 178m (2017: EUR 45.1m) with a positive fair value of EUR 0.3m (2017: positive fair value of EUR 5.9m).

It is estimated that, all other things being equal, a 10% increase in raw material prices would influence NKT A/S' other comprehensive income by around EUR 14.3m for forward transactions for raw material supplies at 31 December 2018 (2017: EUR 4.5m).

The fair value of the effective part of the hedge is recognised 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 materialises. 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.

Note 6.5 Financial risks and financial instruments – continued

Cash flow hedges related to raw materials

		Average rate EUR/ton		Notional value EURm		Fair value EURm
Commodity		**31/12/2018**	**31/12/2017**	**31/12/2018**	**31/12/2017**	**31/12/2018**
	Buy					
	Less than 1 year	5,222	5,700	27.7	20.5	0.4
Cobber	More than 1 year	5,114	5,527	85.5	9.3	0.5
	Sell					
	Less than 1 year	5,404		13.8		0.4
	Buy					
Lead	Less than 1 year	1,784	2,031	19.2	12.1	-0.4
	More than 1 year	1,700		17.4		0.8
Aluminium	**Buy**					
	Less than 1 year	1,766	1,772	9.1	0.3	-0.5
	Buy					
Gas-Oil	Less than 1 year	512		2.0		-0.3
	More than 1 year	508		3.2		-0.5

Credit risks

NKT A/S' credit risks relate partly to receivables and cash at bank and in hand, and partly to derivative financial instruments with positive fair value. The maximum credit risk attached to financial assets correspond to the values recognized in the balance sheet.

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

Development in account receivables provision

Amounts in EURm	2018	2017
Receivables from sales and services, gross – continuing operations	188.9	156.2
Impairment for bad and doubtful debts:		
1 January	1.7	1.6
Exchange rate adjustment	0.0	-0.1
Writedowns for the year included in income statement in 'other cost'	1.7	0.1
Realized losses during year	0.1	0.1
Impairment, 31 December – continuing operations	3.5	1.7
Receivables for sales and services, net – continuing operations	185.4	154.5

Note 6.5 Financial risks and financial instruments – continued

The allowance for expected credit losses for trade receivables and contract assets are calculated at individual level when there is an indication of impairment. For receivables and contract assets without any indication of impairment 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 2018 credit losses recognised in the income statemens count for 0,1% of total revenue. As the losses relate to a single customer and are of a non-recurring nature the expected credit losses for the future are considered less than the impairment in 2018. The expected loss rates are updated at every reporting date.

Liquidity risks

It is NKT A/S policy to maintain adequate cash resources to implement planned operating activities and to be able to operate effectively in the event of unforeseen fluctuations in liquidity. NKT A/S' cash resources consist of cash, cash equivalents and undrawn credit facilities. The latter consists primarily of committed but also of uncommitted facilities.

At end-2018, NKT A/S' total available liquidity resources amounted to EUR 246.3m compared to EUR 378.3m in 2017.

The EUR 300m RCF matures in September 2022, while the mortgage loan portfolio matures in 2032 and 2033.

The RCF is the only financing instrument subject to financial covenants. These include agreed remedies in the form of security over NKT Photonics and the vessel NKT Victoria. Key covenants will not apply when the ratio of loan to value of collateralized assets meet agreed thresholds.

NKT A/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	2018	2017
Committed facilities (>3 years)	300.0	58.3
Committed facilities (1-3 years)	0.0	288.6
Committed facilities (<1 year)	0.0	97.0
Total committed facilities	300.0	443.9
Uncommitted facilities	23.3	52.5
Total facilities	323.3	496.4
Cash	28.2	44.7
Utilized facilities	-105.2	-162.8
Liquidity resources	246.3	378.3

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 2018 and 2017 of NKT A/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.

Note 6.5 Financial risks and financial instruments – continued

Categories of financial instruments

Amounts in EURm	2018	2017
Financial assets		
Measured at amortized cost:		
Receivables	323.4	256.8
Interest-bearing receivables	0.1	2.1
Measured at fair value through profit/loss:		
Other investments and receivables	2.0	2.4
Cash at bank and in hand	28.2	44.7
Derivative financial instruments	15.6	10.5
Financial liabilities		
Measured at amortized cost:		
Trade payables and other liabilities	402.5	436.9
Interest-bearing loans and borrowings	276.6	340.0
Measured at fair value through profit/loss:		
Derivative financial instruments	15.8	20.2

Cash Flow hedge reserve

Amounts in EURm	Foreign exchange risk hedging	Interest rate risk hedging	Commodity risk hedging	Total
Balance at 31 December 2017	**-13.5**	**0.0**	**4.1**	**-9.4**
Gain/(loss) arising on changes in fair value of hedging instruments during the period	3.1	-0.4	1.3	4.0
Income tax related to gains/(losses) recognized in other comprehensive income during the period	-0.7	0.1	-1.1	-1.7
(Gain)/loss reclassified to profit or loss – hedged items has affected profit or loss	12.0	0.0	-5.6	6.4
Income tax related to amounts reclassified to profit or loss	-2.6	0.0	1.7	-0.9
Balance at 31 December 2018	**-1.7**	**-0.3**	**0.4**	**-1.6**

Note 6.5 Financial risks and financial instruments – continued

§ 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. At that time, the accumulated gains or losses relating to such hedge transactions are transferred to the same item as the hedged transactions. If the hedging instrument no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. 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.

Net investment hedges

Changes in the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries or associates and which effectively hedge currency fluctuations in these enterprises are recognized in the consolidated financial statements directly in other comprehensive income in a separate translation reserve.

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.

Note 7 – Group structure

This note describes acquisitions and divestments of businesses during the year and NKT A/S structure at end-2018.

Note 7.1 Acquisitions/divestments of businesses

2018: There have not been any acquisitions or divestments of businesses in 2018.

2017:
Acquisitions

Effective from 1 March 2017, NKT acquired ABB HV Cables. ABB HV Cables was a leading supplier in the premium segment of AC and DC high-voltage cable systems for on- and offshore power transmission. With this acquisition, NKT created a leading on- and offshore high-voltage power cables company with strong growth potential.

Effective from 1 September 2017, NKT Photonics acquired Onefive. Onefive was a leading supplier of ultrafast Lasers. The company employed 41 people mainly in Zurich, where the main production facilities were located, and in a smaller site in Berlin under the name Advanced Laser Diode Systems.

Amounts in EURm		ABB HV Cables NKT	OneFive NKT Photonics	Total
Non-current assets	Intangible assets	114.9	12.0	126.9
	Tangible assets*	345.2	0.2	345.4
Current assets	Inventories	46.1	1.7	47.8
	Receivables	78.2	3.3	81.5
	Cash at bank and in hand	14.4	2.8	17.2
Non-current liabilities	Deferred tax	-41.4	-2.5	-43.9
	Provisions*	-17.0	0.0	-17.0
Current liabilities	Interest-bearing loans and borrowings	0.0	0.0	0.0
	Payables and provisions	-244.4	-2.6	-247.0
	Net assets acquired	296.0	14.9	310.9
	Goodwill	389.8	11.2	401.0
	Purchase consideration*	685.8	26.1	711.9
	Cash acquired	-14.4	-2.8	-17.2
	Deferred purchase consideration	0.0	-1.9	-1.9
	Deferred contingent purchase consideration	0.0	-7.0	-7.0
	Cash purchase consideration*	671.4	14.4	685.8
	Interest-bearing loans and borrowings acquired	0.0	0.0	0.0
	Total effect on net interest bearing debt*	671.4	14.4	685.8

* The 2017 acquisition of ABB HV Cables has been adjusted for a payment of an acquisition of a vessel committed by the acquired business of EUR 115m.

Note 7.1 Acquisitions/divestments of businesses – continued

Impact on income statement

The acquired ABB HV Cables activities contributed with revenue of EUR 445.8m, operational EBITDA of EUR 96.4m and net profit of EUR 19.1m for the period 1 March – 31 December 2017. On a pro forma basis, if the business had been acquired as of 1 January 2017, the contribution from revenue would have been EUR 525.6m. As ABB HV Cables not was a stand-alone entity within the ABB Group, it did not have reported stand-alone historical financial statements. On the basis of this, it has not been possible to provide a reliable estimate for the operational EBITDA and net profit, as if it had been part of NKT since 1 January 2017. Direct purchase cost related to the purchase of ABB HV Cables was EUR 7.0m. No provisions for losses have been recognized in receivables. Goodwill relates to employees knowhow, a unique market position and synergies, which will be realized when integrated with existing business. The impact of the acquisition of OneFive is not material on the financial statements.

Divestments

In April 2017, NKT divested its Automotive operations to the German-based Wilms Group. Although a profitable business servicing several large customers, Automotive was not core to NKT. The divestment included a plant in Vrchlabí, Czech Republic with approx. 400 employees.

Amounts in EURm		Automotive NKT
Non-current assets	Intangible assets	-8.1
	Tangible assets	-17.2
Current assets	Inventories	-10.3
	Receivables	-17.9
	Cash at bank and in hand	-0.8
Non-current liabilities	Deferred tax	1.2
Current liabilities	Payables and provisions	27.3
	Net assets disposed	-25.8
	Direct cost	-0.7
	Cash consideration	27.2
	Gain from divestment of operations*	0.7

* Gain from divestment of operations is recognized as Other costs in the income statement
During 2017 NKT received EUR 6.6m related to sale of NKT Cables China in 2016.

Note 7.1 Acquisitions/divestments of businesses – continued

§ Accounting policy

Businesses acquired or formed during the year are recognized in the consolidated financial statements from the date of acquisition/formation. Businesses sold or wound up are recognized in the consolidated financial statements until the date of disposal.

In the case of acquisitions where NKT A/S directly or indirectly gains control of the business acquired, the purchase method is used. The identifiable assets, liabilities and contingent liabilities of the acquisition are measured at fair value at the acquisition date. Identifiable intangible assets are recognized if they are separable or arise from a contractual right. Deferred tax on revaluations is recognized.

The date of acquisition is the date at which NKT A/S directly or indirectly gains actual control of the business acquired.

Positive differences (goodwill) between on the one side the purchase consideration, the value of non-controlling interests in the acquisition and the fair value of any previously acquired equity investments, and on the other side the fair value of the acquired identifiable assets, liabilities and contingent liabilities, are recognized as goodwill under intangible assets. Goodwill is not amortized but a test for impairment is carried out at least once a year. The first impairment test is performed before the end of the acquisition year. Upon acquisition, goodwill is allocated to the cash-generating units which subsequently form the basis for impairment tests. Goodwill and fair value adjustments relating to acquisition of a foreign entity having a functional currency other than the Group's presentation currency are treated as assets and liabilities belonging to the foreign entity and, on first-time recognition, are translated into the functional currency of that entity at the exchange rate prevailing at the transaction date. Negative differences (negative goodwill) are recognized in the income statement at the acquisition date.

The purchase consideration for a business consists of the fair value of the agreed consideration in the form of acquired assets, assumed liabilities, and issued equity instruments. If parts of the purchase consideration are contingent upon future events or fulfilment of agreed conditions, this part of the purchase consideration is recognized at fair value at the date of acquisition. Costs relating to business combinations are expensed directly in the income statement as incurred.

If uncertainty exists at the date of acquisition as to identification or the measurement of acquired assets, liabilities or contingent liabilities, or as to the determination of the purchase consideration, first-time recognition is based on values stated provisionally. If identification or measurement of the purchase consideration, acquired assets, liabilities or contingent liabilities subsequently proves to have been incorrect at first-time recognition, the calculation is adjusted retrospectively, including goodwill, until 12 months after the acquisition, and comparative figures are restated. Thereafter goodwill is not adjusted. Revised estimates of contingent purchase consideration are recognized in the income statement.

On whole or partial disposal of wholly owned foreign entities where control is relinquished, the currency adjustments which are recognized in other comprehensive income and which are attributable to the entity are reclassified from other comprehensive income to the profit/loss for the year together with gains or losses arising from the disposal.

On disposal of part-owned foreign subsidiaries the part of the translation reserve relating to minority interests is not transferred to the income statement.

Gains or losses on disposal of winding up of subsidiaries and associates are stated as the difference between the selling price or disposal sum and the carrying amount of net assets, including goodwill, at the time of sale, and selling or winding up costs.

Note 7.2 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
NKT Catenary GmbH & Co. KG	Germany
NKT HVC 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 Cables LLC	Russia
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
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
Fianium Holdings Ltd.	UK
Fianium 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 (Beijing) Photonic Technical Service Co., Ltd.	China
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.

Note 8 – Other notes

This note contains other statutory notes and notes considered less essential to the understanding of the NKT A/S financial development.

Note 8.1 Fees to auditor elected at the Annual General Meeting

Amounts in EURm	2018	2017
Deloitte:		
Statutory audit	1.0	0.7
Audit-related services	0.0	0.0
Tax and VAT advice	0.1	0.4
Other services	4.2	3.4
Total continuing operations	**5.3**	**4.5**

Total non-audit services amounted to EUR 4.3m, whereof EUR 3.4m related to non-audit services provided to NKT A/S by Deloitte Statsautoriseret Revisionspartnerselskab Danmark. Non-audit service consisted of advisory services related to structuring of the finance organization and other accounting and tax advisory services.

Note 8.2 Events after the balance sheet date

Management is not aware of any subsequent matters that could be of material importance to NKT A/S's financial position.

Note 8.3 Accounting standards issued but not yet effective

The following new standards, amendments and interpretations of relevance to NKT A/S have been adopted by the IASB and adopted by the EU. The standards are not yet effective and will therefore not be implemented in the Annual Reports until they take effect.

- IFRS 16: "*Leases*". New standard on the accounting treatment of leases, that requires leases to be recognized as right-of-use assets and a lease liability in the balance sheet, unless the lease term is 12 months or less or the underlying asset has a low value. The standard will be implemented on January 1, 2019 using the modified retrospective method, where the right-of-use assets are equal to the lease liability. Implementation of the new standard is expected to increase EBITDA by around EUR 4m in NKT and around EUR 2m in NKT Photonics in 2019. Net interest-bearing debt is expected to increase by around EUR 30m in NKT and around EUR 10m in NKT Photonics end-2019. Because of this, RoCE will be impacted negatively. Furthermore, the implementation of IFRS 16 will require additional disclosures.

Note 8.4 Contingent liabilities, securities and contractual obligations

Significant judgements and estimates

The 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. 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 damages claim that is based on this decision.

The remuneration for selected management members includes 'Change of Control' provisions (significant changes in ownership structure).

The 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 Group's foreign companies are subject to special tax schemes to which certain conditions are attached. As at 31 December 2018 these conditions were complied with.

Securities

Amounts in EURm	2018	2017
Carrying amount of assets provided as security for credit institutions:		
Land and buildings	226.6	239.5
Plant and machinery	149.8	52.3
NKT Photonics net assets	4.3	0.0
Liabilities secured with assets	169.4	177.3

Note 8.4 Contingent liabilities, securities and contractual obligations – continued

Contractual obligations, continuing operations

Amounts in EURm	2018	2017
Contractual obligations relating to purchase of buildings and production plants	14.2	6.2
Interminable minimum lease payments are specified as follows:		
Within 0-1 year	15.4	11.0
Within 1-5 years	39.0	27.1
After 5 years	30.0	30.9
Lease payments expensed in income statement	**17.4**	**14.9**

Operating lease commitments:
The Group leases property and production equipment, etc., under operating leases
Lease commitments relate principally to property
The leases are indexed annually and contain no special purchasing rights, etc.

§ Accounting policy

Contingent liabilities

Disclosures for contingent assets and liabilities and when they must be recognized takes place against the background of evaluations of the expected outcome of the individual issues. These evaluations are based on legal opinions of the agreements contracted, which in significant issues 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 notes 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.

Contractual liabilities – leasing

Lease commitments are divided for accounting purposes into finance leases and operating leases.

A finance lease is one that in all material respects transfers risks and benefits relating to ownership of the leased asset. Other leases are designated operating leases.

The accounting treatment of assets held under a finance lease and the associated liability are described in the section on property, plant and equipment and in the section on financial liabilities, respectively.

Rental payments made under an operating lease are recognized on a straight-line basis over the term of the lease.

Assets leased out under operating leases are recognized, measured and presented in the balance sheet in the same way as the Group's other assets of similar type.

Note 8.5 Definitions

1. **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.

2. **Organic growth** – Absolute organic sales growth (standard price) as a percentage of prior-year adjusted revenue (standard price). Organic growth is a measure of growth, excluding the impact of exchange adjustments from year-on-year comparisons, and including acquisitions and divestments. For acquisitions a pro forma revenue for the prior year is included in the calculation, and for divestments revenue for the prior year is removed from the calculation.

3. **One-off items** – consist of non-recurring items such as costs for integration, restructuring, severance and other one-time costs.

4. **Operational earnings before interest, tax, depreciation and amortization (Oper. EBITDA)** – Earnings before interest, tax, depreciation and amortization (EBITDA) adjusted for one-off items.

5. **Operational earnings before interest and tax (Oper. EBIT)** – Earnings before interest and tax adjusted for one-off items.

6. **Net interest-bearing debt** – Cash, investments and interest-bearing receivables less interest-bearing debt. Specified in Note 6.3. Hybrid capital is not included in net interest-bearing debt.

7. **Capital employed** – Group equity plus net interest-bearing debt.

8. **Working capital** – Current assets minus current liabilities (excluding interest-bearing items and provisions).

9. **Net interest-bearing debt relative to operational EBITDA** – Comparative figures are calculated as operational EBITDA inclusive pro forma estimated EBITDA for the acquired ABB HV Cables activities.

10. **Solvency ratio (equity as a percentage of total assets)** – Equity incl. hybrid capital and excl. non-controlling interest as a percentage of total assets.

11. **Return on capital employed (RoCE)** – Operational EBIT as a percentage of average capital employed.

12. **Earnings, EUR per outstanding share (EPS)** – Earnings attributable to equity holders of NKT A/S relative to average number of outstanding shares.

13. **Equity value, EUR per outstanding share** – Equity attributable to equity holders of NKT A/S per outstanding share at 31 December. Dilutive effect of warrants plan for Group Management and employees is not included in this ratio.

Financial ratios

Gearing	Net interest-bearing debt x 100 / Group equity
Solvency ratio	Equity excl. non-controlling interest x 100 / Total assets
Return on Capital Employed (RoCE)	Operational EBIT / Average capital employed
Earnings Per Share (EPS)	Earnings attr. to equity holders of NKT A/S / Average number of shares outstanding
Earnings Per Share Diluted (EPS-D)	Earnings attr. to equity holders of NKT A/S / Diluted average number of shares
Book Value Per Share (BVPS)	Equity excl. non-controlling interest / Number of shares

Note 9 – Discontinued operations

Due to the split of NKT A/S into two listed entities, Nilfisk is treated as discontinued operations in 2017.

§ Accounting policy

Discontinued operations constitute an major line of business, whose activities and cash flows are clearly distinguishable, operationally and in financial reporting terms, from the rest of the business. The operation has either been disposed of or is held for sale, and the sale is expected to be completed within one year in accordance with a formal plan. Discontinued operations also include businesses which in connection with the acquisition are designated as 'held for sale'.

Net results of discontinued operations, net value adjustments of related assets and liabilities, and profits/ losses on sales are presented in a separate line in the income statement with restatement of comparative figures. Revenue, costs, value adjustments and tax of discontinued operations are disclosed in the notes. Assets and liabilities relating to discontinued operations are presented in separate lines in the balance sheet without restatement of comparative figures, and main items are specified in the notes.

Operating, investment and financing cash flows relating to the discontinued operations are disclosed in a note.

Note 9.1 Discontinued operations

Amounts in EURm	2018	2017*
Revenue	0.0	801.7
Costs and other income	0.0	-718.5
Earnings before interest, tax, depreciation and amortization (EBITDA)	**0.0**	**83.2**
Depreciation, amortization and impairment	0.0	0.0
Financial items, net	0.0	-6.2
Earnings from operations before tax (EBT)	**0.0**	**77.0**
Tax on operations	0.0	-21.6
Earnings after tax	**0.0**	**55.4**
Revaluation to market value of shares distributed*	0.0	886.8
Equity reserves reclassified to income statement	0.0	-9.9
Profit for the year from discontinued operations	**0.0**	**932.3**
Earning from discontinued, EUR, per share (EPS)	0.0	34.4
Cash flow		
Cash flow from operating activities	0.0	10.0
Cash flow from investing activities	0.0	-23.7
Cash flow from financing activities	0.0	-13.5
Net cash flow from discontinued operations	**0.0**	**-27.2**

* Due to the demerger, Nilfisk is treated as a discontinued operation until 10 October 2017, where it was distributed to shareholders at market value (calculated at market value at Nasdaq Copenhagen per 12 October 2017).

Parent company financial statements

Income statement and comprehensive income

1 January – 31 December

Amounts in EURm	Note	2018	2017
Income statement			
Sale of services		3.0	3.2
Revenue		**3.0**	**3.2**
Staff costs	3	-3.0	-5.3
Other costs	4	-0.9	-8.4
Operating earnings (EBIT)		**-0.9**	**-10.5**
Financial income	5	16.9	40.7
Financial expenses	6	-8.2	-36.2
Gain on Nilfisk shares distributed to shareholders	8	0.0	940.2
Earnings before tax (EBT)		**7.8**	**934.2**
Tax	7	-1.6	1.9
Profit for the year		**6.2**	**936.1**
Statement of comprehensive income			
Profit for the year		6.2	936.1
Other comprehensive income:			
Items that may be reclassified to income statement:			
Foreign exchange adjustment		-2.7	0.0
Value adjustment of hedging instruments		-0.4	0.0
Tax		0.1	0.0
Total comprehensive inccome		**3.2**	**936.1**
Proposed distribution			
Transferred to retained comprehensive inccome and reserves		3.2	936.1
		3.2	**936.1**

Balance sheet

31 December

Amounts in EURm	Note	2018	2017
Assets			
Non-current assets			
Investment in subsidiaries	8	400.9	401.9
Receivables from subsidiaries		1,029.4	943.7
Deferred tax	9	0.0	1.7
		1,430.3	**1,347.3**
Total non-curent assets		**1,430.3**	**1,347.3**
Current assets			
Receivables from subsidiaries		4.1	1.5
Other receivables		0.5	2.0
Income tax receivables		3.3	0.8
		7.9	**4.3**
Total assets		**1,438.2**	**1,351.6**
Equity and liabilities			
Equity			
Share capital		72.8	72.8
Foreign exchange reserve		-2.7	0.0
Hedging reserve		-0.3	0.0
Retained comprehensive income		940.0	937.5
Hybrid capital	2	152.4	0.0
Total equity		**1,162.2**	**1,010.3**
Non-current liabilities			
Deferred tax	9	0.9	0.0
Interest-bearing loans and borrowings		102.4	163.6
		103.3	**163.6**
Current liabilities			
Interest-bearing loans and borrowings		0.5	0.0
Payables to subsidiaries		171.8	175.2
Trade payables and other liabilities		0.4	2.5
		172.7	**177.7**
Total liabilities		**276.0**	**341.3**
Total equity and liabilities		**1,438.2**	**1,351.6**

Cash flow statement

1 January – 31 December

Amounts in EURm	2018	2017
Operating earnings (EBIT) before depreciation	-0.9	-10.6
Non-cash items	0.0	0.1
Changes in working capital	-5.4	-2.3
Cash flow from operations before financial items	-6.3	-12.8
Financial income received	16.9	40.9
Financial expenses paid	-8.2	-36.2
Cashflow from ordinary operations	2.4	-8.1
Income tax paid	-1.7	-0.3
Cash flow from operating activities	**0.7**	**-8.4**
Capital allocation Nilfisk	0.0	117.0
Change in loans to/from subsidiaries	-88.3	-372.1
Cash flow from investing activities	**-88.3**	**-255.1**
Changes in non-current loans	-61.2	171.6
Changes in current loans	0.5	-9.6
Cash from issue of hybrid capital	148.3	0.0
Cash from issue of new shares / exercise of warrants	0.0	10.1
Cash flow from financing activities	**87.6**	**172.1**
Net cash flow	**0.0**	**-91.4**
Cash at bank and in hand 1. January	0.0	91.4
Net cash flow	0.0	-91.4
Cash at bank and in hand, 31 December	**0.0**	**0.0**

Statement of changes in equity

1 January – 31 December

Amounts in EURm	Share capital	Foreign exchange reserve	Hedging reserve	Retained compreh. income	Proposed dividends	Hybrid capital	Total equity
Equity at 1 January 2017	**72.0**	**0.0**	**0.0**	**1,031.3**	**0.0**	**0.0**	**1,103.3**
Changes in equity in 2017:							
Other comprehensive income for the year							0.0
Profit for the year				936.1			936.1
Total comprehensive income for the year	0.0			936.1	0.0		936.1
Distribution of shares in Nilfisk Holding A/S to shareholders in NKT A/S (EUR 38.3 per share)				-1,039.3			-1,039.3
Share-based payment				0.1			0.1
Exercise of share warrants	0.8			9.3			10.1
Total changes in equity 2017	**0.8**	**0.0**	**0.0**	**-93.8**	**0.0**	**0.0**	**-93.0**
Equity at 31 December 2017	**72.8**	**0.0**	**0.0**	**937.5**	**0.0**	**0.0**	**1,010.3**
Equity at 1 January 2018	**72.8**	**0.0**	**0.0**	**937.5**	**0.0**	**0.0**	**1,010.3**
Changes in equity in 2018:							
Other comprehensive income for the year		-2.7	-0.3				-3.0
Profit for the year				3.8		2.4	6.2
Total comprehensive income for the year	0.0	-2.7	-0.3	3.8	0.0	2.4	3.2
Issue of hybrid capital				-1.7		150.0	148.3
Tax				0.4			0.4
Total changes in equity 2018	**0.0**	**-2.7**	**-0.3**	**2.5**	**0.0**	**152.4**	**151.9**
Equity at 31 December 2018	**72.8**	**-2.7**	**-0.3**	**940.0**	**0.0**	**152.4**	**1,162.2**

Note 1–13

NKT A/S (parent company) functions 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 Management review.

Note 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 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 notes to the consolidated financial statements and sections on risk management in the Business units sections.

Accounting judgements

It is the opinion of Group Management that in the application of the parent company's accounting policies, no judgements other than 'estimation uncertainty' are made that can materially influence the amounts recognised in the annual report.

Note 2 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 Note 6.5 to the consolidated financial statements and the sections 'Risk management' in the Business units sections. For explanation of the hybrid capital please see note 6.1 in the consolidated financial statements.

Categories of financial instruments:

Amounts in EURm	2018	2017
Financial assets		
Measured at amortized cost:		
Receivables from subsidiaries	1,033.5	945.2
Other receivables	0.5	1.9
Income tax receivables	3.3	0.8
Measured at fair value through profit/loss:		
Derivative financial instruments	0.0	0.1
Financial liabilities		
Measured at amortized cost:		
Interest-bearing loans and borrowings	102.9	163.6
Payables to subsidiaries	171.8	175.2
Trade payables and other liabilities	0.0	2.5
Measured at fair value through profit/loss:		
Derivative financial instruments	0.4	0.0

Note 2 Financial risk, financial instruments and management – continued

Maturity of liabilities:

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

2017	Less than 1 year	2-3 years	3-4 years	More than 5 years	Total
Interest-bearing loans and borrowings	0.0	163.6	0.0	0.0	163.6
Payables to subsidiaries	175.2	0.0	0.0	0.0	175.2
Trade payables and other liabilities	2.5	0.0	0.0	0.0	2.5
	177.7	163.6	0.0	0.0	341.3

Note 3 Staff costs

Remuneration to the Group Executive Management, as well as warrant plans for NKT Group Leadership Team and employees can be found in the note 3 to the consolidated financial statements.

Amounts in EURm	2018	2017
Wages and salaries	2.8	4.9
Defined contribution plans	0.2	0.3
Share-based payments	0.0	0.1
	3.0	5.3
Average number of full-time employees	13	15

Note 4 Fees to auditor elected at the Annual General Meeting

Amounts in EURm	2018	2017
Deloitte:		
Statutory audit	0.1	0.1
Other services	0.1	0.3
	0.2	0.4

Note 5 Financial income

Amounts in EURm	2018	2017
Interest from subsidiaries	12.9	19.2
Foreign exchange gains	3.7	21.5
Gains on derivative financial instruments	0.3	0.0
	16.9	40.7

Note 6 Financial expenses

Amounts in EURm	2018	2017
Interest, etc. relating to financial liabilities measured at amortized cost	6.2	15.5
Interest to subsidiaries	0.6	0.7
Foreign exchange losses	1.4	20.0
	8.2	36.2

Note 7 Tax

Amounts in EURm	2018	2017
Current tax	0.0	0.5
Deferred tax	1.6	-2.4
Tax for the year	1.6	-1.9
Reconciliation of tax continuing operations:		
Tax at 22.0% of earnings before tax	1.6	205.5
Tax effect:		
Gain on Nilfisk shares distributedto shareholders not taxable	0.0	-206.8
Tax effect from exercise of warrants	0.0	-2.0
Non-deductable expenses	0.0	1.4
	1.6	-1.9

Note 8 Investments in subsiduaries/Distribution of Nilfisk shares

Shares held for distribution to shareholders:

Amounts in EURm	2018	2017
Fair value of Nilfisk shares transferred to shareholder in NKT A/S	0.0	1,039.3
Book value 1 January	0.0	-216.1
Capital allocation	0.0	117.0
Gain on Nilfisk shares distributed to shareholders	**0.0**	**940.2**

Investment in subsidiaries:

Amounts in EURm	2018	2017
Cost, 1 January	444.9	444.9
Exchange rate adjustments	-1.0	0.0
Cost, 31 December	443.9	444.9
Impairment, 1 January	-43.0	-43.0
Impairment, 31 December	-43.0	-43.0
Book value, 31 December	**400.9**	**401.9**

Subsidiaries	Domicile	2018	2017
NKT Cables Group A/S	Brøndby, Denmark	100%	100%
NKT Photonics A/S	Birkerød, Denmark	100%	100%

Note 9 Deferred tax asset/liabilities

Amounts in EURm	2018	2017
1. January	1.7	-0.7
Deferred tax cf. Note 7	-1.6	2.4
Tax recognised in other comprehensive income	0.5	0.0
Transferred to tax receivable	-1.5	0.0
31 December	-0.9	1.7
Deferred tax relates to:		
Tax losses/gains within joint taxation scheme	-0.9	1.7
	-0.9	1.7

Note 10 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.

Note 11 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 included in the table above (EURm 561.4), 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	2018	2017
Guarantees for subsidiaries	561.4	911.0
Liability in respect of subsidiaries credit facilities under the cash pool	256.3	225.0
The shares in NKT Photonics A/S with a carrying amount of EUR 28m has been placed as collateral for the revolving credit facility with NKT A/S as described in note 6.1 in the consolidated financial statement		

Note 12 Related parties

In addition to the comments in Note 3.2 and Note 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 Note 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	2018	2017
Transactions with subsidiaries:		
Sale of services	2.9	3.1
Interest received, net	11.8	18.5
Paid joint tax contribution, net	1.7	0.0
Receivables, non-current	1,029.4	943.7
Receivables, current	4.1	1.5
Payables	171.8	175.2

See note 11 for contingent liabilities for subsidiaries.

Note 13 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 have not influenced recognition and measurement in the financial statements of the parent company. See description in Note 1.1 to the consolidated financial statements.

Description of accounting policies

In relation to the accounting policies described for the financial statements of the Group (see Note 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.

Revenue

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. 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 notes to the consolidated financial statements

For the following notes, see information in the consolidated financial statements:

- Share capital – see Note 6.2 to the consolidated financial statements.
- Events after the balance sheet date – see Note 8.2 to the consolidated financial statements.
- Accounting standards issued but not yet effective – see Note 8.3 to the consolidated financial statements.

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