Annual Report
2017

NKT

Power to life since 1891

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

Contents

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Management review

03 Letter from the Chairman
04 Key messages 2017
06 Financial outlook
07 Nilfisk demerged from NKT A/S

Business units

08 **NKT**
10 Letter from the CEO
11 Key financials
12 The power cable market
16 EXCELLENCE 2020
20 Financial review
22 Business review - Projects
26 Business review - Products
30 Risk management
33 NKT Leadership Team

34 **NKT Photonics**
36 Letter from the CEO
37 Key financials
38 Market overview
39 Commercialization strategy
40 Financial & business review
42 Risk management
43 NKT Photonics Leadership Team

Group overview

44 **NKT A/S**
45 Group financials
47 Financial review Q4 2017
48 Shareholder information
50 Corporate Governance
56 Board of Directors
58 Executive Management

Statements

59 Group Management's statement
60 Independent auditor's report

Financial statements

65 NKT A/S
121 Parent company
131 5-year financial highlights

Sustainability

NKT's annual statutory report on Corporate Social Responsibility is available at: www.nkt.com/csr-report-2017

The management review

Pages 3-58 and 131

"With successful execution in key areas we are building a strong company for the future"

Landmark year in transformation of NKT

2017 was a transformational year in our history. We completed the acquisition of ABB HV Cables and continued refocusing our cables business by divesting non-core activities. We strengthened our photonics business, and we demerged Nilfisk as a separately listed entity.

Demerger creates clear business profile

The demerger of Nilfisk was approved on 10 October 2017, and two days later NKT and Nilfisk began trading as separate listed entities on the stock market. We are pleased to note that this historic decision was well received by our shareholders, and this is also reflected in the development in the NKT and Nilfisk share prices.

The demerger has produced two strong and viable stand-alone companies. NKT A/S stands as a focused power cable and photonics business with the size, the technology and the strategy to explore the market potentials.

NKT set to take advantage of growth in power cable market

On 1 March 2017, we completed the acquisition of ABB HV Cables. The acquisition has placed us among the leading players in the power cable industry and allows us to access the DC market. This is a market with significant growth potential. During 2017, we also completed the divestment of our Automotive activities to create a more focused business.

We believe that NKT is now set to take advantage of some of the megatrends driving the power cable industry. Backed by strong political support, the trend towards increased use of renewable energy sources is expected to continue, creating a need for grid expansion and improved connectivity.

Our EXCELLENCE 2020 strategy continues to set the strategic direction for NKT and solid progress was delivered during 2017. We believe successful execution on the strategy will make us even stronger across the markets in which we operate.

NKT Photonics continuing journey towards commercialization

Almost two years ago, with the acquisition of Fianium in the UK, we embarked on strengthening the market position of NKT Photonics within ultra-fast and super-continuum lasers. In 2017, we continued this process by adding the Swiss-based company Onefive to our portfolio, and NKT Photonics is now a global, leading supplier within this segment.

Although we still have some way to go before full-scale commercialization of our operations is achieved, we strongly believe that strong macro trends will drive business opportunities and present positive development.

Thank you for your contribution

The Board of Directors wishes to thank all employees for their contribution to the ongoing transformation of our company, and to thank our shareholders, customers and business partners for the trust they have shown in the structural decisions we have taken in the pursuit of new business opportunities.

Jens Due Olsen
Chairman of the Board of Directors

Key messages 2017

Following the demerger of Nilfisk, NKT A/S consists of NKT, a leading provider of power cable solutions, and NKT Photonics, a leading supplier of fiber lasers and photonic crystal fibers. The overall business delivered revenue and earnings performance in 2017 in line with the latest communicated financial outlook.

In March 2017, NKT completed the acquisition of ABB HV Cables, which created a leading on- and offshore high-voltage power cable company with strong growth potential. The integration process has progressed according to plan with the combined organization fully implemented in Q3 2017.

The number of projects awarded in the high-voltage market was at a relatively low level in 2017. However, NKT underlined its position as a leading participant in the offshore wind market. NKT received the order for the Borssele Beta project in the Netherlands, and was selected as preferred supplier for two offshore wind projects in the UK, Moray East and Triton Knoll.

NKT Photonics passed the EUR 50m revenue mark in 2017 and acquired the Swiss-based company Onefive in September 2017.

	NKT				NKT Photonics			
Amounts in EURm	**Q4 2017**	**Q4 2016**	**2017**	**2016**	**Q4 2017**	**Q4 2016**	**2017**	**2016**
Revenue	**368.2**	255.0	**1,428.9**	1,003.7	**21.0**	16.2	**50.9**	43.1
Revenue in std. metal prices	**281.5**	190.7	**1,058.0**	750.4	**21.0**	16.2	**50.9**	43.1
Organic growth	**-1%**	-2%	**7%**	-10%	**13%**	10%	**7%**	7%
Operational EBITDA	**33.8**	18.4	**138.3**	72.5	**5.7**	6.0	**3.5**	6.3
Operational EBITDA margin*	**12.0%**	9.6%	**13.1%**	9.7%	**27.1%**	37.0%	**6.9%**	14.7%
Working capital	**-106.5**	57.8	**-106.5**	57.8	**23.1**	18.5	**23.1**	18.5
Working capital % of revenue, LTM	**-2.1%**	9.6%	**-2.1%**	9.6%	**32.7%**	27.0%	**32.7%**	27.0%
RoCE**	**7.5%**	9.3%	**7.5%**	9.3%	**neg.**	4.1%	**neg.**	4.1%

* *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 118*

NKT

EUR 1,058m

Revenue*

Increased by EUR 308m compared to 2016, driven by acquired activities

7%

Organic growth

Based on significant growth in the acquired business ABB HV Cables. The organic growth excluding the impact of the acquired activities was -4%

EUR 138.3m

Operational EBITDA

Almost doubled compared to 2016. The operational EBITDA margin* was 13.1%, up by 3.4%-points on 2016, driven by the acquired activities

EUR 0.76bn

High-voltage order backlog

Includes the addition of the Borssele Beta project. The two preferred supplier agreements for Moray East and Triton Knoll in the UK, with a combined contract value of more than EUR 245m, are not included in the order backlog

NKT Photonics

EUR 50.9m

Revenue

EUR 7.8m higher than in 2016. The acquired Onefive business contributed EUR 3.6m for the period of its inclusion

7%

Organic growth

The main growth driver was strong performance in the Imaging & Metrology business

EUR 3.5m

Operational EBITDA

Includes provisions of EUR 2.5m for LTI programmes, and investments in preparation for future growth

1

Acquisition to strengthen the strategic direction

With the acquisition of the Swiss-based company Onefive in September 2017 the position of NKT Photonics in the rapidly growing ultrafast laser segment was significantly improved

** Std. metal prices*

Financial outlook

NKT
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2018

Revenues (std. metal prices) for 2018 are expected to be approx. EUR 1.0-1.1bn and the operational EBITDA is expected to be approx. EUR 90-110m.

During 2017, projects awarded in the high-voltage market have been at a relatively low level and consequently the order intake for NKT in this segment has been lower than anticipated. This will expectedly lead to lower capacity utilization on the production site in Karlskrona during the second half of 2018 compared to 2017. Earnings from that part of the business will as a result hereof be lower.

NKT expects one-off costs, primarily related to the integration of ABB HV Cables, of approx. EUR 15m in 2018.

Medium-term targets

NKT confirms the medium-term** targets provided at the Capital Markets Day in September 2017. The operational EBITDA is expected to move to approx. EUR 200-225m and RoCE to be >13%. These targets are to be achieved within a period of 3-5 years since they were communicated.

EUR ~1.0-1.1bn
2018 outlook
Revenue*

EUR ~90-110m
2018 outlook
Operational EBITDA

EUR ~200-225m
medium-term outlook
Operational EBITDA

EUR >13%
medium-term outlook
RoCE

NKT Photonics

2018

NKT Photonics expects revenues of approx. EUR 65-70m and EBITDA of approx. EUR 10m in 2018.

The development will be positively impacted by a full-year contribution of the acquired Onefive business that was finalized on 1 September 2017. The financial outlook for 2018 is well-aligned with NKT Photonics' medium-term targets.

Medium-term targets

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

EUR ~65-70m
2018 outlook
Revenue

EUR ~10m
2018 outlook
EBITDA

+10%
medium-term outlook
Annual organic growth

~25%
medium-term outlook
EBITDA margin

~20%
medium-term outlook
RoCE

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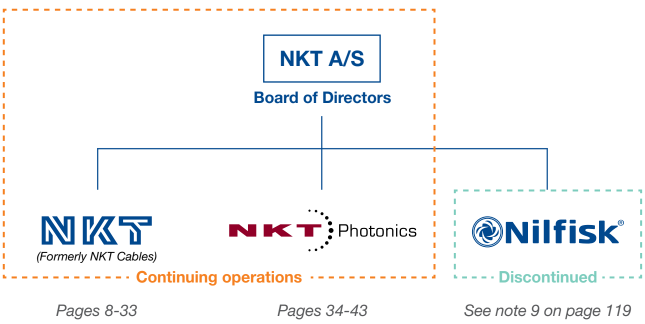
* Std. metal prices
** The medium-term is assumed to be 2020-2022

Nilfisk demerged from NKT A/S

Following the demerger of Nilfisk from NKT A/S, the two companies began trading as separately listed entities, NKT A/S and Nilfisk Holding A/S, effective from 12 October 2017

Following the demerger, NKT A/S 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 will continue to report directly to the Board of Directors of NKT A/S. As of 12 October 2017, Nilfisk was demerged from NKT A/S and is treated as a discontinued operation in this Annual Report (see information box).

Company structure of NKT A/S



Accounting treatment of Nilfisk

Due to the demerger, Nilfisk is treated as a discontinued operation until 10 October 2017, where it was distributed to shareholders at market value. This Annual Report focuses on the continuing business of NKT A/S, comprising NKT and NKT Photonics.

The treatment of Nilfisk as a discontinued operation is in accordance with IFRS and affects the present Annual Report as follows:

Income statement
Nilfisk figures are excluded in 2016 and 2017 and comparative figures are adjusted accordingly. Notes and KPIs are based on NKT A/S' continuing business.

Balance sheet
Nilfisk items are classified as assets held for distribution to owners as from December 2016 until the demerger was finalized in October 2017. KPIs such as RoCE and NIBD leverage include discontinued operations.

Further disclosure of Nilfisk's income and balance sheet statements is presented in Note 9.1 on page 120.

Power to life since 1891

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

Vision

By driving 'excellence' we will be the best power cable company by 2020 in the eyes of our customers and our people

Our vision is simple and ambitious. By driving excellence into everything that we make and do, we will be the best power cable company by 2020 in the eyes of our customers and our people.

By best, we mean the company that our customers prefer to do business with. We want our customers to choose us, because of our excellent expertise and our world-class products and solutions.

We also want to be an excellent workplace, where the best people in the industry prefer to build their careers and develop new, excellent ideas together with highly skilled colleagues across the organization as one company.

A more focused and stronger company

In 2017 NKT continued to execute well on the EXCELLENCE 2020 strategy, and we stand today as a more robust company both organisationally and financially.

Our most significant step during the year was the acquisition of ABB HV Cables, which has created one of the world’s leading high-voltage power cable companies. The acquisition is particularly valuable as it increased our production and granted us access to the DC technology that we believe will play an increasingly important role in the high-voltage market going forward.

Shortly after the acquisition, NKT underlined its position as a leading force in the high-voltage market with the launch of the world’s most powerful underground DC cable system. We are the first company to successfully test and qualify a 640 kV extruded DC underground system. To put this power cable into perspective, a single pair of the new DC cables can transmit enough energy to supply three million households.

With the acquisition, we have welcomed more than 900 skilled employees to the NKT family. The new, joint organization has been fully implemented and we are ready to capitalize further on our combined capabilities.

The financial impact of our growth in size has also been noticeable. We have improved our operational EBITDA from EUR 72.5m in 2016 to 138.3m in 2017 - and we target further improved profitability over the medium term. This will also be supported by a focused approach in the low- and medium-voltage segments.

Admittedly, the intake of high-voltage orders was lower than anticipated in 2017 due to a relatively low level of projects awarded in the market. However, we have proven our strength and resources in the offshore wind market through our selection for three large projects. And with strong fundamental drivers we remain highly confident about the longer-term prospects for the high-voltage segment.

I would like to take the opportunity to thank all our people for their contribution to our continued positive journey in 2017. It has been an eventful year in which we together have created a solid foundation for the future.

I look forward to an exciting 2018 for NKT.

Michael Hedegaard Lyng
President & CEO

Key financials

Amounts in EURm	2017	2016	2015	2014	2013
Income statement					
Revenue	1,428.9	1,003.7	1,211.9	1,173.0	1,205.7
Revenue in std. metal prices	1,058.0	750.4	857.5	812.8	807.6
Operational EBITDA	138.3	72.5	77.0	65.0	45.1
EBITDA	93.4	26.2	53.8	24.2	50.1
Depreciation and amortisation	-73.5	-36.8	-39.6	-39.7	-40.1
Impairment	-0.9	-	-37.8	-1.7	-7.7
Operational EBIT	63.9	35.7	37.5	24.0	5.0
EBIT	19.0	-10.6	-23.6	-17.2	2.3
Financial items, net	-13.8	-3.0	-9.9	-18.2	-21.3
EBT	5.2	-13.6	-33.5	-35.4	-19.0
Profit for the year	-1.2	-22.3	-44.2	-27.5	-13.7
Cash flow					
Cash flow from operating activities	78.2	33.7	102.6	128.2	-9.0
Cash flow from investing activites, excl. acq. & div.	-63.0	-31.5	-21.2	-27.5	-28.9
Free cash flow	15.2	2.2	81.4	100.7	-37.9
Balance sheet					
Capital employed	1,040.5	348.4	381.3	491.5	611.6
Working capital	-106.5	57.8	87.1	129.6	225.5
Financial ratios and employees					
Organic growth	7%	-10%	4%	-5%	4%
Gross margin*	47.7%	43.4%	40.6%	39.3%	37.7%
Operational EBITDA margin*	13.1%	9.7%	9.0%	8.0%	5.6%
RoCE	7.5%	9.3%	8.2%	4.2%	0.8%
Full-time employees, end of period	3,393	2,769	3,208	3,211	3,560

** Std.metal prices*

The power cable market

NKT operates across voltage levels in the power cable domain with leading positions in the various market segments

Overall, the power cable market - relevant for NKT - can be divided into two segments with diverse characteristics and competitive dynamics:

High-voltage power cables:

Complex projects and solutions in a global market with a continued requirement for investment in R&D. "Made-to-order" solutions with an attractive earnings margin profile, but a higher risk profile on project execution.

Low- and medium-voltage power cables:

Less complex products in a regional market with a more competitive environment. Typically, "made-to-stock" products with differentiated designs from country to country. Demand more correlated with the general macro-economic development compared to the high-voltage market.

Power cable market overview

	High-voltage				Low- and medium-voltage			Service
	DC offshore	DC onshore	AC offshore	AC onshore	Medium-voltage	Low-voltage	Building-wire	
Market Characteristics	▪ Growing market ▪ Complex technical capabilities and know how requested ▪ Commoditisation of lower voltage levels ▪ High technical capabilities requested (especially for higher voltage levels and DC)				▪ Partly commoditised market ▪ Scale and operational leverage are key competitive advantages ▪ Local technical regulations define more distinct local markets			▪ Growing market ▪ Profound experience and complex technical capabilities requested
Geographic Scope	Global			Continental	National/regional			Global
Voltage Level	Up to 525kV	Up to 640kV	Up to 420kV	Up to 550kV	6 – 72kV	0.3 – 1kV		Up to 640kV

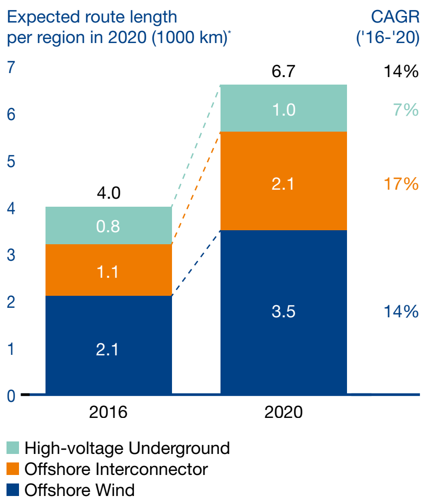
Note: DC = Direct Current and AC = Alternating Current

AC vs. DC technology

Alternating Current (AC):
The direction of the electrical current alternates. High-voltage AC solutions are generally used for cable systems up to ~150 km.

Direct current (DC):
The electrical current flows in one direction. High-voltage DC systems are mostly used for lengths above ~150 km (important for interconnectors).

Expected cable route lengths



High-voltage power cables (Projects)

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

High-voltage DC and AC offshore: Global growing project pipeline
The market primarily consists of large projects related to the interconnector and offshore wind farm markets, where high-voltage cables are required to transport large power volumes. Expected significant growth drivers are 1) a continuing transition towards greener energy sources such as wind power, and 2) the political agenda to improve interconnection of power grids between countries to create better balance between demand and supply of power market and secure power supply.

Projects awarded in the high-voltage power cable market was at a relatively low level in 2017. Going forward, growth is expected from an extensive pipeline of high-voltage projects primarily relating to interconnector and offshore wind categories. Forecasted average annual growth in the high-voltage power cable market is 14% from 2016 to 2020*.

High-voltage AC onshore: Challenging European demand situation in the short-term
The 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, shift towards renewable power generation with an associated requirement for grid extension as well as grid reinforcement. In certain areas the trend towards increased usage of underground cables also creates market demand.

Market development differs from country to country and is more locally driven. Conditions in markets such as Germany, which is important for NKT, have been challenging in recent years, with receding demand causing an unbalanced supply/demand situation. This is especially the case for projects with voltage levels below 170 kV, where the products are getting increasingly commoditized as it also has occurred in the low- and medium-voltage segments.

* *NKT and the market research provider CRU, all offshore projects above 60 kV and all underground projects above 230 kV*

Low- and medium-voltage power cables (Products)

In the lower-voltage segments, the market can be separated into two categories with different characteristics: 1) Medium-voltage and 2) Low-voltage.

Medium-voltage: Stable growth market

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

In 2017, growth in the German market was impacted by the so-called "photo year" in 2016, when demand from utilities was high. Other primary NKT operating markets such as Sweden and UK showed positive development.

The medium-voltage market usually delivers stable but moderate growth. Going forward, European market growth is expected to average almost 2% annually from 2016 to 2020.

Low-voltage: Benefitting from positive construction sentiment

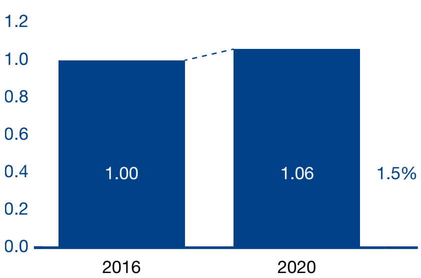
The drivers in the market for low-voltage cables and building wires are primarily construction sentiment as well as the need for further electrification of cities due to increased urbanization. The enforcement of the EU Construction Products Regulation (CPR), introduced in July 2017, will ensure harmonized rules for low-voltage cables in buildings.

The low-voltage market developed favourably in 2017, with regional differences. Sweden performed well against the background of a positive construction trend, while conditions in the Polish market were challenging due to excess supply.

In the years ahead the low-voltage market forecast is for positive development in Europe with expected growth averaging almost 3% annually from 2016 to 2020.

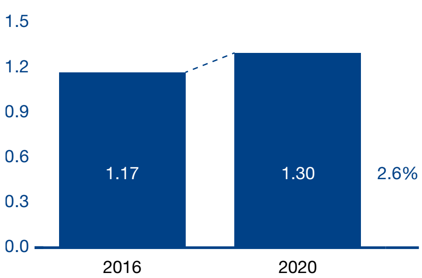
European medium-voltage production volumes*

'000,000t conductor | CAGR ('16-'20)



European low-voltage production volumes*

'000,000t conductor | CAGR ('16-'20)



** NKT and the market research provider CRU*

Industrial megatrends driving the power cable industry

1

Green energy

- Legislative goals to reach Paris 2015 goals worldwide
- Fast expansion of renewable energy sources

2

Displacement in electricity production

- Large production capacity located far away from consumption
- Security of supply ensured by connected grid

3

Shift towards underground cables

- Aging grid infrastructure needs to be replaced
- Public pressure to use cables supported by government initiatives

4

Connected grid

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

5

Economic & Population growth

- Growing world economy, population expansion and urbanisation increase the demand for modern infrastructure

6

Industry Consolidation

- Current cable player landscape fragmented
- Further consolidation expected

EXCELLENCE 2020

Launched in 2015, EXCELLENCE 2020 is the strategic roadmap by which NKT intends to become the best power cable company in the eyes of customers and employees. EXCELLENCE 2020 is a follow-up to the successful DRIVE programme, completed in 2015. DRIVE was the first phase *(Get fit)* of the company's strategic journey and focused on reducing costs.

During 2017, NKT embarked on the second phase of the journey *(Be excellent)*. Operational and commercial excellence functions were established and developed across the company to further exploit the value potential. At the same time, the creation of a more focused NKT continued in 2017 with the divestment of the Automotive business.

With the acquisition of ABB HV Cables in March 2017, NKT also positioned itself for the third phase of the EXCELLENCE 2020 strategy *(Accelerate growth)*, covering the years ahead. The strengthened market position in the high-voltage segment is expected to add further growth opportunities.

In 2017, the company's increased focus on the high-voltage market and the welcoming of more than 900 new employees combined with the market evolvement over the past years led to a review of the EXCELLENCE 2020 strategy to ensure that the roadmap was still suitable and to make any necessary adjustments. Conducted company-wide, the review confirmed no major changes in the strategic direction were required and that the company is united in pursuit of the targets set.

The EXCELLENCE 2020 strategy consists of **must-win battles** to be won across the organization and a number of **segment initiatives** supporting each business segment.

Three strategic phases

2014/15+	2015 – 17+	2016/17 → 2020+
I	II	III
'Get fit'	'Be excellent'	'Accelerate growth'
Reduce costs & fund the transformation *(DRIVE > EUR 60m savings run rate)* (Completed)	**Focus portfolio**, including divestments *(Cabinets, Automotive- and China business)* (Completed)	**Perform strategic acquisitions** to scale business *(ABB HV cables acquisition)* (Completed)
	Turnaround selected businesses *(High-voltage onshore turnaround)* (In progress)	**Realise synergies potential** *(from acquisition)* (In progress)
	Develop profitable markets and product segments *(Go to market and sales initiatives)* (In progress)	**Introduce new products** *(Revitalised product development)* (In progress)
	Achieve excellence in all functions *(Operational and commercial excellence)* (In progress)	**Enter new markets and business models** *(e.g. through digitalization)* (In progress)
Main focus: Cost	Main focus: Profitability	Main focus: Targeted growth

Completed *In progress*

Must-win battles

In 2017, NKT delivered progress across all four cross-organisational must-win battles, paving the way for increased excellence. With a solid foundation in place NKT will continue to execute on these areas in 2018 and beyond.

Safety, People and Organization

In 2017, a new target operating model was implemented in NKT aimed at strengthening customer focus and leveraging structural synergies and efficiencies. Three new business lines - Solutions (high-voltage), Applications (low- and medium-voltage) and Service & Accessories - were created and served by cross-company global support functions covering Operations, Technology, Finance and HR. This setup is designed to enable NKT to service its customers more efficiently and drive excellence.

Following the strengthening of the NKT high-voltage business with the acquisition of ABB HV Cables in March 2017, an updated organizational structure was finalized to ensure proper integration of the acquired activities.

The organizational setup introduced will enable excellence across the organization and ensure that NKT can deliver on the EXCELLENCE 2020 strategy. The new organization will be more efficient and be capable of increasing output and deliver better results by improved ways of working.

The excellence functions such as Supply Chain, Lean, QHSE (Quality, Health, Safety, Environment), Commercial Excellence, Procurement and R&D, have been established to deliver ongoing performance improvements in 2018 and beyond across the group. In 2018, a new shared service centre will be set up in Lithuania to create improved financial processes and a leaner and more efficient structure.

Must-win battles

Safety, People & Organization

Safe, lean, agile and engaged organization.

Operational & Commercial Excellence

Improvement of business processes. Pricing and management of commercial operations.

Material & Product Development

Enhance material and product development.

Digitalization

Digitalization of internal processes, customer interface and offering.

Operational and Commercial Excellence

To minimize lead times to customers and increase production output NKT is focused on improving manufacturing capabilities through operational excellence. In 2017, Operations continued to improve factory efficiency across geographical markets. Headed by the Chief Operating Officer (COO), the factories are gradually optimizing production and implementing a best practice culture. The COO is responsible for all factories and the supply chain.

Excellence functions which are part of Operations, such as Lean, QHSE and Supply Chain, were further strengthened during 2017.

As part of the journey towards becoming a more customer-centric organization, NKT is continuously seeking to improve customer focus. With this in mind a new Vice President was appointed in 2017 with responsibility for commercial excellence. The dedicated Commercial Excellence function will drive excellence into an improved go-to-market approach.

Material and Product Development

Innovation is a key territory for NKT in a competitive environment and will ultimately provide customers with more efficient solutions. The establishment of a stronger R&D function is an important enabler to maintain technological leadership 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, cost-efficient solutions.

During 2017, NKT launched the world's first 640 kV extruded DC underground cable system, which had been successfully tested and qualified. This underlined the company's market-leading position in the high-voltage segment. NKT is engaged in ongoing initiatives to develop next-level AC and DC power cables featuring, e.g., different materials and with reduced loss of power.

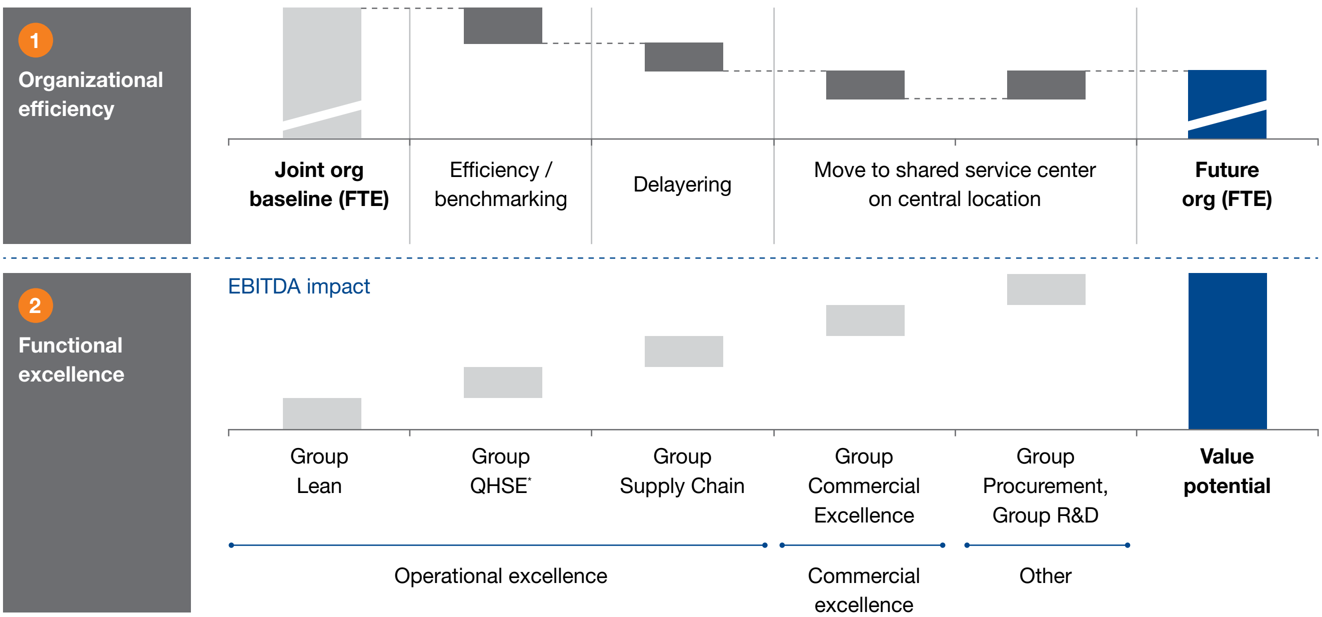
Digitalization

In 2017, NKT established a digital hub in Berlin to accelerate and explore new business and service models. The intension is to ensure that NKT remains at the forefront of technological development.

The first digitalization projects have been initiated and will gradually be commercialized. The projects will address customer pain points by using smart and novel solutions. Opportunities will be identified to improve the way NKT operates in certain areas for the benefit of the customers.

Internally, NKT will begin implementing a uniform IT platform to improve data transparency and process automation across factories and geographical markets. The roll-out will be important for supporting the newly established supply chain functions across the company.

Organizational value potential driven by the EXCELLENCE 2020 strategy



* *Quality, Health, Safety, Environment*

Strategic initiatives

NKT has defined three strategic segment directions - 1. Develop and grow, 2. Focus on profitable growth and 3. Turnaround - to guide each business segment towards individual operating targets and thereby create further value for the company.

All initiatives are in place to support the cross-organizational must-win battles.

Strategic segment directions: 2017 highlights for NKT in each business segment

Develop and grow

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

AC/DC HV offshore
Satisfactory execution on several orders. Participation in three new offshore wind projects in Europe announced in 2017.

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, enabled by the CPR regulation.

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 2017, market conditions remained challenging in the markets NKT is operating in.

Railway
NKT improved performance through 2017, concurrent with slightly more favourable market conditions.

See further details about the segment developments on page 22-29

Financial review

NKT reported revenue and operational EBITDA for 2017 in line with the financial outlook provided following the acquisition of ABB HV Cables. The significant increase in revenue and earnings was driven by the acquired activities that have been well integrated into NKT. Operational EBITDA margin* improved by 3.4%-points mainly due to the acquired business

Revenue development and organic growth

Amounts in EURm

2016 revenue*	750.4
Currency effect	-5.5
Acquisitions**	307.3
Divestments*	-60.3
2016 adjusted revenue*	991.9
Org. growth*	66.1
Org. growth* excl acquisitions*	-30.4
Org. growth ABB HV Cables**	96.5
2017 revenue*	1058.0
Org. growth %	7%
Org. growth % excl ABB HV Cables	-4%

Increased revenue driven by acquisition

Revenue for NKT was up by EUR 307.6m in 2017, the increase being related to the acquisition of the ABB HV Cables activities. The comparison period in 2016 also included revenue from the Chinese and Automotive activities that were divested as a consequence of the EXCELLENCE 2020 strategy.

NKT realized organic growth of 7% in 2017. This includes pro forma revenue for the acquired activities for the comparison period in 2016. The positive performance was driven by the acquired business, and must also be compared against relatively low pro forma revenue in 2016. Excluding the impact of the acquired ABB HV Cables activities, the organic growth for 2017 was -4%.

See further details on pages 22-29

Operational EBITDA up by EUR 66m

In 2017, the operational EBITDA almost doubled to EUR 138.3m from EUR 72.5m in 2016. Driven by solid contribution from the acquired business, NKT achieved operational EBITDA in line with the financial outlook for 2017. The earnings contribution from the Products business was lower than in 2016, primarily due to the high investment level in the German medium-voltage segment in 2016 and renewed terms on a contract in the telecom power cable market.

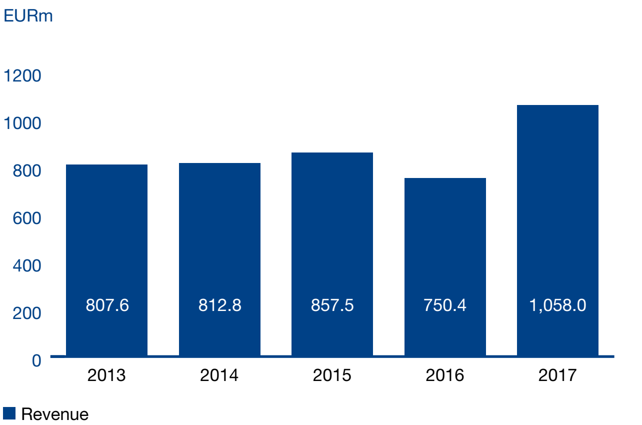
The operational EBITDA margin* was 13.1% in 2017, up by 3.4%-points compared with 2016, reflecting the higher exposure to the more profitable high-voltage segment.

NKT booked one-off costs of EUR 44.9m in 2017. This mainly related to integration costs of EUR 20.4m for the acquired ABB HV Cables activities. The remaining one-off costs comprised EUR 7.0m for transaction-related acquisition costs, EUR 5.8m related to the demerger of Nilfisk, and EUR 11.7m for the implementation of EXCELLENCE 2020 and other strategic initiatives.

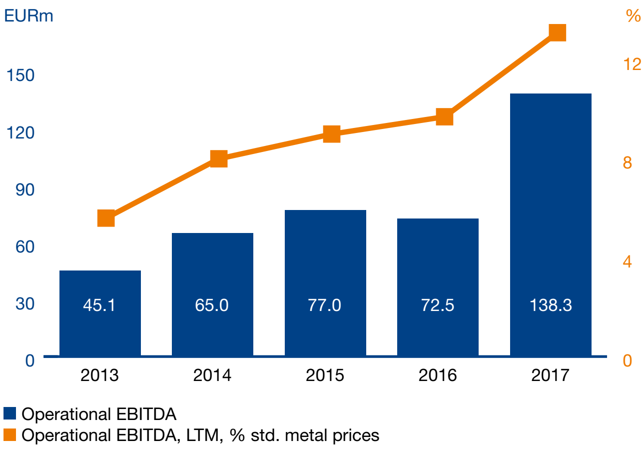
Increased EBT

The earnings before tax, EBT, amounted to EUR 5.2m in 2017. This performance was driven by the increase in operating earnings as per above, and represents an increase

Revenue development



Operational EBITDA



** Std. metal prices ** Based on pro forma revenue* of EUR 18.8m against 2016. Both years were impacted by one-off costs of EUR 44.9m and EUR 46.3m, respectively.

Reported tax rate for 2017 was 123%. The tax rate adjusted for non-deductible one-off costs was 25%, which was 2%-points lower compared with 2016.

See further details in Note 2.4 on page 80

Positive development in working capital

The working capital improved significantly, driven by the acquired high-voltage project portfolio following the acquisition in 2017. Working capital decreased from EUR 57.8m at end-2016 to an extraordinary low level of EUR -106.5m at end-2017. This development, combined with the increased earnings, led to cash flow from operating activities of EUR 78.2m, an increase of EUR 50.1m on 2016.

Net investments in tangible and intangible fixed assets amounted to EUR 63.0m in 2017, against EUR 31.5m in 2016. This increase was due to the acquired activities, and further investments in among others DC capabilities and IT infrastructure.

Cash flow from acquisition and divestment of businesses was EUR –753.4m in 2017, mainly relating to the acquisition of ABB HV Cables. The amount for 2016 was EUR -3.0m.

See further details in Note 5 on page 97

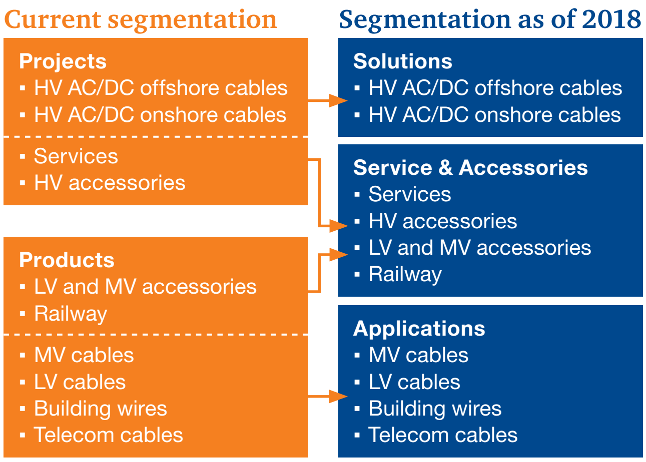
Increase in capital employed impacts RoCE

Capital employed increased by EUR 692.1m from end-2016 to end-2017, mainly due to the acquired business. The acquisition also contributed to a significant increase in operational EBIT, but the impact of capital employed including goodwill outweighed the increase in earnings. As a result, the RoCE for 2017 was 7.5%, against 9.3% in 2016. The calculation of RoCE at end-December 2017 has been adjusted to reflect the inclusion of the acquired ABB HV Cables business from 1 March 2017.

See further details in Note 6.4 on page 104

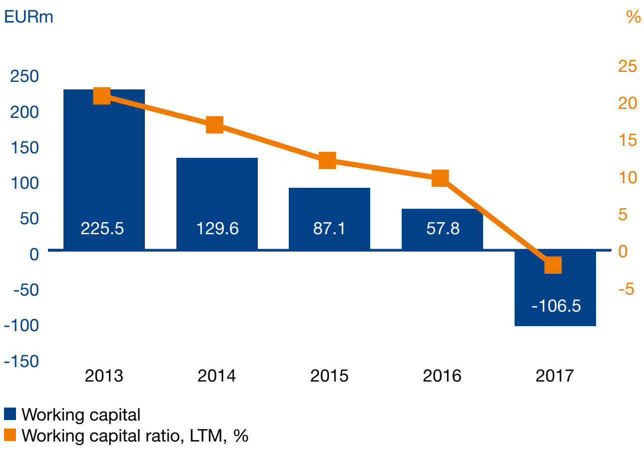
New financial segment reporting structure for NKT as of 2018

From 2018, NKT will change its financial reporting from the current Projects and Products segmentation to comprise three business segments: **Solutions, Applications** and **Service & Accessories**. The Service & Accessories business line has been created to focus and further accelerate growth in these areas which both offer attractive opportunities.

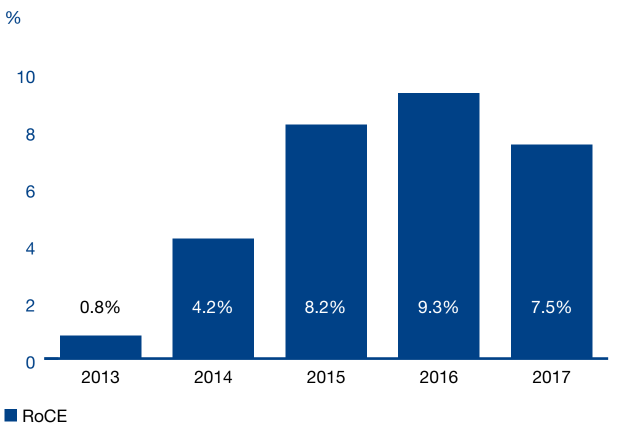


LV = Low-voltage, MV = Medium-voltage and HV = High-voltage

Working capital



RoCE



** Std. metal prices*

Business review - Projects

610m

Revenue* EUR
(2016: EUR 233m)

15%

Organic growth
(2016: -25%)

Revenue distribution 2017 in Projects

	Q1	Q2	Q3	Q4
Revenue* (EURm)	73	164	186	187
Organic growth	-12%	21%	44%	1%

Revenue increase driven by acquisition

The increased revenue for the Projects business in 2017 reflects the positive contribution made by the acquired ABB HV Cables activities. This part of the business added revenue* of EUR 394.6m, which translates into organic growth of 32% achieved against pro forma revenue in 2016. In the legacy NKT Projects business, excluding the acquisition, the organic growth in 2017 was -8%.

NKT executed on a number of high-voltage projects during 2017 at both high-voltage sites in Cologne, Germany and Karlskrona, Sweden. In Q4 2017, NKT successfully commissioned and handed over the transmission links for two offshore wind farms, Nordergründe and Race Bank. Satisfactory progress was recorded on several projects from the order backlog, including the Hornsea Project One wind farm project in the UK, on which work is under way at both production sites.

The high-voltage AC onshore business continues to be negatively impacted by challenging market conditions in NKT core markets, where demand remains subdued. NKT has launched a number of improvement initiatives, including strengthening the sales organisation improved project execution in pursuit of increased production capacity utilization.

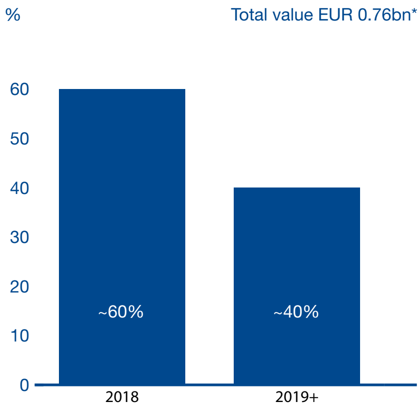
The 2017 revenue for the Projects business, expressed in market prices, was EUR 694m (EUR 250m in 2016).

Development in high-voltage order backlog

During 2017, projects awarded in the high-voltage market have been at a relatively low level and consequently the order intake for NKT in this segment has been lower than anticipated. This will expectedly lead to lower capacity utilization on the production site in Karlskrona during the second half of 2018 compared to 2017. At end-December 2017 the company's high-voltage order backlog totalled EUR 0.76bn (EUR 0.69bn in std. metal prices). Around 60% of this amount is expected to result in revenue in 2018, the balance following in 2019 and beyond.

The backlog includes the order for the Borssele Beta offshore wind project in the Netherlands awarded in October 2017. This order has an

High-voltage order backlog



* As of 31 December 2017

* Std. metal prices

estimated contract value of EUR 90m and comprises supply of 138 km of 220 kV AC high-voltage submarine cables. NKT was also awarded the first part of the project, Borssele Alpha, back in November 2016.

NKT has also been selected as the preferred supplier for two UK offshore wind projects, Triton Knoll and Moray East, with an estimated contract value of more than EUR 245m. These projects are not part of the order backlog as they are subject to finalizations and decisions by the project owners. Final investment decisions are expected in 2018.

Attractive market potential

Entering 2018, the tender activity remains intense in the high-voltage market and is expected to translate into new orders later in the year. NKT expects annual high-voltage order intake for 2018 to be higher than in 2017, which is primarily expected to derive from a higher level of DC projects awarded in the market. The growth expectation is subject to uncertainty due to the significant size of the DC projects and the exact timing of these, which can impact the distribution between the years.

Acquisition and integration a key focus

The acquisition of ABB HV Cables was completed on 1 March 2017, cf. Company Announcement No. 4 of 1 March 2017. With this acquisition, NKT has created a leading on- and offshore high-voltage power cable company with strong growth potential. The combined business consists of two state-of-the-art high-voltage manufacturing facilities in Cologne and Karlskrona.

Annual run-rate synergies of approx. EUR 30m are still expected to materialize. The synergies realized in 2017 have been limited as focus has been on timely execution of the order backlog. The majority of the synergies are sales and volume-related and timing hereof will depend on the ability to increase capacity utilization. Given the current high-voltage order backlog level, the full synergy potential will not be realized by end-2018, but when capacity utilization reaches a higher level.

The post-acquisition integration process has been a key priority for NKT in 2017 and will continue in 2018. The process remains on track and projected total integration costs are unchanged at approx. EUR 35-40m by end-2018. Integration costs for the period from acquisition announcement until end-December 2017 amounted to EUR 22m.

The integrated organizational structure was finally implemented in Q3 2017. The recently established Solutions organization, which comprises the high-voltage AC and DC segments, is headed by Andreas Berthou, former SVP of ABB HV Cables, who has consequently joined the NKT Leadership Team.

See more about the impact of the acquisition in Note 7.1 on page 112

NKT Victoria – a state-of-the-art cable-laying vessel

As a key asset to positioning NKT as a market-leading turnkey provider of submarine high-voltage power cable solutions, the cable-laying vessel NKT Victoria will be increasingly valuable going forward.

As a purpose-built cable-laying vessel, NKT Victoria offers NKT customers a range of strong, competitive features. These include state-of-the-art cable-laying accuracy through use of Dynamic Positioning Technology (DP3), and provides improved flexibility and execution stability through ability to operate in harsh weather conditions. The vessel can carry 9,000 tonnes of cables, which is market leading. Equipped with a power-from-shore solution when in harbour and an onboard energy storage system, NKT Victoria is also more energy-efficient than comparable vessels. Finally, as professional excellence is key to successful installation, the teams manning NKT Victoria and executing the projects are all experienced and skilled.

Since its delivery in April 2017, NKT Victoria has been active installing cables across Europe and has contributed to revenue and earnings for the Projects business. NKT Victoria has delivered satisfactory execution on the Caithness Moray, Kriegers Flak and Rentel high-voltage offshore projects as well as the Skagerrak 2 cable repair.

Ongoing DC qualification in Cologne

An important element in strengthening the position of NKT in the high-voltage market is to qualify the Cologne site to produce high-voltage DC cables. The factory is already designed and partly fitted to manufacture such cables, but will among others need to perform qualification tests. Testing of the DC cables is ongoing and initial approvals are expected within the next 12 months.

When DC qualification in Cologne is achieved, NKT will possess improved flexibility to operate in the high-voltage market as the factories in Cologne and in Karlskrona will be capable of producing both AC and DC power cables.

Opportunities emerging in the US

With its strengthened capabilities within high-voltage DC power cables, NKT is well positioned to develop a solid position in the USA, where projects in this segment are emerging. Preparing for this, NKT has gradually ramped up its US presence with the establishment of an office in 2017.

With a pipeline of large US cable projects gradually evolving this offers NKT an opportunity outside the main European market and can provide an important element of future growth.

Service business set to grow

The Service & Accessories business line was established as part of the EXCELLENCE 2020 strategy. With the increase in installed cable kilometres across geographical markets, quick and reliable service is an area with solid growth potential.

In October 2017, NKT underlined its credentials as an offshore service operator when the company was awarded the turnkey repair order for the Skagerrak 2 cable between Norway and Denmark. The NKT Victoria cable-laying vessel was used for this task and the repair was accomplished quickly and successfully.

The world's most powerful underground DC cable system: 640 kV

NKT achieved a world-first in 2017 with the launch of a successfully tested and qualified 640 kV XLPE underground DC cable system. The commercialization of this system with advanced material technology will increase the maximum power transmission of cable systems by 20% and allow improved integration of distant renewable energy sources into the global energy networks

With the introduction of this new power cable system NKT has underlined its position as a market leader in the high-voltage segment. The launch was the result of extensive in-house R&D. The full qualification process requires a range of advanced capabilities, and NKT successfully accomplished both the initial type test and subsequent long-term test (prequalification test).

The 640 kV cable system will be an important step towards more cost-efficient interconnector systems that will enable power to be transmitted between distant power grids across borders and from remote solar, hydro-power or wind installations with minimum energy losses.

The new cable is based on the same design and utilizes the same DC cross-linked polyethylene (XLPE) insulation material as the company's 525 kV cable system, a testimony to the robust capacity of this system which has been marketed since 2014. The accessories for the 640 kV cable system are also the same as for the 525 kV system.

Business review - Products

448m

Revenue* EUR
(2016: 491m)

-3%

Organic growth
(2016: 0%)

Mixed revenue development across segments

In 2017, organic growth in the Products business was largely flat in the main segments – low- and medium-voltage – but with regional differences. The reduction in revenue compared with 2016 was mainly due to the divestment of the Automotive business as of 30 April 2017.

In 2017, the strongest growth contributor for NKT was the Swedish market, where the performance was driven by solid construction sentiment and good execution in the medium-voltage segment. The sentiment in the Nordic region was generally positive, with revenue also increasing in Denmark. Furthermore, with solid growth performance in 2017, the UK is becoming an increasingly important medium-voltage market for NKT.

The German medium-voltage segment performed well in 2016, driven by increased demand from the utility segment. In 2017, as expected, the segment growth declined. The Polish market was also challenging during 2017, with overcapacity and increased competition in the low-voltage business. However, the market improved slightly towards the end of the year.

As expected, 2017 development in the telecom power cable business was negatively impacted by the renewed frame contract with Ericsson at less favorable terms. The new contract terms were effective from the end of 2016.

The Products business revenue measured in market prices amounted to EUR 735m in 2017, which was in line with the 2016 figure of EUR 721m.

NKT selected for several frame contracts

In the utility segment, NKT made successful bids for a number of frame contracts during 2017. NKT was selected as the preferred supplied for a few large contracts in Sweden and Germany. In late 2017 and early 2018 the company was also chosen as supplier for contracts in France, Iceland and Czech Republic.

The frame contracts won by NKT vary in size. The largest, a medium-voltage order with a production start date in early 2018 will generate revenue for the next four years. The award of this and the other frame contracts reflects long-standing customer relationships in which NKT has demonstrated proven technical expertise and delivered high-quality products.

Revenue distribution 2017 in Products

	Q1	Q2	Q3	Q4
Revenue* (EURm)	112	124	117	95
Organic growth	-4%	-5%	1%	-4%

** Std. metal prices*

During 2018, NKT eyes opportunities to receive further frame contracts with expected tender processes to run in its core markets.

EU Construction Product Regulation (CPR) effective from July 2017

The European Construction Product Regulation (CPR), which aims to ensure reliable information on the performance of products used in buildings in the EU, entered into force on 1 July 2017. As a high-quality cable provider with a range of halogen-free flame retardant (HFFR) building wires in its product portfolio, NKT is well-positioned to serve European markets and meet the elevated product requirements.

The manufacture of fire-retardant cables is associated with higher costs due to a more complex production process, and the result is safer cables for the users. The market understands and accepts the added production complexity, enabling NKT to maintain similar product margins.

In Sweden, where CPR enforcement has been stricter than in some other countries, NKT has received positive customer feedback on cable quality and usability.

Production efficiency a priority

As a core part of the EXCELLENCE 2020 strategy, NKT has targeted operational excellence to ensure high production efficiency and reduced unit cost. The intention is to further leverage the production network of NKT with a unified approach across borders and product categories.

During 2017, several efficiency and planning initiatives were launched to raise throughput at existing factories. Initial results have been good, and further positive development is expected in the years to come.

In October 2017, NKT entered into a partnership agreement with an external maintenance provider with the target to ensure more efficient production and increase output at company factories. The external provider will be responsible for the maintenance function at sites across the NKT group. The maintenance function at the Karlskrona site in Sweden has been outsourced for a number of years.

Telecom opportunity pursued in US

Market development for next-generation 5G mobile network technology is progressing steadily in the USA, and to achieve a strong position in this segment NKT has established a sales subsidiary and warehouse in Dallas, Texas. This operation was commissioned in December 2017.

With this initiative, NKT intends to expand the reach of its current portfolio of telecom power cable products, for which a physical presence in the USA is an important prerequisite for achieving a market foothold. NKT can now deliver to all parts of the USA and order inflow has started.

Fully integrated accessories portfolio

Through the addition of the site in Alingsaas, Sweden, NKT has acquired strong capabilities in the technology linked to DC power cable accessories. Combined with its AC capabilities, NKT is well-positioned in the accessories market with a fully integrated offering across voltage levels.

NKT has brought to market a number of innovative power cable accessories that address customer needs. The solutions from NKT are in demand and a range of products have been developed in cooperation with customers.

2017 financial development in the accessories business was largely in line with expectations. With innovative products, NKT has potential for growth in core markets and expansion into further export markets.

Railway operations in challenged market

Operations in the railway business were impacted in 2017 by unfavourable market conditions, with project delays by customers and low-volume sales in main markets. The business climate took a more positive turn in the second half of the year.

Automotive segment divested

The agreement to divest the company's automotive operations to the German-based Wilms Group was completed on 30 April 2017. Although a profitable business servicing several large customers, Automotive was not core to NKT. The divestment included a plant in Vrchlabí, Czech Republic, employing approx. 400 employees and manufacturing of automotive, flexible and special cables.

Following the sale of all operations in China and the cabinets business, this divestment represents the third sale of non-strategic businesses since mid-2016.

NKT entering wave power market

The market for wave power has the potential to play a significant role in the future of renewable energy. The EU expects this resource to supply 15% of European energy consumption by 2050, and the International Energy Agency estimates the global potential for wave power to be 80,000 TWh, which will more than meet the world's energy need

As a leading company in the power cable market, NKT is aware of the future potential for wave power and is actively involved in a new project in Norway operated by the Swedish company Waves4Power. NKT has developed a unique and extremely dynamic 1 kV cable as well as a semi-dynamic 24 kV export cable that transports the energy produced to the shore.

New technologies are needed if waves are to be the future of renewable energy, and a number of companies across the world are currently testing different wave power systems. Apart from the project cooperation with Waves4Power, NKT has also been approached by other market players interested in the capabilities NKT has within dynamic power cables.

Risk management

The goal for the risk management of NKT is to identify, assess and prioritise risks followed by suitable reactions that mitigate, reduce or control the impact of unfortunate events. NKT sees risk management as a value adding tool to raise awareness of risks and to focus on steering the business in the best way on a day-to-day basis and in line with the strategy.

In 2017, NKT successfully navigated the risks and opportunities encountered. The main revenue streams origin from separate markets with independent market dynamics. This provides a natural spread of risk. The Projects segment - driven by major infrastructure developments - is largely decoupled from the short-term developments of the general economy, whereas sales in the Products segment are closely linked to cyclical construction activities.

The ERM model of NKT ensures that risks are captured and treated by either the management of the business lines or by the support functions. The reporting structure follows the value chain of NKT with group functions to cross-cover. This tailor-made reporting structure ensures awareness of risk and opportunities throughout the organisation, as well as the mitigating actions on these.

Responsibilities

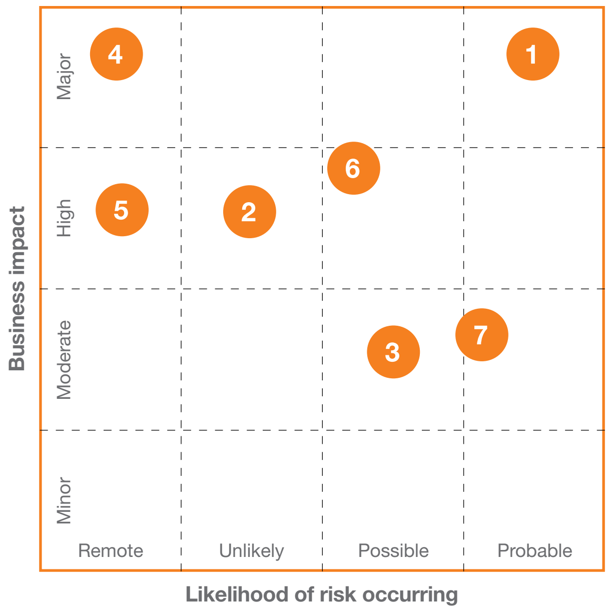
The formal responsibility for risk management rests with the Board of Directors, while close monitoring is carried out by the NKT Leadership Team.

NKT has established nine risk reporting units. Each of these units, representing the NKT business lines and support functions, are on a bi-annual basis reporting on progress and updates on the specified risk areas. These reviews are summed up and reported to the NKT Leadership Team and the Board of Directors two times per year to evaluate that satisfactory actions are taken.

NKT risk matrix

The main specific risks of the two NKT segments, Projects and Products, are mapped out in terms of probability and impact in the risk map. The overall risk picture is relatively stable compared to the previous year. Sales risk has been added as a risk management focus area. The importance of securing orders and optimising factory utilization has been increased with the higher exposure to the project driven high-voltage market.

NKT risk matrix



ERM reporting structure

	Risk identification	Monitoring	Mitigating action
RISK 1	Sales risk – ensure order intake to optimise earnings going forward.	Closely monitoring the market development to identify opportunities and track key activities.	Overall, the high-voltage market is viewed attractive with a promising order pipeline. NKT should capture a share of these orders. NKT has established specific work groups for the various potential projects and is further analysing markets to find new market and customer opportunities that have not been pursued in the past.
RISK 2	Product claims.	Warranty claims are closely monitored to identify potential failures in either production or design of the products.	Strengthening the Quality department to ensure solid products and increased cooperation across sites. Systematic root cause analysis on product issues and subsequent setting up counting measures.
RISK 3	Operational breakdowns on factories.	Performance on bottleneck machines are closely monitored.	Maintenance programme initiated with collaboration between Cologne and Karlskrona sites in the high-voltage segment. Outsourced the maintenance function in Asnaes and Falun to an external maintenance provider.
RISK 4	Compliance.	Continuous risk monitoring via the ERM systems. Whistleblower system operated by external agency.	Adequate policies, procedures and systems are gradually being implemented.
RISK 5	DC qualification in Cologne.	Monitoring of test processes.	The DC qualification is ongoing and monitored closely to ensure timely completion.
RISK 6	Project execution – increasingly important with higher exposure to high-voltage market.	Major focus on risk management in all project phases (tender approval, start-up and execution).	Identified risks will be mitigated to the extent possible through insurance, contract provisions combined with pre-production testing. Establishment of work groups to address project specific topics.
RISK 7	Cyber risk.	General security surveillance of cyber- and IT related risks.	Cyber security risks and materiality assessment are conducted and controls implemented. Awareness campaigns among relevant employees. Structured authorization processes of approvals.

Management of financial risks

As a complex, international business NKT is exposed to different financial risks. The risks arise from financial market fluctuations and primarily consist of two main areas for NKT: currency risk and commodity risk. NKT utilizes different financial derivatives to hedge the exposure and protect earnings and assets from fluctuations.

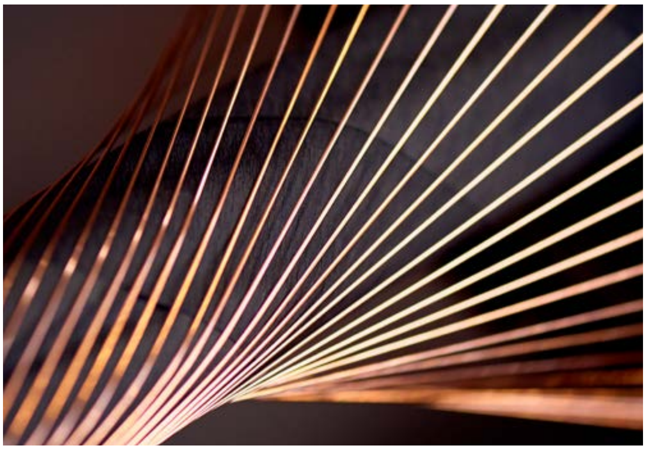
See note 6.6 on page 105

Currency risk

NKT has currency exposures, mainly related to SEK, USD and GBP. The risk occurs in a number of different circumstances related to both commercial and financial transactions. Currency risks are generally hedged to a degree where they no longer are expected to have significant negative impact. NKT will hedge risks resulting from future sale of goods and from debt and receivables in non-functional currencies.

Commodity risk

The primary commodity exposures for NKT are copper, aluminium and lead, but also plastics as those materials are used in the cable production. Depending on the customer NKT either passes on the commodity risk to customers or the risk is retained by NKT and hedged with external financial counterparties.



NKT Leadership Team

Michael Hedegaard Lyng
President & CEO
Born 1969
Joined NKT A/S in 2007
President & CEO since 2014

Roland M. Andersen
Executive Vice President,
CFO
Born 1968
Joined NKT in 2015

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

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

NKT Photonics

Vision

Through optical fiber and laser technology, we deliver state-of-the-art commercial solutions in collaboration with our partners for the benefit of mankind.

Mission

We will lead the transformation of photonics products by setting new standards for fiber lasers and systems. Our products must have volume potential, with key optical functionalities embedded in optical fibers. We will strive to become the market leader wherever we engage, and we will thereby create a scalable and truly commercial business.

"We have further strengthened our position in the fastest growing segments in the global photonics industry"

Continuation of growth journey

Since our current business strategy of focusing on commercialization was introduced in 2015, NKT Photonics has taken several steps towards a more commercial profile. In 2017, we passed the EUR 50m revenue mark for the first time in the company's history. Going forward, our ambition is to continue growth development as outlined in our updated medium-term targets.

An important decision in 2017 was to incorporate Onefive, a leading supplier of ultrafast lasers, within the NKT Photonics family. This acquisition will strengthen our position in the Material Processing segment and is consistent with our strategic ambition of pursuing growth opportunities while at the same time building commercial scale into our business. We are satisfied to report that the integration is progressing satisfactory.

With the acquisition of Onefive, we have added a production location in Zurich, Switzerland, to our geographical footprint in Northern Europe. The growth of NKT Photonics in 2017 has been reflected in further additions to our workforce and has also led to a relocation to larger headquarters in Birkeroed, Denmark.

To support our continued growth journey, NKT Photonics has upgraded its management competences in 2017. With the expansion in our manufacturing footprint the appointment of Don Riddell as Chief Operating Officer has strengthened our production capabilities. He will have the responsibility for the production sites in Denmark, the UK, Germany and Switzerland.

NKT Photonics has a clear set of strategic priorities for delivering increased growth and profitability. In 2017 we made further progress in this regard.

I look forward to an exciting 2018 for NKT Photonics and to taking further steps on our strategic journey. I would like to thank all our people for a strong contribution to our development in 2017, and finally I extend a warm welcome to everyone who joined us from Onefive in September 2017.

Basil Garabet
President & CEO

Key financials

Amounts in EURm	2017	2016	2015	2014	2013
Income statement					
Revenue	50.9	43.1	40.6	39.1	35.7
Operational EBITDA	3.5	6.3	3.7	2.9	0.9
EBITDA	3.5	6.3	3.7	2.9	0.9
Depreciation and amortisation	-5.2	-4.8	-3.6	-3.0	-2.2
Impairment	-	-	-2.6	-0.5	-1.0
EBIT	-1.7	1.5	-2.5	-0.6	-2.3
Financial items, net	-0.9	-1.2	-0.5	-0.3	-0.7
EBT	-2.6	0.3	-3.0	-0.9	-3.0
Profit for the year	-2.2	0.2	-3.1	-0.9	-3.1
Cash flow					
Cash flow from operating activities	-0.4	-1.4	4.3	1.7	3.0
Cash flow from investing activities	-7.5	-3.3	-3.8	-3.2	-4.7
Free cash flow, excl. acq./divest.	-7.9	-4.7	0.5	-1.5	-1.7
Balance sheet					
Capital employed	69.0	49.3	19.2	26.8	26.6
Working capital	23.1	18.5	8.5	11.7	11.5
Financial ratios and employees					
Organic growth	7%	7%	9%	9%	13%
Gross margin	70.9%	70.9%	69.4%	67.7%	68.3%
Operational EBITDA margin	6.9%	14.7%	9.6%	7.2%	2.3%
RoCE	neg.	4.1%	0.4%	neg.	neg.
Full-time employees, end of period	302	240	174	209	205

Market overview

The global photonics market is worth around EUR 115bn*, of which the part addressable by NKT Photonics is estimated at around EUR 1.9bn. NKT Photonics has divided this addressable portion into three segments which are considered to be among the fastest growing areas of the entire photonics market

Imaging & Metrology

NKT Photonics mainly serves the Imaging & Metrology market through its SuperK supercontinuum white light lasers and portfolio of Onefive ultrafast lasers. The Imaging & Metrology market is relatively fragmented, ranging from advanced scientific customers and life science to industrial OEMs within microelectronics and semiconductors. The overall market is worth an estimated EUR 950m and growing at approx. 10% per year.

Sensing & Energy

The Sensing & Energy market is targeted through Koheras single-frequency lasers and LIOS distributed sensing systems, for which the main applications are fire detection, power cable and pipeline monitoring, and wind LIDAR. The market is dominated by major infrastructure projects such as pipelines, power cables and tunnels/metros. Segment revenue can therefore fluctuate significantly between quarters. The Sensing & Energy market is relatively mature and estimated at around EUR 350m, growing at approx. 5% annually.

Material Processing

Material Processing is the fastest growing segment for NKT Photonics. The primary product lines in this segment are the Onefive ultrafast lasers and the aeroGAIN fiber gain modules. The former are sold directly to end-users and system integrators, while the latter are aimed at other ultrafast laser manufacturers. NKT Photonics addresses the micro-processing part of the material-processing market, which is driven by advances in medical procedures and the microelectronics industry. The addressable market is at least EUR 600m and growing at 15% per year.

Supporting macro trends

1 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.

2 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 for higher precision and faster throughput when processing the small structure in high-tech devices like smart phones and advanced medical equipment.

**Optech Consulting report for Photonics21 / EU Commission: 2015 Global Photonics Market for Medical, Components and systems, Measurement and Production technology*

Commercialization strategy

In 2015, NKT Photonics introduced its current strategy to increase business profitability in the medium-term by prioritizing focus on commercialization moving away from mainly addressing the scientific markets. During 2017, NKT Photonics has taken further steps on this journey, with progress in 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 partly to capture a larger part of the value in the market, and partly 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 recent acquisition of ultrafast laser manufacturer Onefive the product and competence matrix is more balanced. As a result, the primary focus of NKT Photonics in the coming years is on integration and growing existing business areas that offer significant growth opportunities, particularly in the Imaging & Metrology and Material Processing segments.

3 LEAN operations

As NKT Photonics grows larger, 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. To operate the sites as efficiently as possible across borders and drive the LEAN process, NKT Photonics appointed a Chief Operating Officer in 2017.

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 the needs of each customer.

Financial & business review

In 2017, NKT Photonics increased revenue by 18% driven by a combination of growth in the existing business and acquired growth. The acquisition of Onefive in September 2017 did not just add revenue, but also complementary know-how and products to the ultrafast laser portfolio. Primarily due to provisioning for the LTI programme, the EBITDA level in 2017 was lower than the previous year

Revenue up by EUR 7.8m

The increase in revenue in 2017 was primarily driven by strong growth in the Imaging & Metrology business as well as the contribution of EUR 3.6m from the acquired Onefive business.

The increase in revenue translated into organic growth of 7% in 2017. NKT Photonics has consistently grown revenue organically by 7% or more per year since 2010.

EBITDA impacted by LTI programme

NKT Photonics' EBITDA was EUR 3.5m in 2017, compared with EUR 6.3m in 2016. Following the acquisition of Onefive, the Long-Term Incentive (LTI) programme for senior management was reassessed. The programme was considered to be in the money and provisions related to this impacted EBITDA negatively by EUR 2.5m in 2017.

During 2017, NKT Photonics continued to invest in preparing for future growth adding further employees to the organization and progressing the implementation of a new ERP system.

The EBITDA margin was 6.9% in 2017, against 14.7% in 2016. Without the provisions for the LTI programme, the EBITDA margin was 11.8% in 2017.

EBT and tax

The development in earnings before tax, EBT, followed the change in EBITDA. In 2017, EBT amounted to EUR -2.6m compared with EUR 0.3m in 2016. The tax rate for 2017 was 15% compared to 33% in 2016. The difference was mainly due acquisition costs impacting the tax rate in 2016.

Working capital impacted by acquisition

As a reflection of the acquisition of Onefive the working capital increased from EUR 18.5m at end-2016 to EUR 23.1m at end-2017. The increase of EUR 6.1m since end-September 2017, was primarily due to the higher revenue in Q4 2017.

NKT Photonics delivered a free cash flow (excl. acquisitions and divestments) of EUR -7.9m in 2017 due to a high investment level for both product development and capacity ramp-up. In 2016, the comparable free cash flow was EUR -4.7m.

RoCE

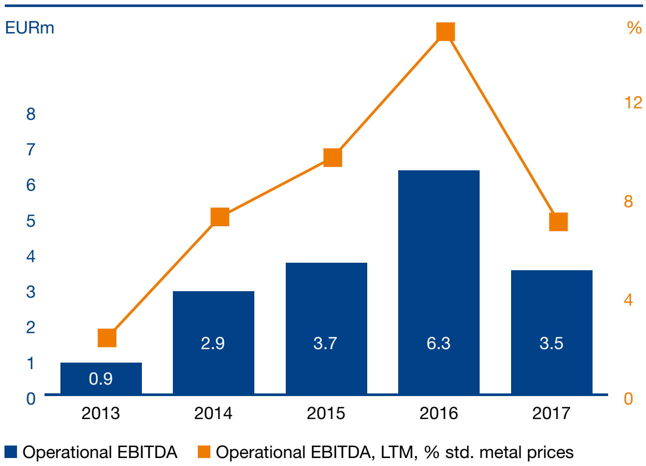
The acquisition of Onefive was the main driver for the increase in capital employed in 2017 of EUR 19.7m to EUR 69m at end-2017. With the provisions for the LTI programme, the EBIT was negative in 2017 leading to negative RoCE. NKT Photonics believes a significant increase in RoCE will be achieved in the medium-term driven by higher revenue and improved earnings margins.

Revenue development and organic growth

Amounts in EURm	
2016 revenue	43.1
Currency effect	-0.7
Acquisitions*	5.4
Divestments	0.0
2016 adjusted revenue	47.8
Org. growth	3.1
2017 revenue	50.9
Org. growth %	7%

** Based on pro forma revenue in 2016.*

Operational EBITDA



Imaging & Metrology

In 2017, the Imaging & Metrology business delivered strong organic growth. The performance was driven by a combination of industrial OEM customers with new frame contracts, and growth in sales to the academic market, where supercontinuum lasers continue to find new applications and gain popularity as a general characterization tool.

During 2017, the new SuperK EVO supercontinuum product platform was released. The first OEM projects on the platform are already running with customer market launch expected in 2018. 2017 also saw the launch of the SuperK MIR, the first commercially available mid-infrared supercontinuum fiber laser. Operating at much longer wavelengths than the standard supercontinuum lasers, the SuperK MIR is expected to open new markets within spectroscopy, sensing and component characterization.

Sensing & Energy

The segment has been driven by a strong demand for Koheras fiber lasers in 2017. Renowned for very high reliability and industry-leading performance, the Koheras lasers are used in a range of industrial sensing applications like pipeline monitoring and wind LIDAR as well as applications within quantum physics and fundamental research.

Due to delays of various infrastructure projects, revenue from the project-based LIOS sensing line was slightly lower than expected. However, several new frame contracts and service agreements were secured in 2017. These new contracts will primarily contribute with revenue in 2018 where further growth is expected. Moreover, a new LIOS EN.SURE long-range power cable monitoring system was launched in the second half of 2017. The system is unique in the market, as it can measure both temperature and strain in power cables at distances up to 70 km. The new system has gained significant interest in the industry.

Material Processing

With the acquisition of the ultrafast laser manufacturer Onefive, NKT Photonics gained a stronger foothold in the Material Processing market. NKT Photonics' product offering and know-how has been strengthened significantly in this market, and the acquisition fits well into the strategic direction. The integration is progressing according to plan and several new products aimed at the industrial market is expected in 2018.

In addition to the ultrafast lasers, NKT Photonics continues to serve the market with both fiber and gain modules. This part of the business is dominated by larger frame contracts with big laser manufactures and, consequently, both order intake and revenue fluctuates from quarter to quarter.

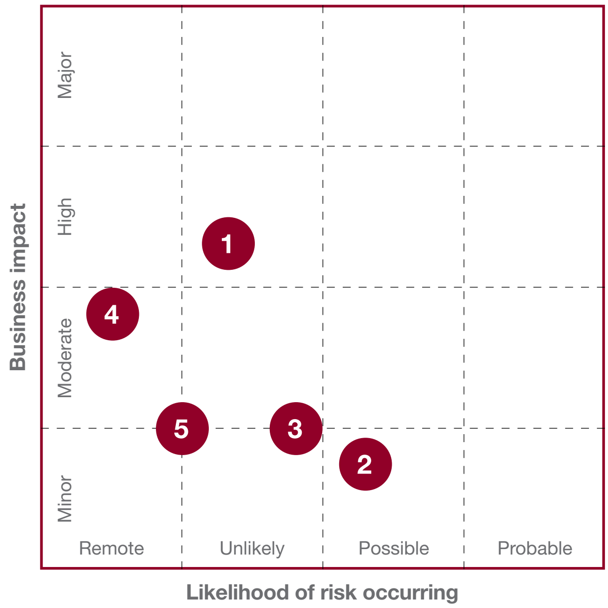
Risk management

As an embedded part of the company strategy, NKT Photonics has increasingly changed its primary focus towards the industrial markets. The acquisition of Fianium and Onefive in the past two years has strengthened this new direction. The growth in the size of NKT Photonics and the changes in market approach also impact the company's 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 management team and the Board of Directors of NKT Photonics continuously review the company's ERM model to ensure that risk management is at all times one step ahead of developments.

NKT Photonics risk matrix



	Risk identification	Monitoring	Mitigating action
RISK 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.
RISK 2	Recent acquisitions bring with them new demands for transparency, coordination and company 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 create transparency and common global procedures to promote simplicity and lean behaviour. The system will be implemented during 2018 and also has an embedded project risk to be addressed.
RISK 3	Intellectual Property (IP) Rights relating to commercial opportunities challenged either by infringements or lawsuit.	Closely supervise the technology area by reviewing competitors' product offerings and tracking 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.
RISK 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.
RISK 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.

NKT Photonics Leadership Team

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

Nicola Davies
Vice President, Human Resource
Born 1977
Joined NKT Photonics in 2016

Kim Per Hansen
Marketing Director
Born 1974
Joined NKT Photonics in 2001

Thomas Oldemeyer
Senior Vice President Aerospace & Defense
Born 1965
Joined NKT Photonics in 2006

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

Michael Stanley
Vice President, Sales and Marketing
Born 1967
Joined NKT Photonics in 2011

Carsten L. Thomsen
VP Business Development
Born 1971
Joined NKT Photonics in 2004

Group overview NKT A/S

Group financials

2017 financial outlook versus realized figures

	Initial**	Adjustment in Q3 2017 report	Realized
NKT			
Revenue (EUR)*	~1.1bn	~1.1bn	1.058bn
Operational EBITDA (EUR)	~140m	~140m	138.3m
NKT Photonics			
Organic growth	~10%	~10%	7%
Operational EBITDA margin	~15%	~10%	7%

** Std. metal prices*

*** NKT (incl. acquired ABB HV Cables activities) was provided in Company Announcement No. 8 of 11 April 2017, while NKT Photonics provided it in the 2016 Annual Report*

Performance in 2017 consistent with latest financial outlook

The financial development for NKT A/S overall during 2017 was in line with the latest financial outlook published in the Q3 2017 interim financial report, cf. Company Announcement No. 31 of 15 November 2017.

Operational EBITDA driven by acquisition

In 2017, NKT A/S (continuing operations) delivered an increase in operational EBITDA of EUR 66.9m, recording a total of EUR 141.8m. The main contributor to growth was the acquisition of ABB HV Cables on 1 March 2017. The operational EBITDA margin* for 2017 also increased to 12.8%, up from 9.4% in 2016. The operational EBITDA in 2017 for the 'Other' reporting segment, including the parent company, was nil (EUR -3.9m in 2016) as the costs were included in NKT, NKT Photonics and Nilfisk.

Financial items, earnings and tax

The net financial items amounted to -14.7m in 2017 compared with EUR 5.7m in 2016. The increase in costs was driven by the increased level of debt following the acquisitions executed during 2017. These acquisitions also positively impacted the earnings before tax (EBT), which amounted to EUR 2.6m, an increase of EUR 10.6m from 2016. The reported tax rate in 2017 was 231%, and 26% after adjustment for one-off costs.

See more about Financial items in note 6.5 on page 105

See more about Tax in note 2.4 on page 80

Cash flow

Due to the acquisitions in NKT and NKT Photonics, the cash flow from acquisition and divestment of businesses was EUR -767.8m in 2017, against EUR -56.3m in 2016.

** Std. metal prices*

Liquidity, debt leverage and equity

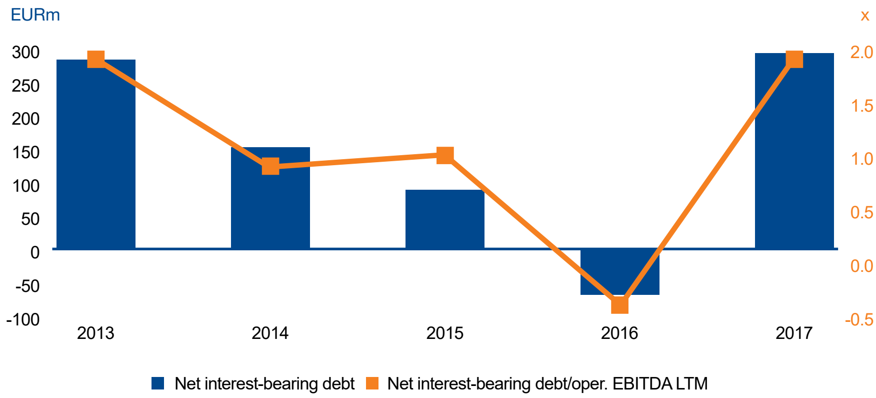
The net interest-bearing debt for NKT A/S at end-2017 amounted to EUR 293.2m (EUR -68.4m at end-2016). The increase principally reflects the financing related to the acquisition of ABB HV Cables, and debt related to Nilfisk is part of the balance sheet anymore following the demerger.

The leverage ratio, i.e. net interest-bearing debt relative to operational EBITDA, including pro forma estimated EBITDA for the acquired ABB HV Cables activities, amounted to 1.9x at end-2017. NKT A/S targets a leverage ratio up to approx. 1.5x in the medium-term.

NKT A/S had total liquidity of EUR 378.3m available at end-December 2017, comprising cash of EUR 44.7m and undrawn credit facilities of EUR 333.6m. The equity amounted to EUR 816.5m. The solvency ratio was 43%, which was above the internal target of minimum 30%.

See more about Net interest-bearing debt in note 6.2 on page 103

Net interest-bearing debt



** For the 2017 leverage ratio, 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 is based on ABB HV Cables' estimated average annual pro forma EBITDA of EUR 79m for 2014-2016.*

2017 financial development by business unit

	Revenue*			Oper. EBITDA			Oper. EBITDA margin	
Amounts in EURm	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**	**2017**	**2016**
NKT	1,058.0	750.4	307.6	138.3	72.5	65.8	13.1%	9.7%
NKT Photonics	50.9	43.1	7.8	3.5	6.3	-2.8	6.9%	14.7%
Other/eliminations	-0.5	-0.7	0.2	0.0	-3.9	3.9		
NKT A/S	1,108.4	792.8	315.6	141.8	74.9	66.9	12.8%	9.4%

** Std. metal prices*

Financial review Q4 2017

Organic growth in Q4 2017

NKT	-1%
Projects	1%
Products	-4%
NKT Photonics	13%

NKT

Driven by the contribution from acquired activities, NKT increased revenue* to EUR 281.5m in Q4 2017, against EUR 190.7m in Q4 2016. In the high-voltage segment, progress was delivered on several projects including Hornsea Project One. As in previous quarters of 2017, the Swedish and UK markets were the most significant contributors to growth in the Products division.

The organic growth in Q4 2017 was -1%. This includes pro forma revenue for the acquired ABB HV Cables activities for Q4 2016. Organic growth excluding these activities was -12%.

The operational EBITDA for NKT increased by EUR 15.4m in Q4 2017, which was due to contribution from the acquired activities. As expected, operational EBITDA for the Products division was lower than in the previous two quarters due to seasonality.

In Q4 2017, the one-off costs amounted to EUR 17.7m. This item comprised EUR 6.1m of integration costs, EUR 4.4m relating to the demerger of Nilfisk and EUR 7.2m for EXCELLENCE 2020 and other strategic initiatives.

NKT Photonics

As expected, Q4 was a significant quarter in terms of revenue and earnings for NKT Photonics. Revenue in Q4 2017 was EUR 21.0m, up EUR 4.8m on Q4 2016. This equals organic growth of 13%. All segments showed significant growth with the strongest growth in Sensing & Energy, where several frame agreements and service contracts were secured. However, as this segment is dominated by larger projects, quarter-to-quarter fluctuations are normal and larger than in the two other segments. Overall, the three segments all show healthy development with both a high order intake and a strong pipeline in Q4 2017.

In Q4 2017, an amount of 0.8m was provisioned for the LTI programme, which meant that the EBITDA of EUR 5.7m was down by EUR 0.3m compared with Q4 2016. This partly explains the lower realized EBITDA margin of 27.1% (37% in Q4 2016). Furthermore, an increased number of employees to support production ramp-up and further growth as well as cost relating to the acquisition and integration of Onefive increased the cost level.

Q4 financial development by business unit

	Revenue*			Oper. EBITDA			Oper. EBITDA margin	
Amounts in EURm	Q4 2017	Q4 2016	Change	Q4 2017	Q4 2016	Change	Q4 2017	Q4 2016
NKT	281.5	190.7	90.8	33.8	18.4	15.4	12.0%	9.6%
NKT Photonics	21.0	16.2	4.8	5.7	6.0	-0.3	27.1%	37.0%
Other/eliminations	-0.5	-0.7	0.2	0.0	-1.8	1.8		
Total, continuing oper.	302.0	206.2	95.8	39.5	22.6	16.9	13.1%	11.0%

** Std. metal prices*

Shareholder information

NKT A/S shares basic data

ID code: DK0010287663

Listing: Nasdaq Copenhagen, part of the OMX C25 index

Share capital: EUR 73m (DKK 543m)

Number of shares: 27.1 million

Nominal value: DKK 20

Share classes: 1

Financial calendar 2018

22 Mar: **Annual General Meeting**

15 May: **Interim Report, Q1**

15 Aug: **Interim Report, Q2**

16 Nov: **Interim Report, Q3**

NKT A/S shares

The share price development for NKT A/S in 2017 was influenced by the demerger of Nilfisk in October. At year-end 2017, the share price was DKK 283.30 (DKK 498.90 at end-2016). This equalled a share price return of 16% in 2017 if the allocated Nilfisk shares had been sold and reinvested in NKT A/S*.

The largest Danish share index, Nasdaq Copenhagen C20 Cap, increased by 12% in 2017.

In 2017, the average daily share turnover in NKT A/S shares was EUR 13.1m, against EUR 11.8m in 2016. This increase occurred despite the fact that the shares traded excluding Nilfisk after 12 October 2017. The average daily trading volume was 219,000 in 2017 compared with 224,000 in 2016. In 2017, 46% of the volume was traded on Nasdaq Copenhagen, which was slightly up compared to 45% in 2016.

NKT A/S was included in Nasdaq Copenhagen C25 index, the new leading Danish share index, in December 2017.

In 2017, the exercise of share warrants by a number of employees increased the share capital of NKT A/S by 291,142 shares with a nominal value of DKK 20, corresponding to a nominal increase in the share capital of EUR 781,589 (DKK 5,822,840). The total share capital consists of 27,126,369 shares with a nominal value of DKK 20, corresponding to a total nominal share capital of EUR 72,822,467 (DKK 542,527,380).

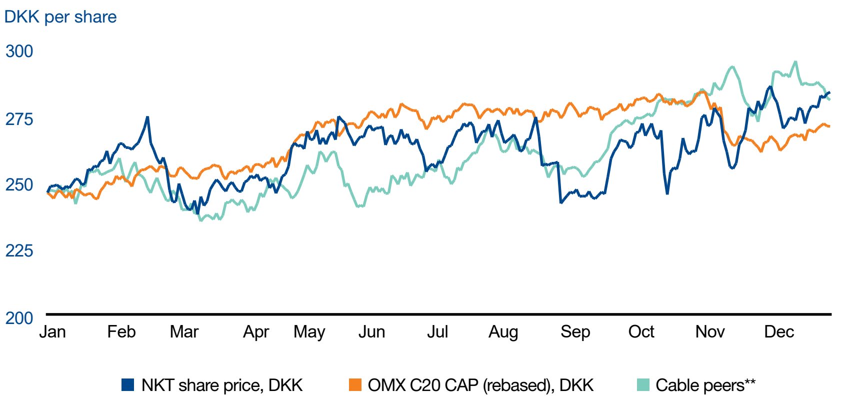
Dividend policy

NKT A/S' dividend policy targets pay-out of approximately one third of profit for the year, provided that capital structure allows for it. Further excess cash can be distributed as share buybacks or extraordinary dividends. No dividend payment is proposed to be paid out in 2018 on the basis of the 2017 results due to focus on reducing the debt level.

Shareholder structure

The NKT A/S share is 100% free float with no dominant shareholders. At end-2017 the company had approx. 20,300 registered shareholders, compared to approx. 17,300 at

NKT share price



** Opening share prices on 12 October 2017: NKT A/S DKK 270.00 and Nilfisk Holding A/S DKK 281.80*
*** NKT peers are: Nexans S.A., Prysmian S.p.A., and General Cable Corp.*

end-2016. 97% of the registered shareholders were Danish, against 96% at the end of 2016. At end-2017, 90% of the total share capital was registered compared with 91% in 2016.

Three NKT A/S investors have reported shareholdings of more than 5%: ATP (Denmark), Ferd AS (Norway) and Kirkbi INVEST A/S (Denmark).

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

At year-end 2017, the members of the NKT Board of Directors held a total of 8,635 NKT A/S shares, corresponding to a total market value of EUR 0.3m. The Executive Management team held a total of 100,000 shares, corresponding to a market value of EUR 3.8m, and a total of 113,429 share warrants exercisable in the period 2018-2020.

Persons deemed to possess inside knowledge and their relatives may only transact NKT shares during a period of six weeks after publication of financial statements provided that no inside knowledge is possessed. The period of six weeks also applies to other announcements disclosing realized earnings and expected earnings development

See number of shares held by the Board of Directors and the Executive Management on pages 56-58

For exercise prices, see Note 3.4 on page 85

Investor relations

NKT 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 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 NKT.

In addition, NKT meets with a number of stakeholders at some 300 annual meetings and roadshows in Denmark and internationally, while private investors have an opportunity to meet the Board of Directors and the business unit 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. Furthermore, interested parties can also subscribe to news releases.

Corporate Governance

Management bodies

The management structure of NKT has been revised after the demerger of Nilfisk in October 2017. The current management structure comprises the Board of Directors, the parent company NKT A/S and the business leadership teams.

The Board of Directors

The Board of Directors currently comprises seven members. Six members are up for election every year at the Annual General Meeting (AGM), and all were re-elected at the AGM in April 2017. At the Extraordinary General Meeting (EGM) on 10 October 2017, Anders Runevad stepped down from the Board of Directors of NKT A/S and Andreas Nauen was elected as a new member. Traditionally, the Board of Directors comprises three employee-elected members serving four-year terms. As two of these stepped down from their positions in NKT during 2017 with no alternate candidates available, the Board of Directors currently includes only one employee-elected member. An ordinary election of employee representatives will take place in spring 2018.

The AGM-elected Board members currently comprise one woman and five men. The employee-elected member is male. Of the six AGM-elected members, four live in Denmark, one lives in Germany and one in Luxembourg. One AGM-elected Board member has served for more than 12 years and is thereby not considered independent as defined by the Danish Corporate Governance recommendations. A minimum of six ordinary Board meetings are held annually.

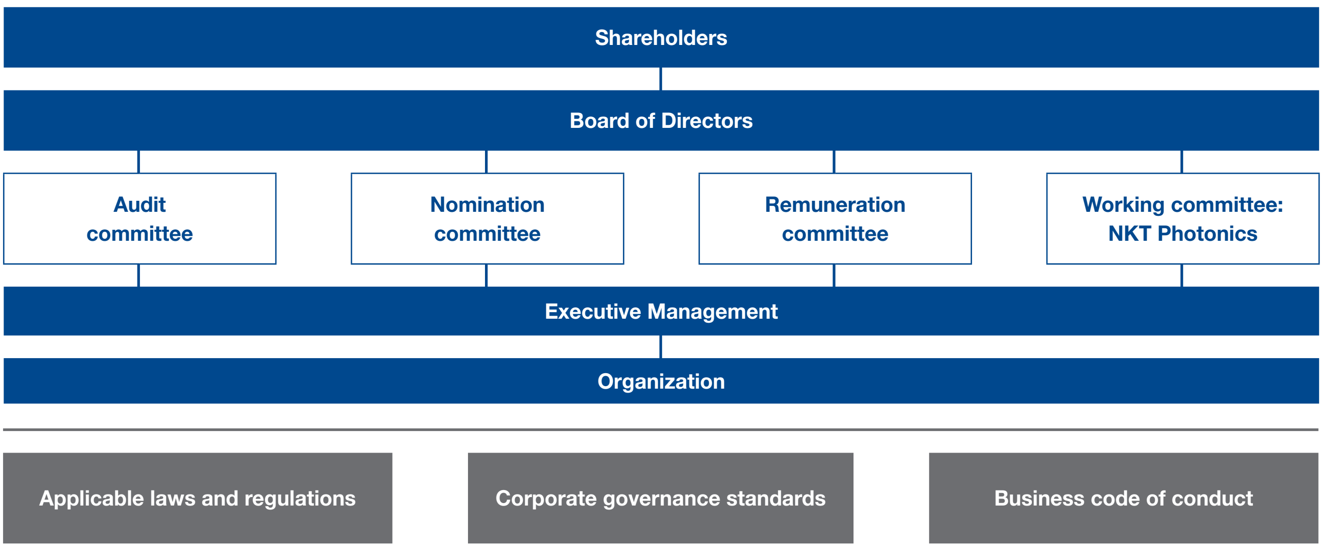
The Board of Directors represents international business experience in the areas of industry, energy, infrastructure projects, high technology, business development and financial matters, and is deemed to possess requisite competences and seniority.

Governance structure

The President & CEOs of NKT and of NKT Photonics, respectively, report to the Board of Directors. The Executive Management for the parent company, NKT A/S, comprises two people; the President & CEO and the CFO of NKT. The CFO joined the Executive Management in January 2018.

See pages 56-57 for particulars of the Board of Directors. See pages 33 and 43 respectively for the business leadership teams.

Corporate governance framework



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.
Until the NKT A/S demerger, the Board of Directors also had a committee representing each business unit; NKT, NKT Photonics and Nilfisk. The committee for the business unit NKT Photonics will continue.

Committee	Members	Meetings*
Chairmanship	Jens Due Olsen (Chair), René Svendsen-Tune	N/A
Audit	Jutta af Rosenborg (Chair), Jens Maaløe	6
Remuneration	Jutta af Rosenborg (Chair), Jens Maaløe	5
Nomination	Lars S. Sørensen (Chair), Jens Due Olesen	5
NKT Photonics	Jens Maaløe (Chair), Jens Due Olsen	4

** Members and meetings held in the period AGM 2017 - AGM 2018. Full terms of reference for the Audit, Remuneration and Nomination Committees can be found at www.nkt.com.*

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 function effectively
- To monitor the statutory audit of the annual financial statements
- To monitor the independence of auditors, including in particular the supply to the company of non-audit services
- To make recommendations to the Board of Directors concerning the election of auditors

Monitoring of internal control and risk management systems for financial reporting

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

Framework

The Audit Committee systematically assesses material risks relating to the financial reporting process, as well as compliance with related key internal controls. The Committee reviews the scope of the internal control system, also referred to as EuroSox, in June each year, and monitors the 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. Key controls comprise both manual and IT-dependent 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.

Scope

During the present reporting period, the company continued its work of strengthening the EuroSox framework by including newly acquired entities in the 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 and tax. Furthermore, the Audit Committee oversees the compliance programme, including the Business Code of Conduct and related compliance programmes.

The company further operates a whistleblower scheme whereby employees and associated business partners can report irregularities. The Audit Committee is notified of any incidents reported, and in the event of incidents of a serious nature consultations are immediately held with the Chairman of the Audit Committee and the Chairman of the Board of Directors.

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 84.

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

Main activities in 2017

Over the course of 2017, the main activities of the Remuneration Committee were as follows:

- Drafting and approval of a new remuneration policy, in connection with the demerger of Nilfisk, which was approved by the EGM on 10 October 2017 and which replaced the remuneration policy previously approved by the AGM held on 21 April 2017.
- Review of the achievement against targets under the annual bonus plan.
- Review of fee levels for the Board of Directors.

Board of Directors and Executive Management remuneration policy in 2018

Following the demerger of Nilfisk, the Board of Directors determined that a new remuneration policy was required for NKT A/S. This has led to proposed changes in how NKT A/S approaches remuneration in 2018 with a new remuneration policy to be put before shareholders at the AGM in 2018, where the Board of Directors will propose that the existing remuneration policy be amended accordingly.

The revised approach to remuneration has been developed taking account of the Recommendations on Corporate Governance as updated by the Danish Committee on Corporate Governance in November 2017.

Subject to shareholder approval, the revised approach is summarised in the following section.

Board of Directors remuneration

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. At the AGM in 2018 it will be proposed that the remuneration for the Board of Directors will be unchanged from 2017. The former working committees for NKT and Nilfisk are not part of the structure following the demerger.

See Note 3.2 on page 83

Remuneration of Executive Management

The Remuneration Committee is proposing amendments to the current remuneration policy to ensure that it adopts best practice features in remuneration practices and links the strategy and long-term financial performance of the company to remuneration outcomes.

The proposed remuneration approach for Executive Management is summarised below

Component	Operation	Maximum award level
Fixed salary	Set in relation to comparable Danish and European companies. Salary is set in the context of the total remuneration package to ensure an appropriate balance between fixed and variable remuneration.	Salary levels take into account market remuneration as well as the executives' skills and experience.
Pension and benefits	Where appropriate, NKT provides competitive pension and benefit arrangements.	Benefits include company car, phone and other benefits in line with market practice.Individual members of Executive Management may also be covered by pension schemes, with details provided in the annual report.
Annual bonus plan	The annual cash bonus plan aligns executive reward with achievement of NKT's short-term objectives, as determined by the corporate strategy. This may consist of financial and or non-financial targets such as revenue, EBITDA and operating margin and or other key strategic performance indicators. Details of measures used in a given year will be outlined in the annual report as will actual bonus outcomes.	70% of fixed annual salary.
Long-term incentive plan	Long-term incentives will consist of performance share awards. In any given year, 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. The performance measures applying to performance shares will represent key measures of long-term growth and will be disclosed in the annual report. These measures will ensure alignment of vesting outcomes with the long-term performance of the Company. Vesting will be subject to customary good leaver/bad leaver provisions. No performance share award will normally vest before the end of the three-year performance period. However, the Board may decide that awards may be subject to early vesting and exercise in various situations including (but not limited to) for certain corporate events such as a change of control. The Board of Directors has a discretionary right to decide to make cash settlement at vesting instead of delivering shares. NKT may, on an ongoing basis, cover any performance share rights granted through the issue of new shares and/or a buyback of own shares and/or the use of own shares in accordance with the Articles of Association of the Company as adopted from time to time or resolutions by NKT's shareholders.	The maximum value of performance share awards that can be made in any financial year, based on face value, is 100% of the participant's fixed annual salary as of the date of award. The value at vesting will depend on the share price at the time of vesting and the number of performance shares vesting based on achievement against performance targets. However, the value at vesting in respect of each individual in respect of each award, cannot exceed three times the participant's fixed annual salary as of the time of award. In such cases where this cap is applied the number of shares vesting will be reduced accordingly.

Other key remuneration policy components

Other key policy components	
Reclaiming variable pay	In the event of misconduct, or if an annual bonus or long-term incentive award is made on the basis of accounts that prove to be materially misstated, the Company may reclaim, in full or in part, any overpayment from the annual bonus, or cancel or withdraw unvested and or vested long-term incentive awards made to Executive Management.
Notice period and severance pay	The total value of the remuneration during the period of notice for Executive Management, including severance pay, may not exceed 24 months' remuneration, including all components of remuneration.
Award of extraordinary incentive remuneration	The Board of Directors is authorized, in individual cases, to operate extraordinary bonus or other extraordinary incentive remuneration in respect of recruitment to the Executive Management. The value of such extraordinary incentive remuneration may not exceed an amount equal to 100% of the individual's base salary for the full calendar year. This amount is exclusive of any remuneration the Board deems appropriate in order to compensate an individual for loss of incentive remuneration from a former employer. Any extraordinary incentive remuneration may consist of cash and or share-based remuneration with any associated performance targets or vesting determined by the Board of Directors.

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 competences 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 will be performed prior to the AGM in March 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 competences and performance of the Executive Management. The assessment takes the form of a general discussion by the Board, the assessment findings then being 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 2017. The focus on diversity and equal opportunities for both genders is described in the annual UN Global Compact Communication on Progress report, which can be found at www.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.

See investors.nkt.com/corporate-governance

NKT A/S complies fully with 44 of the 47 recommendations. Three recommendations are complied with in part or not complied with. These three recommendations comprise:

Recommendation	Comment
Recommendation 3.1.4 that the company's Articles of Association should stipulate a retirement age for the members of the Board of Directors.	There is no retirement age for the Board of Directors. In the updated corporate governance recommendations from November 2017 that will enter into force from January 2018, a stipulated retirement age is not part of the recommendations.
Recommendation 3.4.6 that the Board of Directors should establish a Nomination Committee chaired by the Chairman of the Board of Directors.	The Board of Directors has appointed a Nomination Committee consisting of two members of the Board of Directors, including the Chairman. The Chairman of the Board of Directors is, however, not the chairman of the Nomination Committee. The Board believes that it is good governance for a non-chair AGM elected board member to chair this committee.
Recommendation 4.1.2 on variable components of remuneration.	NKT A/S considers that it is only reasonable to claim repayment of variable remuneration components in instances where an obligation for such repayment would follow from generally applicable principles of Danish law. Accordingly, NKT A/S has not considered it necessary to include a specific clause in its remuneration policy to cover repayment of variable components of remuneration in exceptional cases. However, in the proposed amendments to the current remuneration policy by the Remuneration Committee described on the previous page, the policy includes a component of reclaiming variable pay.

Board of Directors

			
	Jens Due Olsen Chairman Born 1963, Denmark First elected in 2006 MSc. Econ1990	**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
NKT Committees	▪ Nomination ▪ NKT Photonics		▪ Remuneration ▪ Audit ▪ NKT Photonics (C)
Other positions and directorships	▪ Nilfisk Holding A/S (C) ▪ Bladt Industries A/S (C) ▪ Cryptomathic A/S ▪ Gyldendal A/S ▪ Royal Unibrew A/S ▪ KMD A/S (C) ▪ Auris Luxembourg III S.A. Advisory Board (C) ▪ BørneBasketFonden (C) ▪ Danish Corporate Governance Committee	CEO, GN Store Nord A/S and GN Audio A/S ▪ Nilfisk Holding A/S	President & CEO, Terma A/S ▪ Grundfos Holding A/S ▪ Nilfisk Holding A/S ▪ Innovation Fund Denmark (C) ▪ Member of the General Council of Confederation of Danish Industries
NKT shares at 31 December 2017	2,500	4,000	515
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

(C) = *Chairman*

				
	Andreas Nauen Born 1964, Germany BSc. Mechanical Eng. 1991	**Jutta af Rosenborg** Born 1958, Denmark First elected in 2015 State-Authorised Public Accountant 1992 MSc. Business Economics and Auditing 1987	**Lars Sandahl Sørensen** Born 1963, Denmark First elected in 2013 MSc. Int. Business and Management	**Niels-Henrik Dreesen** Born 1957, Denmark First elected in 2012 Production Engineering Manager, NKT *Elected by the employees*
NKT Committees		▪ Audit (C) ▪ Remuneration (C)	▪ Nomination (C)	
Other positions and directorships	CEO Offshore, Siemens Gamesa Renewables ▪ Semco Maritime A/S	▪ Nilfisk Holding A/S, Audit and Remuneration Committees (C) ▪ Standard Life Aberdeen plc, Audit and Remuneration Committees ▪ JPMorgan European Investment Trust plc ▪ PGA European Tour Audit and Risk Committee (C) ▪ Det Danske Klasselotteri A/S (C)	Group Executive Director & COO, SAS ▪ Nilfisk Holding A/S ▪ Wexøe Holding A/S ▪ Industry Fundation of Denmark ▪ Fund of 3 June ▪ General Council of the Confederation of Danish Industries ▪ VEGA	
NKT shares at 31 December 2017	0	0	1,495	125
Special qualifications	▪ International and industrial management ▪ Management of listed companies ▪ Special expertise in technology and large infrastructure projects	▪ International management ▪ Optimisation of business processes ▪ Risk management ▪ Finance and controlling	▪ International services management ▪ Management of listed companies ▪ Specialist expertise in corporate trading, international business development, leadership development in various industrial sectors, sales and marketing	

(C) = *Chairman*

Executive Management


	Michael Hedegaard Lyng President & CEO Born 1969, Denmark Joined NKT in 2007 MSc. Business Administration, Accounting and Auditing 2001 EMBA 2011	**Roland M. Andersen** CFO Born 1968, Denmark Joined NKT in 2015 MSc. Corporate Finance 1993 Executive Management Programme 1999
NKT positions	Member of Executive Management 2008 President and CEO NKT 2014	Member of Executive Management 2018 CFO NKT 2015
Directorships	■ Burmeister & Wain Scandinavian Contractor A/S ■ Investeringsselskabet Luxor A/S	■ Unifeeder A/S
NKT shares at 31 December 2017	100,000	0

Group Management's statement

The Board of Directors and the Executive Management Board have today considered and adopted the Annual Report of NKT A/S for the financial year 1 January - 31 December 2017.

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 2017 and of the results of the Group's and the Company's operations and cash flow for the financial year 1 January - 31 December 2017.

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, 27 February 2018

Executive Management

Michael Hedegaard Lyng

Roland M. Andersen

Board of Directors

Jens Due Olsen, *Chairman*

René Svendsen-Tune, *Deputy Chairman*

Niels-Henrik Dreesen

Jens Maaløe

Andreas Nauen

Jutta af Rosenborg

Lars Sandahl Sørensen

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 01.01.2017 - 31.12.2017, 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 31.12.2017, and of the results of their operations and cash flows for the financial year 01.01.2017 - 31.12.2017 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 5 years up to and including the financial year 2017.

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 1.1.2017 – 31.12.2017. 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 2017 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 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.

Acquisition of ABB HV Cables – business combinations

Refer to notes 1.1 and 7.1 in the consolidated financial statements

On 1 March 2017, the Group completed the acquisition of ABB HV Cables, and consequently, in accordance with International Financial Reporting Standards, all identifiable assets and liabilities acquired are recorded at their fair values on acquisition. Judgement is required by Management in particular in identifying and valuing all intangible assets and property, plant and equipment.

Intangible assets were identified relating primarily to IP technology and development projects. The key judgements were in determining an appropriate methodology to value these assets applying appropriate assumptions, including forecasting revenue and profit, and determining discount rates and the useful lives to determine the fair values.

Tangible assets relating to property, plant and equipment, including a vessel, have been valued at fair value on acquisition. The key judgements were in determining an appropriate methodology to value these assets, assessing current market values for similar assets, replacement costs and other valuation assumptions.

How the matter was addressed in the audit

We considered the Group's process for identifying the intangible assets acquired and determining appropriate fair values for the identified intangible assets and property, plant and equipment, considering the rationale for the acquisition and the nature of the ABB HV Cables business.

We used Deloitte's valuation specialists to assist us in assessing the valuation methodology applied by the Group in valuing the identified assets and liabilities and evaluating the appropriateness of key assumptions, including forecasts and discount rates. We compared the overall outcome to an analysis performed applying other approaches that could have been taken.

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 2018 and financial forecasts for 2019-2022.

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 for 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 2018 and financial forecasts for 2019-2022 as well as the expected related utilisation of the deferred tax asset. We assessed the reasonableness of Management's determination of expected future taxable profits in the light of the historical accuracy of such forecasts and the current operational results in Germany and Denmark.

In assessing the level of headroom, 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, 27.02.2018

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	2017	2016
Revenue	2.1/2.2	1,479.3	1,046.1
Other operating income		5.5	18.0
Changes in inventories of finished goods and work in progress		21.1	-3.2
Work performed by the Group and capitalised	2.3	13.3	4.5
Costs of raw materials, consumables and goods for resale		-955.1	-685.5
Staff costs	3.1	-247.4	-180.8
Other costs	2.3/7.1/8.1	-219.7	-171.1
Shares of profit after tax in associates		-0.1	-0.1
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**96.9**	**27.9**
Depreciation and impairment of property, plant and equipment	4.3	-61.3	-33.0
Amortisation and impairment of intangible assets	4.2	-18.3	-8.6
Earnings before interest and tax (EBIT)		**17.3**	**-13.7**
Financial income	6.5	43.2	39.3
Financial expenses	6.5	-57.9	-33.6
Earnings from operations before tax (EBT)		**2.6**	**-8.0**
Tax on operations	2.4	-6.0	-9.5
Profit for the year from continuing operations		**-3.4**	**-17.5**
Profit for the year from discontinued operations	9.1	932.2	29.6
Profit for the year		**928.8**	**12.1**
To be distributed as follows:			
Profit attributable to equity holders of NKT A/S		**928.8**	**12.1**
Basic earnings, EUR, per share (EPS)		34.3	0.5
Diluted earnings, EUR, per share (EPS-D)		34.3	0.5
Earning from continuing operations, EUR, per share (EPS)		-0.1	-0.7
Diluted earnings from continuing operations, EUR, per share (EPS-D)		-0.1	-0.7

The Board of Directors proposes a dividend for the year of DKK 0.0 per share (2016: DKK 0.0 per share) for approval at the Annual General Meeting.

Statement of comprehensive income

1 January - 31 December

Amounts in EURm	2017	2016
Profit for the year	**928.8**	**12.1**
Other comprehensive income		
Items that may be reclassified to income statement:		
Foreign exchange adjustment, foreign companies	-28.0	-6.6
Transferred to financial income	-1.6	-4.8
Transferred to profit form discontinued operations	9.5	0.0
Value adjustment of hedging instruments:		
Value adjustment for the year	-17.5	6.0
Transferred to costs of raw materials, consumables and goods for resale	-2.9	1.5
Transferred to financial expenses	0.0	2.4
Transferred to profit form discontinued operations	2.2	0.0
Fair value adjustment of available for sale securities	0.3	0.3
Transferred to profit form discontinued operations	-1.7	0.0
Tax on comprehensive income	4.7	-0.5
Items that may not be reclassified to income statement:		
Actuarial gains/losses on defined benefit pension plans	0.2	-6.4
Tax on actuarial gains/losses	0.0	1.8
Total other comprehensive income	**-34.8**	**-6.3**
Comprehensive income for the year	**894.0**	**5.8**
To be distributed as follows:		
Comprehensive income attributable to equity holders of NKT A/S	**894.0**	**5.8**

Balance sheet

31 December

Amounts in EURm	Note	2017	2016
Assets			
Intangible assets	4.1/4.2		
Goodwill		417.5	27.0
Trademarks, etc.		0.4	0.0
Customer-related assets		16.2	2.6
Development projects completed		12.2	11.5
Patents and licences, etc.		85.9	13.8
Development projects in progress		65.2	18.6
		597.4	**73.5**
Property, plant and equipment	4.1/4.3		
Land and buildings		279.8	122.5
Manufacturing plant and machinery		334.8	121.6
Fixtures, fittings, tools and equipment		57.9	16.3
Property, plant and equipment under construction, incl. prepayments		26.4	12.4
		698.9	**272.8**
Other non-current assets			
Investments in associates		0.0	0.1
Other investments and receivables		2.4	1.2
Deferred tax	2.4	49.5	34.7
		51.9	**36.0**
Total non-current assets		**1,348.2**	**382.3**
Inventories	5.1	226.1	142.1
Receivables	5.2	267.3	205.6
Income tax receivable		16.2	2.0
Interest-bearing receivables		2.1	1.6
Cash at bank and in hand		44.7	127.8
Assets classified as held for sale		0.0	52.7
Assets classified as held for distribution to owners	9.1	0.0	833.0
Total current assets		**556.4**	**1,364.8**
Total assets		**1,904.6**	**1,747.1**

Balance sheet

31 December

Amounts in EURm	Note	2017	2016
Equity and liabilities			
Equity			
Share capital	6.7	72.8	72.0
Reserves		-5.1	29.9
Retained comprehensive income		748.6	849.5
Proposed dividends		0.0	0.0
Total equity attributable to equity holders of NKT A/S		**816.3**	**951.4**
Non-current liabilities			
Deferred tax	2.4	59.9	8.0
Pension liabilities	4.4	52.5	53.1
Provisions	4.5	28.5	12.8
Interest-bearing loans and borrowings	6.2/6.3/6.6	332.8	83.0
		473.7	**156.9**
Current liabilities			
Interest-bearing loans and borrowings	6.2/6.3/6.6	7.2	11.6
Trade payables and other liabilities	5.3/6.3/6.6	582.2	272.4
Income tax payable		11.7	7.3
Provisions	4.5	13.5	15.8
Liabilities associated with assets classified as held for sale		0.0	24.6
Liabilities associated with assets classified as held for distribution to owners	9.1	0.0	307.1
		614.6	**638.8**
Total liabilities		**1,088.3**	**795.7**
Total equity and liabilities		**1,904.6**	**1,747.1**

Cash flow statement

1 January - 31 December

Amounts in EURm	Note	2017	2016
Earnings before interest, tax, depreciation and amortisation (EBITDA) from continuing operations		96.9	27.9
Earnings before interest, tax, depreciation and amortisation (EBITDA) from discontinued operations	9.1	83.2	96.8
		180.1	124.7
Non-cash operating items:			
Profit on sales of non-current assets, used and increase of provisions, and other non-cash operating items, etc.		-11.8	-9.2
Changes in working capital		-23.7	57.6
Cash flow from operations before financial items, etc.		144.6	173.1
Financial income received		32.7	33.8
Financial expenses paid		-57.4	-38.2
Income tax paid		-32.1	-14.8
Cash flow from operating activities		**87.8**	**153.9**
Acquisition of businesses	7.1	-800.8	-53.3
Divestment of business	7.1	33.0	-3.0
Nilfisk demerger		368.7	0.0
Investments in property, plant and equipment		-50.6	-40.7
Disposal of property, plant and equipment		0.2	3.5
Intangible assets and other investments, net		-43.8	-38.5
Cash flow from investing activities		**-493.3**	**-132.0**
Free cash flow		**-405.5**	**21.9**
Changes in non-current loans from credit institutions		250.0	-53.8
Changes in current loans from credit institutions		33.5	-0.4
Non-controlling interest, dividend, etc.		0.0	-4.4
Dividends paid		0.0	-13.1
Dividend, treasury shares		0.0	0.1
Cash from disposal of treasury shares / share buyback programme		0.0	11.0
Cash from issue of new shares / exercise of warrants		10.1	139.5
Cash flow from financing activities		**293.6**	**78.9**
Net cash flow for the year		**-111.9**	**100.8**
Cash at bank and in hand, 1 January		158.1	58.3
Currency adjustments		-1.5	-1.0
Net cash flow for the year		-111.9	100.8
Cash at bank and in hand, 31 December*		**44.7**	**158.1**
*Including cash classified as held for sale / distribution to owners of:	9	0.0	30.3

Statement of changes in equity

Amounts in EURm	Share capital	Foreign exchange reserve	Hedging reserve	Fair value reserve	Retained compreh. income	Proposed dividends	Total	Non-controlling interest	Total equity
Equity, 1 January 2016	**64.9**	**34.2**	**-4.0**	**1.4**	**699.1**	**13.0**	**808.6**	**0.9**	**809.5**
Foreign exchange translation adjustments		-6.6					-6.6		-6.6
Transferred to financial income		-4.8					-4.8		-4.8
Value adjustment of hedging instruments:									
Value adjustment for the year			6.0				6.0		6.0
Transferred to consumption of raw materials			1.5				1.5		1.5
Transferred to financial expenses			2.4				2.4		2.4
Fair value adjustment of available for sale securities				0.3			0.3		0.3
Actuarial gains/losses on defined benefit pension plans					-6.4		-6.4		-6.4
Tax on actuarial gains/losses					1.8		1.8		1.8
Tax on other comprehensive income		1.3	-1.8	0.0			-0.5		-0.5
Total other comprehensive income	**0.0**	**-10.1**	**8.1**	**0.3**	**-4.6**	**0.0**	**-6.3**	**0.0**	**-6.3**
Profit for the year					12.1	0.0	12.1	0.0	12.1
Comprehensive income for the year	**0.0**	**-10.1**	**8.1**	**0.3**	**7.5**	**0.0**	**5.8**	**0.0**	**5.8**
Dividends paid					-0.1	-13.0	-13.1		-13.1
Dividend, treasury shares					0.1		0.1		0.1
Issue of shares	6.5				129.3		135.8		135.8
Share issue costs					-3.8		-3.8		-3.8
Share buyback programme					-41.8		-41.8		-41.8
Disposal of treasury shares					52.8		52.8		52.8
Acquisition/disposal of non-controlling interests					-3.5		-3.5	-0.9	-4.4
Share-based payment					3.0		3.0		3.0
Exercise of warrants	0.6				6.9		7.5		7.5
Total transactions with owners in 2016	**7.1**	**0.0**	**0.0**	**0.0**	**142.9**	**-13.0**	**137.0**	**-0.9**	**136.1**
Equity, 31 December 2016	**72.0**	**24.1**	**4.1**	**1.7**	**849.5**	**0.0**	**951.4**	**0.0**	**951.4**
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 form 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 form 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 form 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		0.0	4.7	0.0			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 for the year					928.8	0.0	928.8	0.0	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**

Notes

		Page
Note 1	**Basis for preparation**	73
	1.1 General accounting policies	73
Note 2	**Profit for the year**	74
	2.1 Segment information	76
	2.2 Revenue	78
	2.3 Research and development costs	79
	2.4 Tax	80
Note 3	**Remuneration**	82
	3.1 Staff costs	82
	3.2 Remuneration to Board of Directors	83
	3.3 Remuneration to Executive Management	84
	3.4 Warrants plan for Executive Management and employees	85
Note 4	**Non-current assets and liabilities**	87
	4.1 Impairment test	88
	4.2 Intangible assets	90
	4.3 Property, plant and equipment	92
	4.4 Pension liabilities	94
	4.5 Provisions	96
Note 5	**Working capital**	97
	5.1 Inventories	98
	5.2 Receivables	99
	5.3 Trade payables and other liabilities	101

		Page
Note 6	**Capital structure**	102
	6.1 Changes in capital structure and financing	103
	6.2 Net interest-bearing debt	103
	6.3 Payables to credit institutions and other payables	104
	6.4 Capital employed	104
	6.5 Financial items	105
	6.6 Financial risks and financial instruments	105
	6.7 Share capital	110
Note 7	**Group structure**	111
	7.1 Acquisitions/divestments of businesses	112
	7.2 Group companies	114
Note 8	**Other notes**	115
	8.1 Fees to auditor elected at the Annual General Meeting	115
	8.2 Events after the balance sheet date	115
	8.3 Accounting standards issued but not yet effective	115
	8.4 Contingent liabilities, securities and contractual obligations	116
	8.5 Definitions	118
Note 9	**Discontinued operations**	119
	9.1 Discontinued operations and assets held for distribution to owners	120

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 2017 comprises both the consolidated financial statements for NKT and its subsidiaries (the Group) and separate financial statements for the parent company.

The 2017 Annual Report for NKT was prepared in accordance with International Financial Reporting Standards, IFRS, as adopted by the EU and Danish disclosure requirements for listed companies.

Basis for preparation

The Annual Report is presented in EUR rounded to the nearest EUR 1,000,000 with one decimal.

The Annual Report was prepared according to the historical cost principle, except that the following assets and liabilities are measured at fair value: derivatives, financial instruments in a trading portfolio and financial instruments designated as available for sale.

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 standards and interpretations implemented did not influence the balance sheet as at 1 January 2016 and associated notes, the opening balance sheet 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 standards and interpretations effective for 2017. The implementation of standards and interpretations has not influenced recognition and measurement in 2017 or is expected to influence future financial years.

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 Group Management’s review and in Note 6.6 Financial risks to the consolidated financial statements as well as Note 8.4 Contingent liabilities, may have substantial influence on the financial statements.

Significant accounting estimates and judgements

	Note
Deferred tax	2.4
Impairment test	4.1
Pension liabilities	4.4
Provisions	4.5
Inventories	5.1
Construction contracts	5.2
Credit risk	6.6
Contingent liabilities	8.4

Going concern

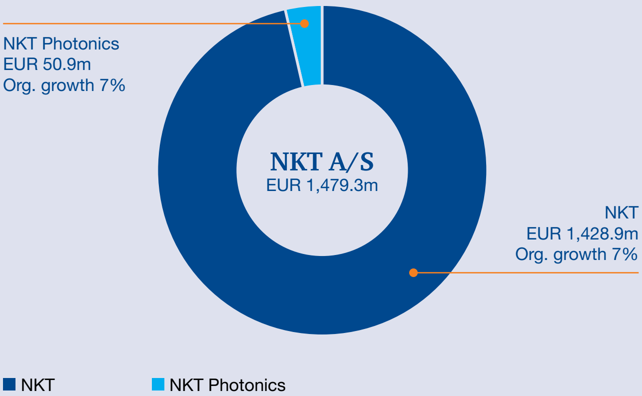
Group Management is required to decide whether the financial statements can be presented on a ‘going concern’ basis. Based on estimated future prospects, expectations of future cash flow, existence of credit facilities, etc., Group Management is of the opinion that there are no factors giving reason to doubt whether NKT can continue operating for at least 12 months from the balance sheet date.

Note 2 Profit for the year

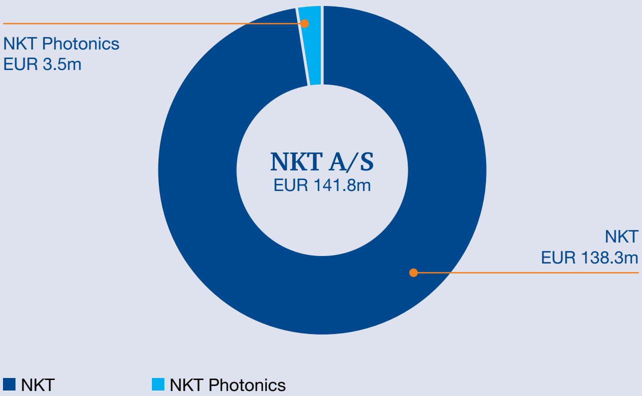
This note relates to profit for the year, including revenue, segment information, research and development costs, corporate tax and deferred tax.

Key developments 2017

Revenue



Operational EBITDA



NKT realised organic growth of 7% and revenue of EUR 1,428.9m in 2017. Organic growth was driven by Projects, which realised 15%, while Products delivered -3%. Pro forma 2016 figures for ABB HV Cables where included to calculate organic growth. Operational EBITDA was EUR 138.3m and operational EBITDA margin, in std. metal prices, was 13.1%. Compared to last year, operational EBITDA improved by EUR 65.8m, driven by the acquisition of ABB HV Cables.

NKT Photonics realised organic growth of 7% and revenue of EUR 50.9m. Organic growth relating to OneFive, acquired in 2017, was included based on pro forma figures. In 2017, EBITDA was EUR 3.5m and margin 6.9%.Compared with last year, EBITDA decreased by EUR 2.8m and margin by -7.8%-points. This was largely an effect of cost related to long term incentives.

§ 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 assets and liabilities comprise those items that are directly attributable to the individual segment and those items that can be reliably allocated to it. All items have been attributed to the Group's business segments.

Segment assets comprise the non-current assets used directly in segment operations, including tangible and intangible assets and investments in associates, as well as the current assets used directly in segment operations, including inventories, trade and other receivables, prepaid expenses, and cash.

Segment liabilities are those liabilities resulting from segment operations, including trade payables and other payables.

The reportable segments are generally referred to as business units. The business units consist of NKT and NKT Photonics, whereas Nilfisk is presented as discontinued operations.

Each business unit operates independently of the others, with separate brands and managements, as each unit has different customers and end-users and is based on different technologies and market strategies. A further description of NKT and NKT Photonics is included in Management's review.

Board of Directors assesses the operating results of the business units 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 enterprise, including grant schemes, reimbursements and gains on sale of non-current assets, 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 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. Writedowns of receivables from sales are also included.

Depreciation, amortisation and impairment

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

Note 2.1 Segment information

2017 Amounts in EURm	NKT	NKT Photonics	Total reportable segments	Nilfisk Discontinued operations	Inter-segment transact.	Total NKT Group
Income statement						
Revenue from external customers	1,428.9	50.4	1,479.3		0.0	1,479.3
Inter-segment revenue	0.0	0.5	0.5		-0.5	0.0
Total revenue	1,428.9	50.9	1,479.8		-0.5	1,479.3
Revenue in std. metal prices	1,058.0	50.9	1,108.9		-0.5	1,108.4
Costs and other income, net (excl. one-off items)	-1,290.5	-47.4	-1,337.9		0.5	-1,337.4
Share of profits after tax of associates	-0.1	0.0	-0.1		0.0	-0.1
Operational EBITDA	138.3	3.5	141.8		0.0	141.8
One-off items	-44.9	0.0	-44.9		0.0	-44.9
EBITDA	93.4	3.5	96.9		0.0	96.9
Depreciation and amortisation	-73.5	-5.2	-78.7		0.0	-78.7
Impairment loss	-0.9	0.0	-0.9		0.0	-0.9
Segment result (EBIT)	19.0	-1.7	17.3		0.0	17.3
Financial income	42.0	3.9	45.9		-2.7	43.2
Financial expenses	-55.8	-4.8	-60.6		2.7	-57.9
EBT	5.2	-2.6	2.6		0.0	2.6
Tax	-6.4	0.4	-6.0		0.0	-6.0
Profit for the year from continuing operations	-1.2	-2.2	-3.4		0.0	-3.4
Profit for the year from discontinued operations				932.2		932.2
Profit for the year	-1.2	-2.2	-3.4	932.2	0.0	928.8
Balance sheet						
Assets						
Goodwill	392.2	25.3	417.5		0.0	417.5
Other intangible assets	150.6	29.3	179.9		0.0	179.9
Property, plant and equipment	693.7	5.2	698.9		0.0	698.9
Other non-current assets	0.9	1.5	2.4		0.0	2.4
Deferred tax	49.2	0.3	49.5		0.0	49.5
Inventories	212.6	13.5	226.1		0.0	226.1
Receivables incl. tax	263.9	29.5	293.4		-7.8	285.6
Cash at bank and in hand	128.4	3.9	132.3	0.0	-87.6	44.7
Segment assets	1,891.5	108.5	2,000.0	0.0	-95.4	1,904.6
Equity and liabilities						
Equity	813.9	2.4	816.3	0.0	0.0	816.3
Non-current liabilities						
Deferred tax	56.5	3.4	59.9		0.0	59.9
Pension liabilities	52.5	0.0	52.5		0.0	52.5
Provisions	17.6	10.9	28.5		0.0	28.5
Interest-bearing loans and borrowings	316.4	0.0	316.4	0.0	16.4	332.8
Current liabilities						
Interest-bearing loans and borrowings	40.7	70.5	111.2	0.0	-104.0	7.2
Trade payables, other liabilities and tax	581.0	20.7	601.7	0.0	-7.8	593.9
Provisions	12.9	0.6	13.5	0.0	0.0	13.5
Segment equity and liabilities	1,891.5	108.5	2,000.0	0.0	-95.4	1,904.6
Other Information						
Cash flow from operations, excl. finance and tax	114.6	0.8	115.4	29.2	0.0	144.6
Additions to property, plant, equipment & intangibles	62.9	6.1	69.0	0.0	0.0	69.0
Average number of full-time employees	3,328	272	3,600	0	0	3,600

2016 Amounts in EURm	NKT	NKT Photonics	Parent company etc.	Total reportable segments	Nilfisk Discontinued operations	Inter-segment transact.	Total NKT Group
Income statement							
Revenue from external customers	1,003.7	42.4	0.0	1,046.1		0.0	1,046.1
Inter-segment revenue	0.0	0.7	0.0	0.7		-0.7	0.0
Total revenue	1,003.7	43.1	0.0	1,046.8		-0.7	1,046.1
Revenue in std. metal prices	750.4	43.1	0.0	793.5		-0.7	792.8
Costs and other income, net (excl. one-off items)	-931.1	-36.8	-3.9	-971.8		0.7	-971.1
Share of profits after tax of associates	-0.1	0.0	0.0	-0.1		0.0	-0.1
Operational EBITDA	72.5	6.3	-3.9	74.9		0.0	74.9
One-off items	-46.3	0.0	-0.7	-47.0		0.0	-47.0
EBITDA	26.2	6.3	-4.6	27.9		0.0	27.9
Depreciation and amortisation	-36.8	-4.8	0.0	-41.6		0.0	-41.6
Impairment loss	0.0	0.0	0.0	0.0		0.0	0.0
Segment result (EBIT)	-10.6	1.5	-4.6	-13.7		0.0	-13.7
Financial income	11.9	0.0	30.8	42.7		-3.4	39.3
Financial expenses	-14.9	-1.2	-20.9	-37.0		3.4	-33.6
EBT	-13.6	0.3	5.3	-8.0		0.0	-8.0
Tax	-8.7	-0.1	-0.7	-9.5		0.0	-9.5
Profit for the year from continuing operations	-22.3	0.2	4.6	-17.5		0.0	-17.5
Profit for the year from discontinued operations					29.6		29.6
Profit for the year	-22.3	0.2	4.6	-17.5	29.6	0.0	12.1
Balance sheet							
Assets							
Goodwill	12.9	14.1	0.0	27.0		0.0	27.0
Other intangible assets	28.8	17.7	0.0	46.5		0.0	46.5
Property, plant and equipment	269.8	3.0	0.0	272.8		0.0	272.8
Investments in associates	0.1	0.0	0.0	0.1		0.0	0.1
Other non-current assets	0.9	0.3	315.2	316.4		-315.2	1.2
Deferred tax	40.7	0.1	-6.1	34.7		0.0	34.7
Inventories	133.1	9.0	0.0	142.1		0.0	142.1
Receivables	192.7	19.2	0.3	212.2		-3.0	209.2
Cash at bank and in hand	136.1	7.1	253.7	396.9	169.7	-438.8	127.8
Assets held for sale / distribution to owners	52.7	0.0	0.0	52.7	833.0	0.0	885.7
Segment assets	867.8	70.5	563.1	1,501.4	1,002.7	-757.0	1,747.1
Equity and liabilities							
Equity	233.0	5.1	486.2	724.3	227.1	0.0	951.4
Non-current liabilities							
Deferred tax	6.0	1.3	0.7	8.0		0.0	8.0
Pension liabilities	53.1	0.0	0.0	53.1		0.0	53.1
Provisions	10.5	2.3	0.0	12.8		0.0	12.8
Interest-bearing loans and borrowings	211.8	0.0	0.1	211.9	191.4	-320.3	83.0
Current liabilities							
Interest-bearing loans and borrowings	41.7	51.3	75.3	168.3	275.8	-433.6	10.5
Trade payables and other liabilities	271.8	10.0	0.8	282.6	1.3	-3.1	280.8
Provisions	15.3	0.5	0.0	15.8	0.0	0.0	15.8
Liabilities held for sale / distribution to owners	24.6	0.0	0.0	24.6	307.1	0.0	331.7
Segment equity and liabilities	867.8	70.5	563.1	1,501.4	1,002.7	-757.0	1,747.1
Other Information							
Cash flow from operations, excl. finance and tax	36.4	-1.4	-0.2	34.8	138.3	0.0	173.1
Additions to property, plant, equipment & intangibles	30.8	3.3	0.0	34.1	44.8	0.0	78.9
Average number of full-time employees	3,067	236	18	3,322	5,636	0	8,958

Note 2.2 Revenue

Revenue composition

The composition of revenue showed large changes in 2017. NKT increased its revenue share from construction contracts relative to goods, due to the acquisition of ABB HV Cables. Please see business unit reviews in the Management's review for further information on revenue development.

Amounts in EURm	2017	2016
Goods	845.2	860.5
Construction contracts	604.8	167.1
Services etc.	29.3	18.5
	1,479.3	1,046.1

Geographical information, revenue

Amounts in EURm	2017	2016
Germany	363.3	270.7
Sweden	229.8	125.6
Denmark	195.2	64.2
UK	170.6	127.4
Poland	107.7	108.4
Czech Republic	68.1	70.2
Belgium	58.1	1.9
Norway	50.2	20.6
Austria	30.6	15.1
Slovakia	19.1	35.0
Other	186.6	207.0
	1,479.3	1,046.1

Revenue breakdown is based on the geographical location of customers.

§ Accounting policy

Revenue from sales of goods for resale and finished goods is recognised in the income statement when supply and transfer of risk to the buyer have taken place and the income can be reliably measured and is expected to be received.

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

Revenue is measured at the fair value of the agreed consideration excluding VAT and taxes charged on behalf of third parties. All discounts granted are recognised in the revenue.

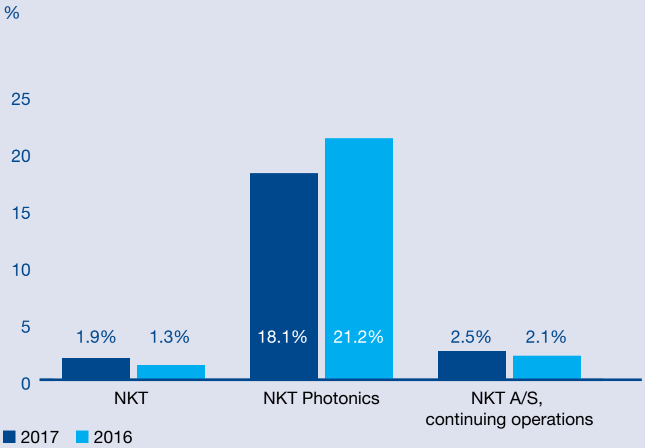
Construction contracts with a high degree of individual adjustment are recognised as revenue by reference to the percentage of completion. The revenue therefore corresponds to the sales price of work performed during the year (the percentage of completion method). When the outcome of a construction contract cannot be estimated reliably, the revenue is recognised only to the extent that costs incurred are likely to be recoverable.

See Note 5.2 for further information concerning construction contracts.

Note 2.3 - Research and development costs

Amounts in EURm	NKT 2017	NKT 2016	NKT Photonics 2017	NKT Photonics 2016	NKT A/S 2017	NKT A/S 2016
Research and development costs - staff costs	5.7	3.6	7.7	6.9	13.4	10.5
Research and development costs - other costs	21.7	9.5	1.6	2.3	23.3	11.8
Total research and development costs	27.4	13.1	9.3	9.2	36.7	22.3
Recognised as follows:						
Expensed in income statement	6.0	1.6	6.0	6.9	12.0	8.5
Capitalised in balance sheet	21.4	11.5	3.3	2.3	24.7	13.8
	27.4	13.1	9.3	9.2	36.7	22.3

Research and development ratio (% of revenue)



The R&D spend increased in 2017 for NKT both nominal and relative. This was driven by the acquired ABB HV Cables, which generally is more R&D intensive.

The R&D spend was stable in NKT Photonics, but the investment ratio dropped due to increased revenue.

§ Accounting policy

Clearly defined and identifiable development projects for which the technical feasibility, adequacy of resources and a potential future market or internal utilisation can be demonstrated, and where it is intended to manufacture, market or utilise the project, are recognised 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 amortisation and impairment losses. The cost includes wages, amortisation and other costs relating to the Group's development activities.

On completion of the development work, development projects are amortised on a straight-line basis over their estimated useful life from the date the asset is available for use. The amortisation period is usually 3-10 years and for patents up to 15 years. The amortisation base is reduced by any impairment losses.

Note 2.4 - Tax

25.8%

Reported tax rate (adjusted for one-offs)

(2016 = 24%)

The reported tax rate of 230.8% was impacted by non-deductible one-off items. Adjusted for those, the tax rate was 25.8%.

NKT realised earnings before tax, EBT, of EUR 5.2m which resulted in a reported tax rate of 123%. Adjusted for one-offs tax rate was 25%.

NKT Photonics realised negative earnings before tax, which resulted in a recorded tax rate of 15.4%.

For 2018, the reported tax rate is expected to be around 24%.

Breakdown of tax expenses by business segments appears in Note 2.1. See Statement of changes in equity, page 71, for details of tax relating to the individual items in other comprehensive income.

Earnings realised in the Group's Danish companies resulted in payable corporate tax of EUR 0m in 2017, as the Danish Group has realised negative taxable income. Globally, NKT A/S paid EUR 32.1m in corporate income tax in 2017 compared to EUR 14.8m in 2016.

Amounts in EURm	2017	2016
Tax on continuing operations recognised in the income statement:		
Current tax	7.7	10.3
Deferred tax	-1.7	-0.8
	6.0	9.5
Tax rate for the year	230.8%	-118.7%
Reconciliation of tax on continuing operations:		
Calculated 22.0% tax on earnings before tax	0.6	-1.8
Tax effect of:		
Foreign tax rates relative to Danish tax rate	0.2	0.6
Non-taxable income/non-deductible expenses, net	4.7	10.8
Adjustment for previous years	0.5	-0.8
Value adjustment of tax assets	0.0	0.7
	6.0	9.5

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 utilised. The measurement of the tax assets is based on budgets and estimates for the coming years which are naturally subject to some uncertainty.

The majority of the deferred tax asset relate to NKT German tax unit. The utilisation of the German tax asset is depending on a successful DC qualification of the factory in Cologne and a positive price development on onshore cables in 2019 and onwards driven by increased demand in connection with Südlink project. The tax losses carry forward from the German tax unit decreased to EUR 92m in 2017 from EUR 95m in 2016, resulting in a decrease in deferred tax value to EUR 29.4m in 2017 from a deferred tax value of EUR 30.5m in 2016.

The tax losses carry forward at the end of 2017 in the Danish tax unit sums up to EUR 46.5m which leads to a deferred tax asset of EUR 10.2m. The net deferred tax position amounts to EUR 8.7m per end of 2017. Utilisation is depending upon increased income from NKT Photonics.

The net deferred tax assets of NKT German tax unit and the Danish tax unit are expected to be utilised within five years.

The tax value of the losses carried forward were EUR 57.5m and the group's total net deferred tax liability amounts to EUR 10.4m year-end 2017.

Amounts in EURm	2017	2016
Recognised deferred tax assets and liabilities:		
Deferred tax assets, 1 January	34.7	62.5
Deferred tax liabilities, 1 January	-8.0	-42.9
Addition from acquisitions	-43.9	-1.3
Foreign exchange adjustment	0.7	0.4
Tax recognised in other comprehensive income	4.1	1.4
Deferred tax recognised in income statement continuing operations	1.7	-0.6
Deferred tax recognised in income statement discontinued operations	0.0	-0.8
Transferred from payable tax	0.3	-0.7
Transferred to liabilities associated with assets held for sale	0.0	1.4
Transferred to liabilities associated with assets held for distribution to owners	0.0	7.3
Deferred tax, 31 December, net	-10.4	26.7
Recognised deferred tax:		
Deferred tax assets, 31 December	49.5	34.7
Deferred tax liabilities, 31 December	-59.9	-8.0
Deferred tax, 31 December, net	-10.4	26.7

Amounts in EURm	2017		2016	
Specification of deferred tax assets and liabilities:	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Intangible assets	2.6	-26.6	6.8	-7.5
Tangible assets	1.4	-35.5	3.7	-10.7
Other non-current assets	0.1	0.0	1.1	-0.3
Current assets	111.7	-1.0	80.5	-2.9
Non-current liabilities	6.7	-0.3	11.1	-0.2
Current liabilities	4.4	-124.3	1.1	-86.9
Tax losses	57.5	0.0	41.1	0.0
Recapture of trading losses	0.0	0.0	0.0	-0.7
Valuation allowance, unrecognised tax assets	-7.1	0.0	-9.5	0.0
	177.3	-187.7	135.9	-109.2
Set off in legal tax units and jurisdictions	-127.8	127.8	-101.2	101.2
Total continuing operations	49.5	-59.9	34.7	-8.0

§ Accounting policy

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

Current tax payable and receivable is recognised 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 recognised on temporary differences relating to buildings and goodwill that for tax purposes do not qualify for depreciation and amortisation, 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 recognised under other non-current assets at their expected utilisation 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 realise the assets and liabilities simultaneously.

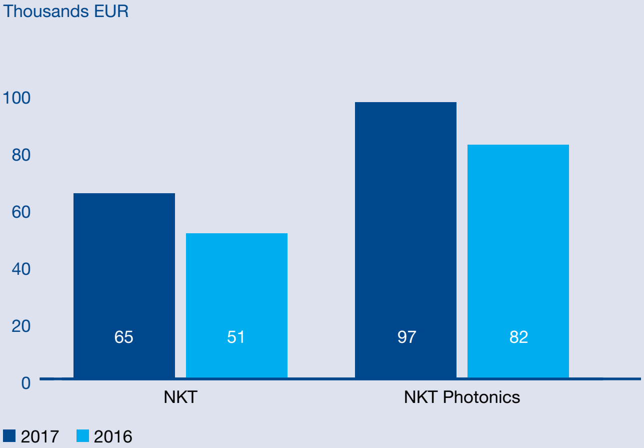
Deferred tax is adjusted for elimination of unrealised intra-Group profits and losses.

Note 3 Remuneration

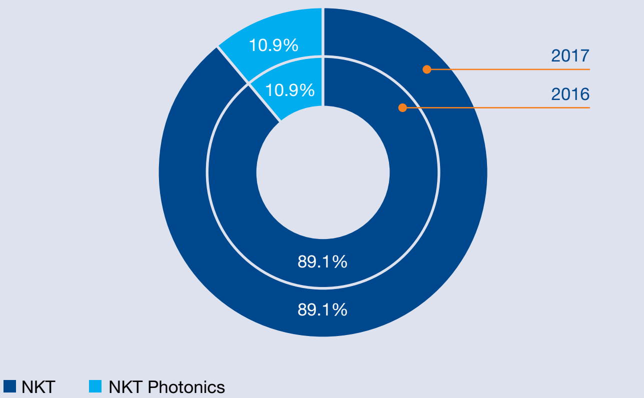
This note relates to remuneration for Group Management and employees, including warrants plans for the CEO and employees.

Key developments 2017

Cost per FTE - 1000 EUR



Staff cost per business units



Note 3.1 Staff costs

Amounts in EURm	2017	2016
Wages and salaries	196.6	149.8
Social security costs	39.2	23.9
Defined contribution plans	10.2	5.3
Defined benefit plans	1.3	1.6
Share-based payments, NKT A/S (parent company)	0.1	0.2
Total continuing operations	247.4	180.8
Average number of full-time employees	3,600	3,322

Staff costs increased by 36.8%, while the average number of full time employees increased by 8.4%. Divestment of Chinese activities in October 2016 and Automotive in April 2017, combined with the acquisition of ABB HV Cables, resulted in a shift towards higher average employee cost. Long term incentive plans have been driving up costs in NKT Photonics. Excluding the long term incentives NKT Photonics cost per FTE was EUR 88 thousand.

§ **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	2017	2016
Board of Directors remuneration	**0.7**	**0.7**

Remuneration approved at the Annual General Meeting in 2017 with effect from Q2 2017 is shown in the table below. Members of the Board of Directors are not granted warrants and do not receive variable remuneration components. Base remuneration must be commensurate with that of comparable listed companies.

Remuneration to Board members - election period 2017/2018

		Committes						
Amounts in EURt	Base remuneration	Audit	Nomi-nation	Remune-ration	NKT Photonics	NKT Cables (discontinued 2017)	Nilfisk (discontinued 2017)	Total remuneration
Jens Due Olsen, Chairman	121		7		10	20	20	178
René Svendsen-Tune, Deputy Chairman	81					10		91
Jens Maaløe	40	13		7	20			80
Jutta af Rosenborg	40	27		13				80
Lars Sandahl Sørensen	40		13				10	63
Andreas Nauen (Anders Runevad)**	40							40
Niels-Henrik Dreesen*	40							40
Open* (Rene Engel Kristiansen)**	40							40
Open* (Gitte Toft Nielsen)**	40							40
Total remuneration 2017	**482**	**40**	**20**	**20**	**30**	**30**	**30**	**652**

*Elected by employees.
**Previous Board member shown in brackets.

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. Proposed remuneration policy for 2018/2019 is presented in the Management Review on page 53.

Yearly remuneration to management (max remuneration per year-end 2017)

Amounts in EURt	Members	Salary and pension	Bonus max.	Long-term incentive	Other benefits	Total
NKT CEO						
Michael Hedegaard Lyng*	1	803	279	281	40	1,404
NKT management Group	6	2,198	947	404	171	3,721
NKT Photonics management Group	1	332	23	746 **	17	1,118
Total		**3,334**	**1,249**	**1,432**	**229**	**6,243**

*Actual remuneration for CEO, Michael Hedegaard Lyng in 2017 was EUR 1,508t. 2016: EUR 1,009t. 2017 remuneration contained delayed bonus from 2016 and long-term incentive program.

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

Composition of remuneration

The Management's remuneration for 2017 consists of a fixed base salary, including pension and other customary non-monetary benefits such as a company car. The remuneration further includes short-term and long-term incentive programmes.

NKT in 2017 utilises both short-term and long-term incentive pay to ensure an optimal balance between short-term optimisation and long-term value creation for the benefit of the company and its shareholders.

	Short-term incentive		Long-term incentive	
2017	Share	Type	Share	Type
NKT	<50%	Cash bonus	<35%*	Phantom share
NKT Photonics	<30%	Cash bonus	<150%**	Cash bonus

*Measured at date of issue. Actual value at time of execution can exceed this threshold.

**Measured at date of excersise.

Term of notice

The term of notice for the CEO for NKT A/S is 18 months. In conjunction with changes of control or level of activity, the above term of notice is extended for a transitional period by a further six months. Beyond this there is no separation benefit plan for the CEO.

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

§ - Related parties

The company has no related parties who hold control.

The company's related parties comprise NKT Group Management 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 3.4 Warrants plan for Executive Management and employees

An incentive plan has been established for NKT A/S (Parent company) employees that conveys entitlement to subscribe for NKT shares at a price based on the market price at the grant date, plus interest calculated from grant date to exercise date. It is the Board of Directors, empowered by a mandate from the Annual General Meeting, which approves the basis for calculation and allocation of any share-based incentive plans and establishes their ceilings. No warrants has been granted under this plan since January 2015. In all cases condition of exercise is three years' employment.

In 2017, warrants were exercised by subscription of a total of 291,142 new shares (2016: 211,650) at a price of EUR 35 (2016: EUR 35). The share price at subscription was EUR 66 (2016: EUR 49).

The value of the warrants plan is calculated based on the Black-Scholes formula and was EUR 4.0m at year-end 2017 (2016: EUR 11.9m). This includes EUR 2.9m (2016: EUR 4.0m) for the value of the CEO warrants plan. The values have been calculated assuming an interest rate of -0.5% (2016: -0.5%), volatility of 21% (2015: 28%) and duration of 3 years. Future volatility is estimated based on calculations of historic volatility over 12 months.

Note 3.4 Warrants plan for CEO and employees (continued)

Outstanding warrants 2017:		Exercise price DKK	CEO Michael Hedegaard Lyng	Other	Total
Granted in November 2011:	1 January		0	12,100	12,100
	Exercised	229.9	0	-11,600	-11,600
	Forfeited		0	-500	-500
	31 December	229.9	0	0	0
Granted in January 2013 [1]:	1 January		0	143,850	143,850
	Exercised	211.8	0	-143,200	-143,200
(Exercise 2018)	31 December	211.8	0	650	650
Granted in January 2014:	1 January		83,740	52,602	136,342
	Exercised	308.2	-83,740	-52,602	-136,342
	31 December		0	0	0
Granted in January 2015 [2]:	1 January		113,429	41,123	154,552
(Exercise 2018/2019/2020)	31 December	91.3	113,429	41,123	154,552
Total:	Warrants, 1 January 2017		197,169	249,675	446,844
	Exercised		-83,740	-207,402	-291,142
	Forfeited		0	-500	-500
	31 December 2017		113,429	41,773	155,202
Outstanding warrants 2016:	Warrants, 1 January 2016		300,469	360,825	661,294
	Exercised		-103,300	-108,350	-211,650
	Forfeited		0	-2,800	-2,800
	31 December 2016		197,169	249,675	446,844

[1] The exercise periods are determined as two weeks after publication of the company's annual financial report.

[2] 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 2018 and until the date when the shares are received are deducted from the exercise price.

§ Accounting policy

The Group's incentive plans include a share warrants plan. The value of services received in exchange for warrants granted is measured at the fair value of these warrants.

The fair value is measured 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 warrants an estimate is made of the number of warrants expected to vest. This estimate is subsequently revised for changes and total recognition is therefore based on the number of warrants ultimately vested.

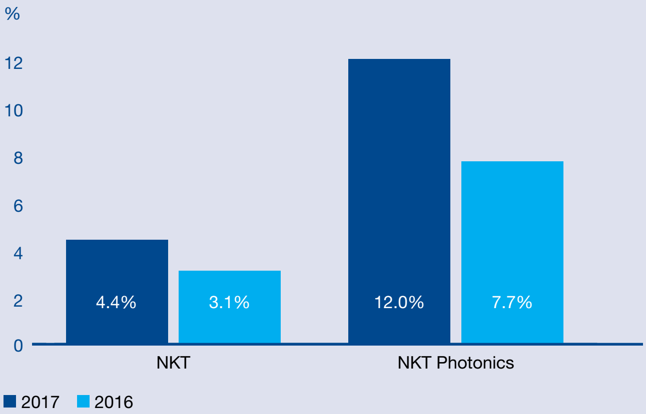
The fair value of warrants granted is estimated using a warrant pricing model that takes into account the terms and conditions upon which granting took place.

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 2017

Investment ratio (% 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 a slightly higher percentage of revenue than in 2016. 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 new facilities and production equipment. The ratio of investment has increased from 2016.

Geographical information, property, plant and equipment and intangible assets

Amounts in EURm	2017	2016
Sweden	821.5	10.6
Germany	219.9	217.2
Norway	110.0	0.3
Czech Republic	44.8	65.7
Denmark	33.1	35.3
Switzerland	22.5	0.0
UK	16.6	16.8
Netherlands	13.7	12.6
Poland	11.6	12.0
Other	2.6	0.4
Total continuing operations	1,296.3	370.9
Transferred to assets held for sale	0.0	-24.2
	1,296.3	346.3

Note 4.1 Impairment test

NKT consists of two business lines: Projects and Products. For the Projects line, favourable market growth is anticipated as the European energy sector is facing major restructuring towards sustainable energy. The market for the Products line is fragmented by the inclusion of many types of cables. The markets are generally mature, and future growth is expected to be moderate.

NKT Photonics operates in the laser industry within three lines: 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.

Amounts in EURm	2017	2016
NKT		
Impairment of intangible assets	0.0	0.0
Impairment of tangible assets	0.9	0.0
Impairment of tax asset	0.0	0.0
NKT total impairment loss	0.9	0.0
NKT Photonics		
Impairment loss	0.0	0.0

For impairment test purposes, tangible assets are allocated to cash-generating units, and goodwill is allocated to groups of 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 recognised if the carrying amount of an asset or a cash-generating unit exceeds the respective recoverable amount thereof. The impairment is recognised in the income statement under depreciation and impairment. Impairment of goodwill is recognised 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 amortisation if the asset had not been impaired

Significant judgements and estimates

Goodwill

Goodwill has been tested for impairment of the smallest group of cash-generating units in NKT A/S on which goodwill is monitored and which is not larger than the reportable segment. Goodwill has been allocated to two independent segments: NKT and NKT Photonics. The carrying amount of goodwill 31 December was as follows:

Amounts in EURm	2017	2016
NKT	392.2	12.9
NKT Photonics	25.3	14.1
	417.5	27.0

For NKT the increase in goodwill from 2016 to 2017 relates to the acquisition of the former ABB HV Cables.

For NKT Photonics the increase in goodwill from 2016 to 2017 relates to the acquisition of OneFive during 2017. Please see Note 7.1 for further information on acquisitions/divestments.

The recoverable amount is based on a value in use calculation. For both NKT and NKT Photonics, the calculation uses cash flow projections based on financial budgets for 2018 and financial forecasts for 2019 - 2022. NKT pre-tax discount rate amounts to 9.9%, and a post-tax discount rate of 7.5% has been applied. For NKT Photonics, a pre-tax discount rate of 12.8% and a post-tax discount rate of 10.0% has been applied. Similarly, a growth rate of 2.5% was applied for NKT in the terminal period, while that applied for NKT Photonics was 3.0%. The growth rate is estimated not to exceed the long-term average growth rates for the markets in which NKT and NKT Photonics operate.

Key assumptions

	NKT	NKT Photonics
Cash flows	Revenue and gross profit are estimated to increase from 2018 to 2022. The development in revenue is based on the market outlook described in Management's Review page 12	Revenue and gross profit are estimated to increase from 2018 to 2022. The development in revenue is based on the market outlook described in Management's Review page 38
Capital expenditure	Yearly average investment follows depreciation for the periods 2018-2022 and for the terminal period	The ratio of Investments as well as depreciation to revenue are expected to decline over the period 2018 to 2022 as a result of the initial scaling up of production capacity towards industrial customers
Working capital	A stabil working capital ratio of 1 - 2% of revenue from 2020 and onwards	A stabil working capital ratio of 22% of revenue from 2018 and onwards

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. 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.

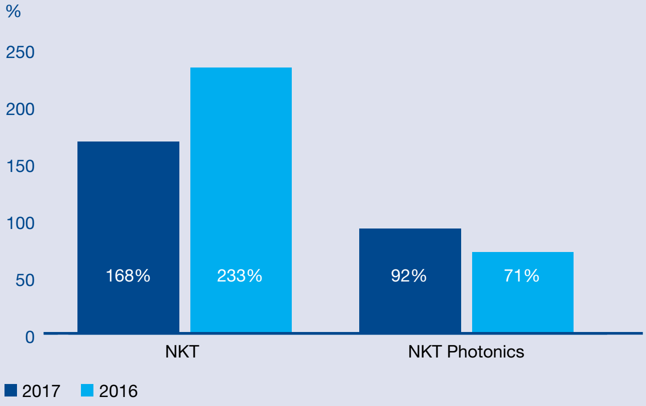
	Assumptions used when calculating value in use (starting point)		Assumptions used when calculating value in use (starting point)		Assumptions must change as follows before the carrying amount equals the value in use		Assumptions must change as follows before the carrying amount equals the value in use	
	NKT		NKT Photonics		NKT		NKT Photonics	
Sensitivity analysis, goodwill	2017	2016	2017	2016	2017	2016	2017	2016
Post-tax discount rate	7.5%	7.5%	10.0%	10.0%	10.5%	13.1%	19.9%	12.7%
Growth rate in terminal period	2.5%	2.5%	3.0%	3.0%	-1.8%	-9.3%	<-15%	-0.6%
Change in EBITDA	-	-	-	-	<-15%	<-15%	<-15%	<-15%

Note 4.2 Intangible assets

For NKT the investment ratio decreased to a more normalised level, impacted by the acquisition of the ABB HV Cables activity. Investments in IT continues to be the main driver for the high investment ratio.

NKT Photonics amortisation was at the level of 2016 while a higher R&D project spend increased the investment ratio.

Investment ratio (% of amortisations excl. goodwill)



Breakdown of additions of intangible assets for the business units:

Amounts in EURm	2017	2016
NKT	24.5	11.9
NKT Photonics	3.4	2.5
Total continuing operations	27.9	14.4
Nilfisk, discontinued operations		24.2
	27.9	38.6

Accounting policy

Goodwill

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

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

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

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

Trademarks, etc.	3-20 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 amortised on a straight-line basis over their estimated useful life from the date the asset is available for use. The amortisation period is usually 3-10 years. The basis of amortisation is reduced by impairment losses.

Patents and licences are measured at cost less accumulated amortisation 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 amortised 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
Costs, 1 January 2016	196.1	25.6	41.4	141.8	100.5	34.8	540.2
Additions through business combinations	19.9	5.9	9.4	0.0	13.7	0.0	48.9
Additions	0.0	0.0	0.0	3.3	2.8	32.5	38.6
Disposals	-0.8	-1.6	-2.3	-6.1	-7.8	-0.3	-18.9
Transferred between classes of assets	0.1	0.0	0.0	25.0	2.1	-27.0	0.2
Exchange rate adjustments	2.4	-0.2	0.0	1.5	0.1	0.4	4.2
Transferred to assets held for sale	-7.8	0.0	0.0	0.0	-1.0	0.0	-8.8
Transferred to assets held for distribution to owners	-181.6	-29.3	-35.8	-124.8	-72.2	-21.8	-465.5
Costs, 31 December 2016	28.3	0.4	12.7	40.7	38.2	18.6	138.9
Amortisation and impairment, 1 January 2016	-1.3	-12.6	-27.0	-99.8	-66.2	-0.1	-207.0
Amortisation for the year, continuing operations	0.0	-0.1	-0.2	-5.5	-2.8	0.0	-8.6
Amortisation for the year, discontinued operations	0.0	-1.9	-3.3	-12.0	-8.6	0.0	-25.8
Impairment, discontinued operations	0.0	-1.1	-0.2	-1.5	-0.3	0.0	-3.1
Disposals	0.0	0.8	2.1	5.5	5.6	0.1	14.1
Exchange rate adjustments	0.0	0.0	-0.1	-1.3	-0.4	0.0	-1.8
Transferred to assets held for sale	0.0	0.0	0.0	0.0	1.0	0.0	1.0
Transferred to assets held for distribution to owners	0.0	14.5	18.6	85.4	47.3	0.0	165.8
Amortisation and impairment, 31 December 2016	-1.3	-0.4	-10.1	-29.2	-24.4	0.0	-65.4
Carrying amount, 31 December 2016	**27.0**	**0.0**	**2.6**	**11.5**	**13.8**	**18.6**	**73.5**
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
Amortisation and impairment, 1 January 2017	-1.3	-0.4	-10.1	-29.2	-24.4	0.0	-65.4
Amortisation 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
Amortisation 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**

Regarding impairment test, please refer to Note 4.1.

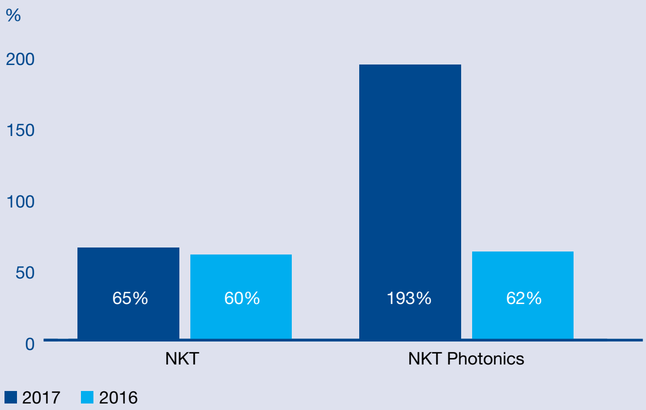
Additions through business combinations relates to NKT's acquisition of ABB HV Cables and NKT Photonics' acquisitions of OneFive. For further comments relating thereto, please see Note 7.1 Acquisitions/divestments of businesses.

Note 4.3 Property, plant and equipment

In NKT the investment ratio increased to 65%. Recent investments in factories and equipment puts depreciations at a higher level than the investment level.

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

Investment ratio (% of depreciations)



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

Amounts in EURm	2017	2016
NKT	38.4	18.9
NKT Photonics	2.7	0.8
Total continuing operations	41.1	19.7
Nilfisk, discontinued operations		20.6
	41.1	40.3

§ 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 utilised.

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 recognised 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 derecognised in the balance sheet and recognised in the income statement.

All other costs relating to ordinary repair and maintenance are recognised 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 recognised 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	Manufacturing plant and machinery	Fixtures, fittings and equipment	Assets under construction incl. prepaym.	Total
Costs, 1 January 2016	229.5	413.4	187.1	21.9	851.9
Additions through business combinations	0.0	0.6	0.2	0.0	0.8
Additions	1.7	4.1	16.6	17.9	40.3
Disposals	-20.5	-44.9	-14.7	-1.1	-81.2
Transferred between classes of assets	1.3	5.5	12.5	-19.6	-0.3
Exchange rate adjustments	-1.6	-3.4	-1.1	-0.1	-6.2
Transferred to assets held for sale	-13.8	-24.2	-2.7	-1.2	-41.9
Transferred to assets held for distribution to owners	-22.1	-17.4	-136.6	-5.5	-181.6
Costs, 31 December 2016	174.5	333.7	61.3	12.3	581.8
Depreciation and impairment, 1 January 2016	-80.8	-262.1	-141.2	-0.6	-484.7
Depreciation for the year, continuing operations	-5.8	-21.3	-5.9	0.0	-33.0
Depreciation for the year, discontinued operations	-0.8	-1.4	-11.5	0.0	-13.7
Impairment, discontinued operations	0.0	-0.1	-0.1	0.0	-0.2
Transferred between classes of assets	0.0	0.1	-0.1	0.0	0.0
Disposals	18.6	40.9	12.8	0.6	72.9
Exchange rate adjustments	1.2	2.4	0.5	0.1	4.2
Transferred to assets held for sale	5.9	17.5	2.1	0.0	25.5
Transferred to assets held for distribution to owners	9.7	11.9	98.4	0.0	120.0
Depreciation and impairment, 31 December 2016	-52.0	-212.1	-45.0	0.1	-309.0
Carrying amount, 31 December 2016	**122.5**	**121.6**	**16.3**	**12.4**	**272.8**
Costs, 1 January 2017	174.5	333.7	61.3	12.3	581.8
Additions through business combinations	157.8	224.1	37.2	34.3	453.4
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**

Regarding impairment test, please refer to Note 4.1.

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

Note 4.4 Pension liabilities

Most employees in the Group 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.

The Group's defined benefit plans primarily relate to Germany. If a plan is not fully hedged, a plan liability is recognised in the consolidated balance sheet. In accordance with accounting policy, expenses relating to pension benefits are recognised as employee benefits.

Net liabilities recognised in the balance sheet:

Amounts in EURm	2017 Present value of obligation	2016 Present value of obligation	2016 Fair value of plan assets	2016 Obligation, net
Obligation at 1 January	51.9	76.9	23.1	53.8
Recognised in staff costs in income statement:				
Current service cost	0.5	0.5		0.5
Calculated interest cost/income	0.8	1.1	0.0	1.1
Curtailments and settlements, etc.	0.0	0.0		0.0
Total	1.3	1.6	0.0	1.6
Recognised in profit from discontinued operations in income statement:				
Total	0.0	1.0	0.7	0.3
Recognised in other comprehensive income:				
Actuarial gain/loss from changes in financial assumptions	-0.2	8.1	1.7	6.4
Foreign exchange adjustments, etc.	0.0	-2.7	-2.6	-0.1
Total	-0.2	5.4	-0.9	6.3
Other changes:				
Contributions to plans	0.0	0.2	1.0	-0.8
Benefits paid	-1.7	-2.2	-0.4	-1.8
Total	-1.7	-2.0	0.6	-2.6
Recognised plan liabilities net, at 31 December	51.3	82.9	23.5	59.4
Other long-term employee benefits	1.2	1.2	0.0	1.2
Transferred to liabilities held for distribution to owners	0.0	-31.0	-23.5	-7.5
Recognised at 31 December	52.5	53.1	0.0	53.1

Note: No plan assets in 2017

Significant judgements and estimates

Principal actuarial assumptions at the balance sheet date	2017	2016
Discount rate	1.7%	1.7%
Future salary increases	3.0%	3.0%
Future pension increases	2.0%	2.0%

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.

	2017	2016
0.5% point rise in discount rate	-3.7	-3.8
0.5% point fall in discount rate	4.1	4.3
0.5% point rise in future salary increases	0.3	0.3
0.5% point fall in future salary increases	-0.2	-0.3

The anticipated duration of the plan liability, expressed as a weighted average, was 15 years at end-2017 (2016: 15 years).
The Group's expected contribution to defined benefit plans in 2018 amounts to EUR 1.8m.

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 recognised in the income statement in the period to which they relate. Any contributions outstanding are recognised 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 recognised in the balance sheet under employee benefits. Pension expenses for the year are recognised 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 realised values at the end of the year are designated actuarial gains or losses and recognised in other comprehensive income.

If a pension plan constitutes a net asset, the asset, is only recognised 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 recognised by actuarial calculation. Actuarial gains and losses are recognised in the income statement immediately. Other long-term employee benefits include anniversary bonuses.

Note 4.5 Provisions

Amounts in EURm	Warranties	Restructuring	Other	Total
Provisions, 1 January 2017	13.7	4.9	10.0	28.6
Additions through business combinations	10.2	0.0	0.0	10.2
Provisions made during the year	2.6	1.5	12.1	16.2
Used during the year	-3.9	-1.5	-0.4	-5.8
Reversed during the year	-3.7	-3.3	0.0	-7.0
Foreign exchange adjustment	-0.2	0.0	0.0	-0.2
Provisions, 31 December 2017	18.7	1.6	21.7	42.0
Provisions are recognised in the balance sheet as:				
Non-current liabilities	11.6	0.0	16.9	28.5
Current liabilities	7.1	1.6	4.8	13.5
	18.7	1.6	21.7	42.0

Significant judgements and estimates

Warranty commitments relate to NKT's Project business. The liability is based on an individual assessment.

Other provisions mainly relate to NKT's provision for restoring the site in Cologne and contingent consideration from business combination.

§ Accounting policy

Provisions are recognised 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 recognised 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 recognised under financial expenses.

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

Restructuring costs are recognised 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 measures 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 recognised 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 costs 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 recognised 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

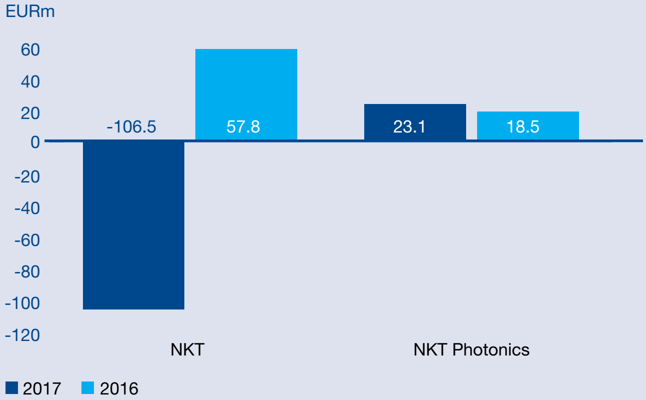
NKT's operations are by definition highly capital-intensive as the manufacture of cables calls for expensive raw materials such as copper and aluminium. Furthermore, working capital is volatile in the Projects division, but to some extent predictable, and large sums may be tied up for lengthy periods as payments are linked to production stages and general contract terms. This requires funding to be flexible and available to support this type of activity.

In 2017, working capital in NKT was affected by acquisition of ABB HV Cables effective from 1 March 2017.

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

Key developments 2017

Working capital



NKT decreased working capital by EUR -164.3m from EUR 57.8 at end-2016 to EUR -106.5m at end-2017. The working capital ratio, LTM, decreased by 11.7%-points from 9.6% in 2016 to -2.1% in 2017. The working capital development was driven by advanced payments in the Project business.

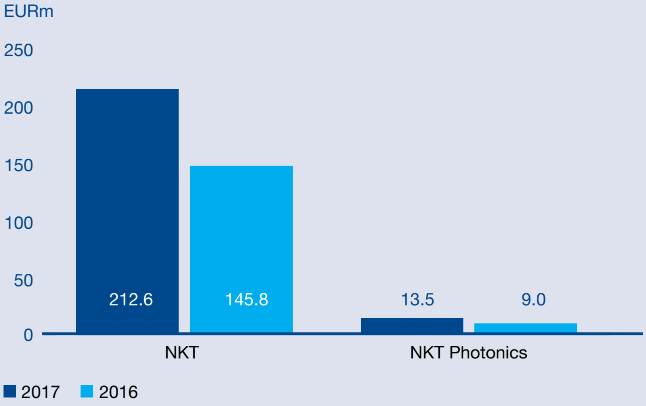
NKT Photonics recorded an increase of EUR 4.6m in absolute terms and an increase of 5.7%-points compared to last year.

	NKT			NKT Photonics		
Amounts in EURm	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Inventories	212.6	145.8	66.8	13.5	9.0	4.5
Trade receivables	136.9	122.2	14.7	25.9	17.8	8.1
Construction contracts	47.6	30.6	17.0	-	-	-
Other assets	77.8	53.7	24.1	3.6	1.4	2.2
Trade payables	-302.2	-183.6	-118.6	-11.2	-4.0	-7.2
Other liabilities	-279.2	-110.9	-168.3	-8.7	-5.7	-3.0
Working capital	-106.5	57.8	-164.3	23.1	18.5	4.6
Working capital ratio (LTM)	-2.1%	9.6%	-11.7%	32.7%	27.0%	5.7%

Note 5.1 Inventories

The Group's business units 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 development



Amounts in EURm	2017	2016
Raw materials, consumables and goods for resale	88.0	61.2
Work in progress	70.3	35.4
Finished goods	67.8	58.2
Transferred to assets held for sale		-12.7
Inventories continuing operations	226.1	142.1
Impairments on inventories, continuing operations, 1 January	15.6	20.2
Impairments on inventories for the year expensed in the income statement	0.3	0.5
Disposals from sales	-1.5	-5.1
Scrapping	-0.3	0.0
Impairments on inventories, continuing operations, 31 December	14.1	15.6

NKT increased its inventory in the period from end-2016 to end-2017. The increase was mainly driven by acquisition of ABB HV Cables effective from 1 March 2017 which contributed with EUR 35.3m.

NKT Photonics maintained a stable inventory level compared with last year.

Significant judgements and estimates

Inventory writedowns are carried out if the net realisable value is lower than costs, e.g. in case of obsolescence. Currently no business unit is exposed to material impairment in inventories.

§ Accounting policy

Inventories are measured at cost in accordance with the FIFO method or at a weighted average. If the net realisable 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.

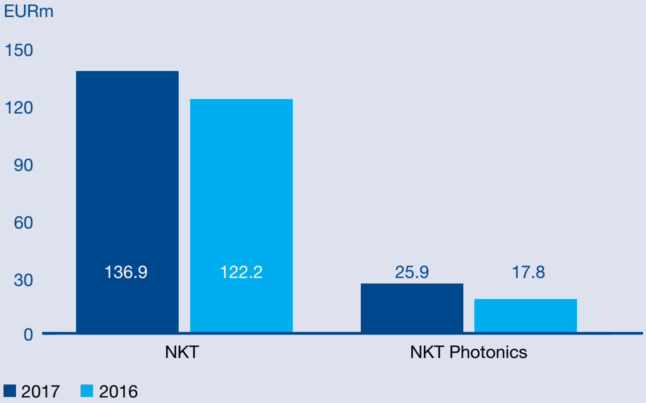
Finished goods and work in progress are measured at costs, which comprises costs of raw materials, consumables, direct wages/salaries and production overheads. Production overheads include indirect materials and wages/salaries, as well as maintenance and depreciation of production machinery, buildings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

The net realisable 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 amortised cost, which in all material respects corresponds to fair value and nominal value.

Trade receivables development



In NKT, trade receivables increased in the period from end-2016 to end-2017. The increase was influenced by acquisition of ABB HV Cables effective from 1 March 2017 which contributed with EUR 18.9m. Net construction contracts increased slightly but remained at a stable level.

Writedowns on trade receivables amounted to 1%. For further information on credit risks, please see Note 6.6.

Amounts in EURm	2017	2016
Trade receivables	154.5	135.2
Construction contracts	47.6	30.6
Other receivables incl. derivative financial instruments	36.5	50.1
Prepayments	28.7	3.7
Transferred to assets held for sale	0.0	-14.0
Receivables continuing operations	267.3	205.6
Of which receivables falling due later than 12 months from the balance sheet date	0.2	0.4
Construction contracts:		
Contract value of work in progress	893.6	247.0
Progress billings	-886.4	-247.2
	7.2	-0.2
Construction contracts are recognised thus:		
Recognised as assets	47.6	30.6
Recognised as liabilities	-40.4	-30.8
	7.2	-0.2
Payments withheld	0.0	0.0

Disclosure of credit risks and impairment of trade receivables is included in Note 6.6.

Significant accounting estimates and judgements

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 recognised in the balance sheet. The estimate includes a risk provision, which is based on the specific risk that each project is exposed to. A significant part of the risk provision is either utilised or released after the Final Acceptance Test, and thus projects carry a high uncertainty until completion. 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 estimates and judgement calls.

§ Accounting policy

Receivables are measured at amortised cost. Writedown for bad and doubtful debts is made where an objective indication of impairment is considered to exist for an individual receivable or a portfolio of receivables.

Receivables for which there is no objective indication of impairment at individual level are assessed for such indication on a portfolio basis. The portfolios are primarily based on the debtor's domicile and credit rating in accordance with NKT credit risk management policy. The objective indicators applied to portfolios are based on historical loss experience.

If an objective indication of impairment exists for a portfolio, an impairment test is carried out in which the expected future cash flows are estimated on the basis of historical loss experience adjusted for current market conditions and individual conditions relating to the specific portfolio.

Impairment losses are determined as the difference between the carrying amount and the fair value of the expected cash flows, including recoverable amounts of any security received. The effective interest rate applied on initial recognition is used as the discount rate for the receivable or portfolio.

Calculation of interest recognition on impaired receivables is based on the impaired amount using the effective rate of interest for the specific receivable or portfolio.

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

Costs relating to sales work and securing contracts are recognised 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.

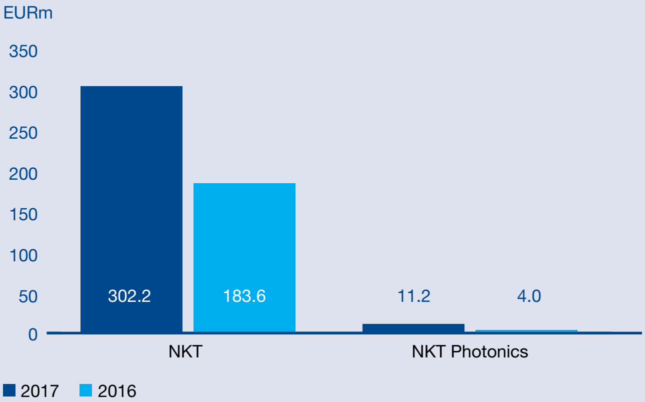
Prepaid expenses

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 other prepayments and deferred income are also included.

Trade payables development



In NKT, trade payables and other liabilities increased significantly from end-2016 to end-2017. The increase was affected by acquisition of ABB HV Cables effective from 1 March 2017 which contributed with EUR 93.8m. 2016 was affected by divestment of operations in China and by divestment of the Automotive business, where trade payables and other liabilities were classified as liabilities held for sale.

Amounts in EURm	2017	2016
Trade payables	305.2	187.3
Other payables (VAT, employee-related tax, holiday pay, derivative financial instruments, etc.)	150.3	70.6
Construction contracts (cf. Note 5.2)	40.4	30.8
Prepayments regarding construction contracts	83.3	0.0
Prepayments from customers	1.6	4.2
Deferred income	1.4	1.8
Transferred to liabilities held for sale		-22.3
Total continuing operations	582.2	272.4

§ **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 recognised in trade payables and other liabilities.

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

Note 6 Capital structure

This note covers NKT A/S' capital structure, financing costs and financial risks. NKT A/S' policy is to maintain a capital structure that supports the strategic goals to deliver value and profitable growth. NKT A/S operates with solid financial reserves that allow economic and strategic flexibility.

NKT A/S intends to be perceived as a company with an investment grade credit profile and therefore maintains capital structure within defined targets for solvency, gearing and EBITDA leverage. In periods where capital structure targets are satisfied NKT A/S' cash flows are used for value adding investments/acquisitions and shareholder distributions. If capital structure targets are exceeded cash flow are prioritised to repay debt.

As of end-September NKT A/S had net interest-bearing debt of EUR 720m. Distribution of this amount comprised EUR 340m for the continuing NKT business and EUR 380m for the separated Nilfisk business.

At the end of 2017 solvency ratio was 43%. Gearing ratio was 36% and EBITDA leverage ratio was 1.9x. The leverage target is 1.5x EBITDA, and thus no dividend is expected to be paid out for 2017.

Key developments 2017

POST SEPARATION NIBD

EUR 340m

in October 2017

END OF YEAR NIBD

EUR 293m

Increase of EUR 361m in 2017

AVAILABLE LIQUIDITY RESOURCES

EUR 378m

Down from EUR 1,311m in 2016

AVERAGE FUNDING RATE

2.1%

Down from 2.5% in 2016

Note 6.1 Changes in capital structure and financing

Capital structure was impacted by the split of NKT A/S into two companies. In October 2017 Nilfisk Holding A/S was demerged from NKT and listed as an independent company. Part of the demerger was to split the debt of NKT A/S in a way that maximized shareholder value reflecting the debt capacity of the two companies. The distribution of the debt end of September left the continuing NKT business with a NIBD of EUR 340m which was reduced to EUR 293m at the end of 2017.

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

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 20 April 2022.

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.

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).

In the period until 9 October 2022 loans may be raised against bonds or debt instruments in one or several transactions with a right for the lender to convert his claim to shares, each of a nominal value of DKK 20, up to a maximum nominal amount of DKK 100m (5 million new shares).

Note 6.2 Net interest-bearing debt

Amounts in EURm	2017	2016
Net interest-bearing debt comprises:		
Non-current loans	332.8	83.0
Current loans	7.2	11.6
Loans classified as held for distribution to owners	0.0	2.7
Interest-bearing debt, gross	340.0	97.3
Interest-bearing receivables	-2.1	-1.6
Cash at bank and in hand	-44.7	-127.8
Interest-bearing items included in receivables classified as held for distribution to owners	0.0	-6.0
Cash classified as held for sale	0.0	-1.8
Cash classified as held for distribution to owners	0.0	-28.5
Net interest bearing debt	293.2	-68.4

Net interest-bearing debt at end-2017 was EUR 293.2m. This corresponded to a net debt increase of EUR 361.6m compared with end-December 2016. The increase in net interest-bearing debt was driven by acquisition of ABB HV Cables, at the purchase price of EUR 801m and the demerger with Nilfisk reducing NIBD by EUR 380m.

The net interest-bearing debt consisted of gross debt of EUR 340m and cash and interest-bearing receivables of EUR 46.8m.

Changes in current and non-current loans

Amounts in EURm	1 January 2017	Changes from Cash flow	Effect of changes in exchange rates	Total
Current and non-current loans	94.6	283.5	-4.4	340.0

Note 6.3 Payables to credit institutions and other payables

Payables to credit institutions are predominantly based on floating interest rates and are measured at amortised cost. The carrying amount therefore corresponds in all material respects to fair value and nominal value.

Other payables are measured at amortised cost, which corresponds in all material respects to fair value and nominal value.

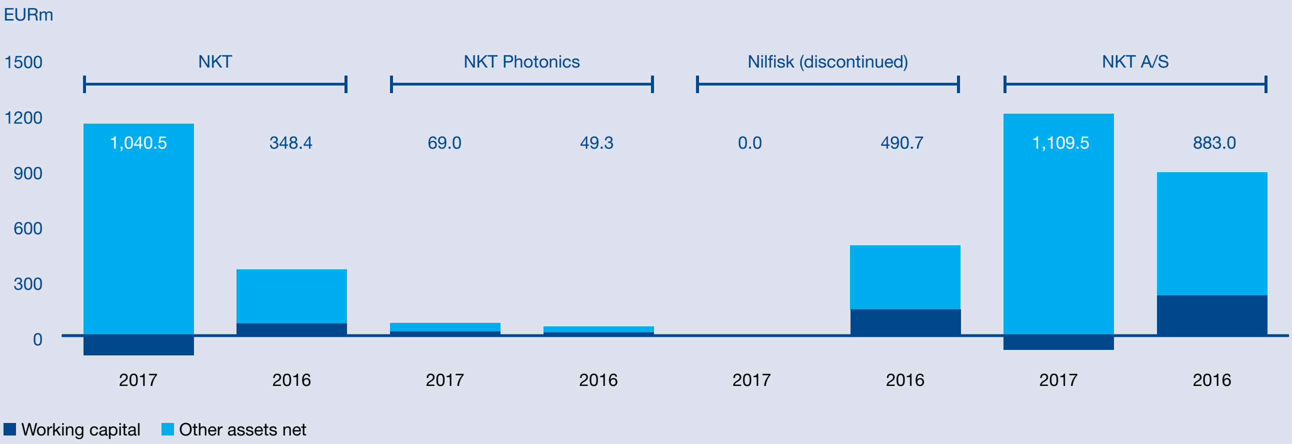
§ Accounting policy

Payables to credit institutions, etc. are recognised 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 amortised cost using ‚the effective interest method', the difference between the proceeds and the nominal value therefore being recognised in the income statement under financial expenses over the term of the loan.

Payables to credit institutions also include the capitalised residual lease obligation on finance leases measured at amortised cost.

Note 6.4 Capital employed

Capital employed



For NKT A/S, capital employed increased by EUR 226.5m from 2016 to 2017, driven by an increase in other assets net, however offset by negative working capital.

Return on capital employed for NKT was 7.5% compared with 9.3% last year. The decrease was driven by an increase in capital employed impacted by acquisition of ABB HV Cables effective from 1 March 2017.

Return on capital employed for NKT Photonics was negative compared with 4.1% last year. The decrease was driven by a negative operational EBIT.

Note 6.5 Financial items

The net financial items represented a loss of EUR 14.7m in 2017 compared with a profit of EUR 5.7m in 2016. The decrease is mainly caused by higher interest expenses related to the financing of the ABB HV Cables acquisition.

Net interest expenses were EUR 13.8m in 2017 compared to net interest income of EUR 3.3m in 2016, while a comparison of gains on foreign exchange and derivative financial instruments with corresponding losses on these items revealed a net loss of EUR 0.9m in 2017, against a similar gain of EUR 2.4m in 2016. 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 0.9m net loss in 2017 is 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	
Amounts in EURm	**2017**	**2016**	**2017**	**2016**
Interest etc. relating to financial assets/liabilities measured at amortised cost	3.4	13.9	17.2	10.6
Foreign exchange gains/losses	35.3	21.0	35.8	11.8
Gains/loss on derivative financial instruments	4.5	4.4	4.9	11.2
Capital gains/losses on securities	0.0	0.0	0.0	0.0
Total from continuing operations	43.2	39.3	57.9	33.6

§ Accounting policy

Financial income comprises interest, dividends, gains on securities, receivables and transactions denominated in foreign currencies, amortisation 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, losses on and impairment of securities, payables and transactions denominated in foreign currencies, amortisation of financial liabilities, including finance lease commitments, 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 6.6 Financial risks and financial instruments

NKT's 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 risk management policy is managed by Group Treasury. The general principle is that only financial risk exceeding a defined risk threshold is hedged. The risk thresholds are defined to provide NKT A/S with sufficient risk 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 the end of 2017 and 2016 no option contracts were active.

The financial risks are divided into:

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

Translation risks relating to net investments in subsidiaries

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 (above EUR 15m) in foreign currency, excluding EUR/DKK, a rate of exchange which is 10% lower than the actual exchange rate for SEK,CZK and GBP would reduce NKT A/S equity by EUR 74m, compared to EUR 9m in 2016. This development was driven by ABB HV Cable business which mainly applies SEK as functional currency. Currency risks relating to other investments in foreign subsidiaries are not significant.

Net financing

Significant currency risks relating to receivables and payables that influence net income are hedged. Balances with credit institutions are denominated in the functional currency of the businesses concerned. NKT A/S had no significant currency risks relating to receivables and payables in foreign currency at 31 December 2017 and at 31 December 2016, and NKT A/S' net income would therefore not have been significantly influenced by changes in the exchange rates at those dates.

Future cash flows

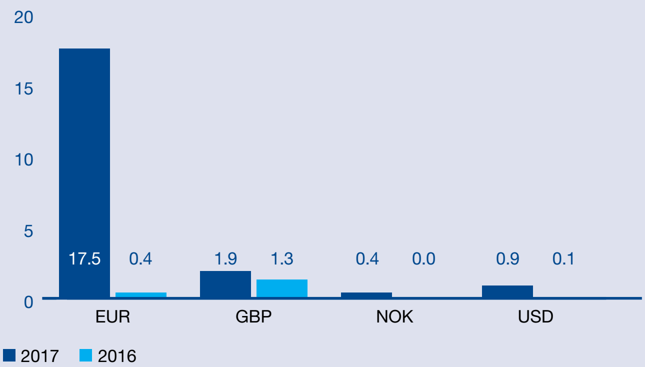
The principal currency exposure relates to sales and purchases in currencies other than the functional currency of the businesses. Hedging of these currency risks is based on assessments of the likelihood of the future transaction being performed and whether the associated currency risk is significant.

Expected cash flows with significant currency risk are systematically hedged on a rolling basis. However, currency risks from project-related sales are considered on an individual basis.

The fair value of the effective part of the hedge is recognised in other comprehensive income on a continuous basis. 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.

The fair value of the current portfolio of effective hedging contracts will impact other comprehensive income if currency rates change. The sensitivity analyses shown in the chart below assume currency rate changes equal to the individual currency's volatility against EUR at year-end (note that the sensitivity of the EUR position is based on the volatility of EUR against SEK). The analysis shows that for instance an 8% change in the GBP/EUR rate will change other comprehensive income by EUR 1.9m. Comparative figures for 2016 have been calculated using the same percentage change (annual volatility as at 31 December 2016) as stated for 2017.

Sensitivity analysis



Forward exchange contracts relate to hedging of product sales/purchase. During the year nothing significant was recognised under financial items due to ineffective hedge contracts.

Outstanding FX hedging contracts

Amounts in EURm	2017 Notional value[1]	2017 Recog. in other compr. income	2016 Notional value[1]	2016 Recog. in other compr. income
EUR	-249.8	-11.9	-5.9	0.0
GBP	23.8	-0.5	-16.5	2.1
NOK	5.0	-0.1	-0.1	0.0
SEK	0.0	0.0	-0.4	0.0
USD	11.1	-1.6	0.8	0.1
Total, continuing operations	-209.9	-14.1	-22.1	2.2

[1] Forward exchange contracts with positive notional values are purchases of the relevant currency; negative notional values are sales.

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 293.2m. By comparison, at year-end 2016 NKT A/S' NIBD was EUR -68.4m, meaning interest-bearing assets exceeded interest-bearing debt.

At year-end, an interest rate hedge of EUR 137.5m was in place. By comparison no interest rate hedge was in place by year-end 2016 as NIBD was negative.

It is estimated that a 1% rise in market interest rate would increase pre-tax financial expenses by EUR 0.9m.

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 corresponds to the values recognised 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 credit rating of important customers and other partners. Insurance cover and similar measures to hedge receivables are rarely applied as NKT A/S historically has had only few material losses.

Development in accounts receivables provision

Amounts in EURm	2017	2016
Receivables from sales and services, gross - continuing operations	156.2	136.8
Impairment for bad and doubtful debts:		
1 January	1.6	11.3
Disposal through business divestment	0.0	-10.4
Exchange rate adjustment	-0.1	-0.8
Writedowns for year included in income statement in 'Other costs'	0.1	1.6
Reversal of impairment for the year included in income statement in 'Other costs'	0.0	-0.1
Realised losses during year	0.1	0.0
Impairment, 31 December - continuing operations	1.7	1.6
Receivables from sales and services, net - continuing operations	154.5	135.2

Impairments amount to EUR 1.7m compared with EUR 1.6 last year.

Receivables overdue not individually impaired

Amounts in EURm	2017	2016
Up to 30 days	14.4	11.7
Between 30 and 60 days	1.8	1.4
Between 60 and 120 days	4.2	0.9
More than 120 days	1.8	4.0
	22.2	18.0

! Significant judgements and estimates

Impairments are due to individual review for impairment arising from customer insolvency and anticipated insolvency and to mathematically computed impairments based on classification of debtors according to maturity.

Liquidity risks

It is the Group'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-2017, NKT A/S' total available liquidity resources amounted to EUR 378.3m.

The average duration of the committed credit facilities at December 31 was 2.9 years.

Strong liquidity reserves

Cash resources

Amounts in EURm	2017	2016
Committed (>3 years)	227.6	353.0
Committed (1-3 years)	288.6	796.1
Committed (<1 year)	104.9	7.4
Committed, total	621.1	1,156.5
% of total	92%	93%
Uncommitted	52.5	92.6
% of total	8%	7%
Total	673.6	1,249.1
Cash	44.7	158.3
Drawn	-340.0	-96.4
Cash resources	378.3	1,311.0

Credit agreements embody ‘change of control’ provisions whereby significant credit facilities can be cancelled if a shareholder or shareholder group gains control over NKT A/S or if NKT A/S is no longer listed on Nasdaq Copenhagen.

Apart from the dedicated facility concerning the acquisition of ABB HV Cables, the NKT A/S’ credit facilities are not subject to financial covenants but are subject to some non-financial covenants of conventional nature. This debt facility is expected to be refinanced in first half 2018, when the bridge financing for acquisitions of ABB HV Cables expires. The bridge financing is classified as long-term credit facilities per end December 2017, as it can be transformed into long-term facilities, committed by the same credit institutions.

Maturity of Group liabilities

Amounts in EURm	2017						
	year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 y.	Total
Forward contracts	20.2						20.2
Credit institutions	7.2	8.1	171.7	8.2	10.0	134.8	340.0
Other financial liabilities	560.6						560.6
Total, continuing operations	588.0	8.1	171.7	8.2	10.0	134.8	920.8

	2016						
	year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 y.	Total
Forward contracts	3.4						3.4
Credit institutions	11.6	7.2	7.5	7.7	7.6	53.0	94.6
Other financial liabilities	267.2						267.2
Total, continuing operations	282.2	7.2	7.5	7.7	7.6	53.0	365.2

The above items do not include interest. The forward contracts are recognised at fair value and the discount element is considered insignificant because of short maturity.

Payables to credit institutions are consequently recognised in the balance sheet at the amounts stated above.

Raw material price risks

Raw material price risks exist primarily in relation to cables business, and comprise the effect of changes in raw material prices on net income. In situations where 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. As at 31 December 2017, NKT A/S had current financial hedging instruments relating to future metal supplies of a value of EUR 45.1m (2016: EUR 23.3m) with a positive fair value of EUR 5.9m (2016: positive fair value of EUR 3.8m).

It is estimated that, all other things being equal, a 10% rise in raw material prices would influence NKT A/S’ other comprehensive income by around EUR 4.5m for forward transactions for metal supplies at 31 December 2017 (2016: EUR 2.3m). 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. Impact of ineffectiveness on the income statement was negligible during the year.

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 2017 and 2016 of NKT A/S' forward transactions is measured in accordance with Level 2 as the fair value is based on official exchange rates and forward rates at the balance sheet date.

Categories of financial instruments - carrying amount

Amounts in EURm	2017	2016
Financial assets, continuing operations:		
Hedging portfolio (derivative financial instruments)	10.5	8.2
Loans and receivables	292.3	325.2
Financial assets available for sale	1.2	1.1
Financial liabilities, continuing operations:		
Hedging portfolio (derivative financial instruments)	20.2	3.4
Financial liabilities, measured at amortised cost	900.6	361.8

Financial assets available for sale are measured at fair value and considered immaterial.

§ Accounting policy

Derivative financial instruments are recognised 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 other receivables and payables, respectively, and set-off of positive and negative values is effected only when the company has the right and the intention to settle several financial instruments net. 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 for recognition as a fair value hedge of a recognised asset or a recognised liability are recognised in the income statement together with changes in the value of the hedged asset or hedged liability. Apart from foreign currency hedging, hedging of future payment flows according to a firm commitment is treated as fair value hedging.

The portion of the value adjustment of a derivative financial instrument not included in a hedging relationship 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 payment flows are recognised in other comprehensive income in a separate hedging reserve under equity until the cash flows hedged influence the income statement. Gains or losses relating to such hedging transactions are then transferred from other comprehensive income and recognised in the same item as the hedged item.

If the hedging instrument no longer meets the criteria for hedge accounting, the hedging relationship is discontinued prospectively. The cumulative change in value recognised in other comprehensive income is transferred to the income statement when the hedged cash flows influence the income statement.

If the hedged cash flows are no longer expected to be realised, the cumulative change in value is immediately transferred to the income statement.

The portion of the value adjustment of a derivative financial instrument not included in a hedging relationship is 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 recognised in the consolidated financial statements directly in other comprehensive income in a separate translation reserve.

The portion of the value adjustment of a derivative financial instrument not included in a hedging relationship is 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 recognised under financial items as they arise.

Certain contracts contain characteristics of derivative financial instruments. Such embedded derivatives are recognised separately and measured at fair value if they differ significantly from the contract, unless the entire contract is recognised and measured at fair value.

Note 6.7 Share capital

NKT's share capital consists of shares with a nominal value of 20 DKK each. No shares carry special rights. NKT'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.

Number of DKK 20 shares ('000)	2017	2016
Shares, 1 January	26,835	24,186
Increase in capital by exercise of warrants	291	212
Issue of new shares	0	2,437
Shares, 31 December	27,126	26,835
Treasury shares, 1 January	0	77
Share buy back programme	0	871
Disposal of treasury shares	0	-948
Treasury shares, 31 December	0	0
Shares outstanding, 31 December	27,126	26,835

§ Accounting policy

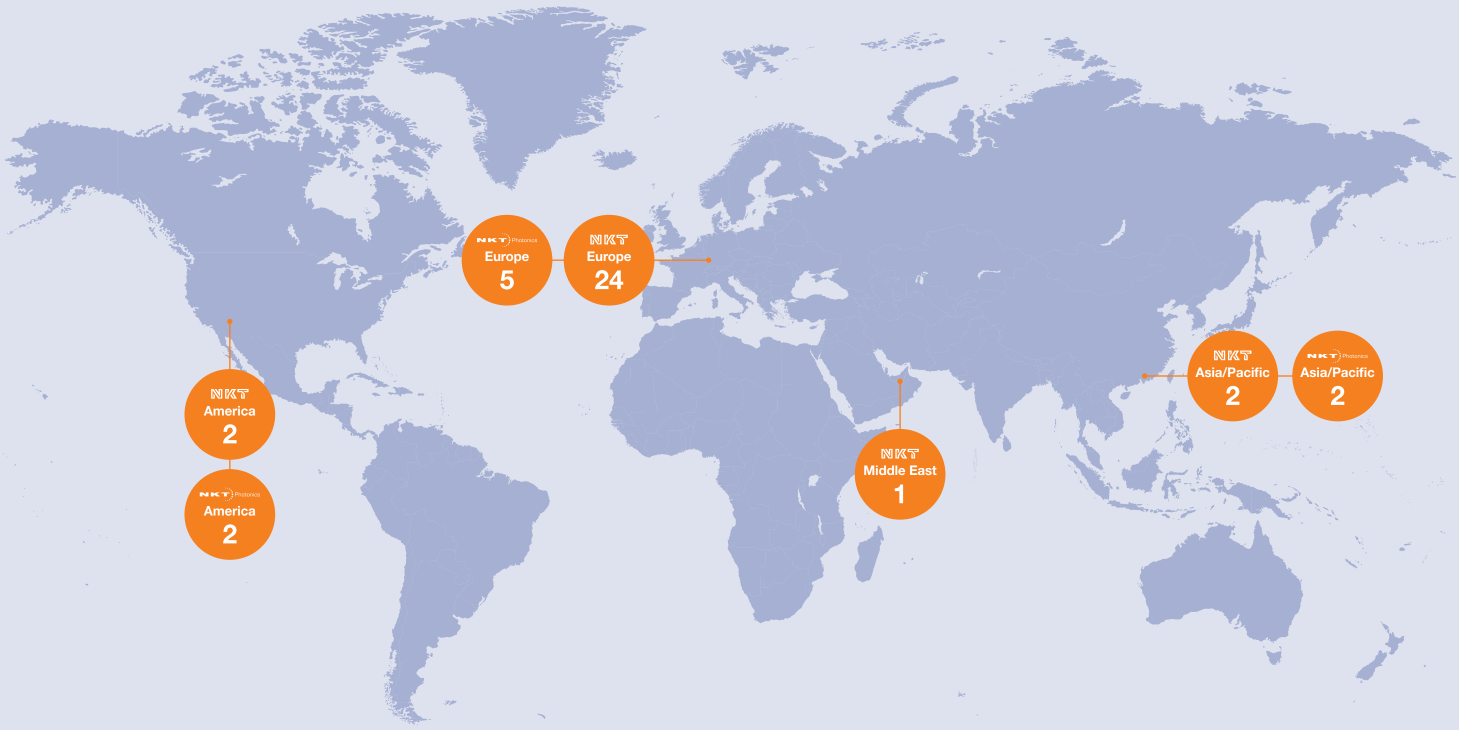
Dividend is recognised as a liability at the date of adoption at the Annual General Meeting (declaration date). Proposed dividend payments for the year are disclosed as a separate item under equity. Interim dividend is recognised as a liability at the date when the decision to pay such dividend is made.

Acquisition costs, consideration received, and dividends relating to treasury shares, are recognised directly in retained comprehensive income in equity.

Proceeds from sales of treasury shares and from issue of shares in NKT A/S relating to exercise of warrants or employee shares are recognised directly in retained comprehensive income in equity and share capital.

Note 7 Group structure

This note describes acquisitions and divestments of businesses during the year and NKT A/S's structure at end-2017.



NKT A/S

Board of Directors

NKT
(Formerly NKT Cables)

NKT Photonics

Note 7.1 Acquisitions/divestments of businesses

2017:

Acquisitions

Effective from 1 March 2017, NKT acquired ABB HV Cables. ABB HV Cables is 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 has 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 is a leading supplier of ultrafast Lasers. The company employs 41 people mainly in Zurich, where the main production facilities are 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	453,2	0,2	453,4
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	-10,0	0,0	-10,0
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	411,0	14,9	425,9
	Goodwill	389,8	11,2	401,0
	Purchase consideration	800,8	26,1	826,9
	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	786,4	14,4	800,8
	Interest-bearing loans and borrowings acquired	0,0	0,0	0,0
	Total effect on net interest bearing debt	786,4	14,4	800,8

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 recognised 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 recognised as Other costs in the income statement

During 2017 NKT received EUR 6.6m related to sale of NKT Cables China in 2016.

§ Accounting policy

Businesses acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition/formation. Businesses sold or wound up are recognised 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 recognised if they are separable or arise from a contractual right. Deferred tax on revaluations is recognised.

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 recognised as goodwill under intangible assets. Goodwill is not amortised 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 recognised 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 recognised 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 recognised in the income statement.

On whole or partial disposal of wholly owned foreign entities where control is relinquished, the currency adjustments which are recognised 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

Group companies	Domicile
NKT Group	
Denmark	
NKT Cables Group A/S	Denmark
NKT (Denmark) A/S	Denmark
NKT Ultera 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 Immobilien Verwaltung GmbH	Germany
NKT Zweite Immobilien GmbH & Co. KG	Germany
NKT HVC GmbH	Germany
NKT s.r.o.	Czech Rep.
NKT Cables Spain 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 Cables Nederland B.V.	Netherlands
NKT HVC B.V.	Netherlands
NKT HV Cables GmbH	Switzerland
America	
NKT, Inc	US
Middle East	
NKT Middle East DMCC	Dubai
Asia/Pacific	
NKT Pty Ltd	Australia
Unique Vantage Ltd.	Hong Kong
Associates	
Ultera GP (50%)	US

Group companies	Domicile
NKT Photonics Group	
Denmark	
NKT Photonics A/S	Denmark
Europe	
LIOS Technology GmbH	Germany
NKT Photonics GmbH	Germany
Advanced Laserdiode Systems A.L.S. GmbH	Germany
OneFive GmbH	Switzerland
Fianium Holdings Ltd.	UK
Fianium Ltd.	UK
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
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

Amount in EURm	2017	2016
Deloitte :		
Statutory audit	0.7	0.5
Audit-related services	-	-
Tax and VAT advice	0.4	0.4
Other services	3.4	2.1
Total continuing operations	4.5	3.0

Total non-audit services amounts to EUR 3.8m, whereof EUR 3.0m relates to non-audit services provided to NKT A/S by Deloitte Statsautoriseret Revisionspartnerselskab Danmark. It consisted of advisory services related to the demerger of NKT A/S, financial and tax advisory in relation to acquisitions, consulting advisory in relation to structure 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 the Group's financial position.

Note 8.3 Accounting standards issued but not yet effective

The following new standards, amendments and interpretations of relevance to NKT Group 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 15: "Revenue from Contracts with Customers" New standard on revenue recognition. The standard may potentially affect revenue recognition in a number of areas depending on the industry in which the entity operates, including:
  - The timing of revenue recognition
  - Recognition of variable consideration
  - Allocation of revenue from multi-element arrangements
  - Recognition of revenue from licence rights
  - Up-front fees
  - Additional disclosure requirements

The standard will be effective for financial years beginning on or after 1 January 2018. NKT has assessed the effect of the new standard, and it will only have insignificant effect on recognition and measurement of revenue.

- IFRS 9: "Financial Instruments" - on the measurement and classification of financial assets and liabilities. The number of classification categories for financial assets is reduced to three: amortised cost, fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI). Entities taking the fair value option are required under IFRS 9 to present the share of the fair value change for the period which is attributable to changes in the entity's own credit risk in other comprehensive income. Further, the impairment model for financial assets is changed to a model based on expected credit losses under which changes to the credit risk imply changes to the provision for bad debts.

The hedge accounting rules are relaxed so as to be aligned with the entity's risk management practices. The standard will be effective for financial years beginning on or after 1 January 2018.

NKT has assessed the effect of the standard and it will only have minor effects on recognition and measurement of financial instruments. Provisions for impairment of financial assets will have no significant effect on the income statement. IFRS 9's changes to classification and measurement, and its new rules for hedge accounting, will have no effect on recognition and measurement at the time of implementation.

The IASB has issued the following new standards, amendments and new interpretations which could be relevant to NKT, but which have not yet been adopted by the EU:

- IFRS 16: "Leases". New standard on the accounting treatment of leases. Going forward, the lessee is required to recognise all leases as a lease liability and a lease asset in the balance sheet. The standard will be effective for financial years beginning on or after 1 January 2019. NKT expects to implement the new standard when it takes effect. The impact of the new standard is currently being assessed by the company and limited effect is expected

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 highvoltage power cable projects, cf. Company Announcement No. 8 2014. By defining NKT as a 'fringe player' - as the only European manufacturer - the European Commission explicitly established that the role of NKT was substantially limited. This is further emphasised by the fact that NKT was the only European manufacturer to receive a 10% reduction on the fine amount. While the European Commission has assessed that NKT's role was substantially limited and the fine is considerably smaller than those imposed on other cable manufacturers, NKT disagrees with the Commission's decision and has therefore filed an appeal. 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, Scottish Power 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 a few selected business unit management members includes 'Change of Control' provisions (significant changes in ownership structure).

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 2017 these conditions were complied with.

Securities

Amounts in EURm	2017	2016
Carrying amount of assets provided as security for credit institutions:		
Land and buildings	149.0	79.6
Plant and machinery	52.3	48.8
Liabilities secured on assets	177.3	102.7

Securities relates primarily to mortgage loans and can only be effectuated in certain cases of default to credit institutions.

Contractual obligations, continuing operations

Amounts in EURm	2017	2016
Contractual obligations relating to purchase of buildings and production plants	6.2	6.9
Contractual obligations relating to purchase ABB HV Cables (conditional upon approval)	0.0	836.0
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.		
Interminable minimum lease payments are specified as follows:		
Within 0-1 year	11.0	8.5
Within 1-5 years	27.1	18.6
After 5 years	30.9	33.3
	69.0	60.4
Lease payments expensed in income statement	14.9	8.5

§ Accounting policy

Contingent liabilities

Disclosure concerning contingent assets and liabilities and when they must be recognised 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 recognised when it is virtually certain that the issue will have a positive outcome for the company. A liability is recognised 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 realised gains or losses that may differ significantly from the recognised 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 recognised on a straight-line basis over the term of the lease.

Assets leased out under operating leases are recognised, 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 prices** - Revenue at standard 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. **Operational earnings before interest, tax, depreciation and amortisation (Oper. EBITDA)** - Earnings before interest, tax, depreciation and amortisation (EBITDA) adjusted for one-off items.

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

5. **Net interest-bearing debt** - Cash, investments and interest-bearing receivables less interest-bearing debt. Specified in Note 6.2.

6. **Capital employed** - Group equity plus net interest-bearing debt. Specified in Note 6.4.

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

8. **Net interest-bearing debt relative to operational EBITDA -** Operational EBITDA inclusive pro forma estimated EBITDA for the acquired ABB HV Cables activities. Comparative figures are calculated including discontinued operation.

9. **Solvency ratio (equity as a percentage of total assets)** - Equity excl. non-controlling interest as a percentage of total assets.

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

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

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

Note 9 Discontinued operations

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

§ **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 and assets held for distribution to owners

Amounts in EURm	2017*	2016
Revenue	801.7	1,058.5
Costs and other income	-718.5	-961.7
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**83.2**	**96.8**
Depreciation, amortisation and impairment	0.0	-42.8
Financial items, net	-6.2	-11.0
Earnings from operations before tax (EBT)	**77.0**	**43.0**
Tax on operations	-21.6	-13.4
Earnings after tax	**55.4**	**29.6**
Revaluation to market value of shares distributed*	886.8	
Equity reserves reclassified to income statement	-9.9	
Profit for the year from discontinued operations	**932.3**	**29.6**
Earning from discontinued , EUR, per share (EPS)	34.4	1.2
Cash flow		
Cash flow from operating activities	10.0	115.1
Cash flow from investing activities	-23.7	-69.6
Cash flow from financing activities	-13.5	-23.8
Net cash flow from discontinued operations	**-27.2**	**21.7**
Assets and associated liabilities held for distribution to owners		
Intangible assets	0.0	299.7
Property, plant and equipment	0.0	61.6
Other non-current assets	0.0	57.6
Inventories	0.0	173.3
Receivables	0.0	212.3
Cash at bank and in hand	0.0	28.5
Total assets held for distribution to owners	**0.0**	**833.0**
Deferred tax	0.0	41.0
Pension liabilities	0.0	7.5
Provisions	0.0	6.8
Interest -bearing loans and borrowings	0.0	0.2
Total Non-current liabilities	**0.0**	**55.5**
Interest-bearing loans and borowings	0.0	2.7
Trade payables and other liabilities	0.0	248.9
Total current liabilities	**0.0**	**251.6**
Total liabilities associated with assets held for distribution to owners	**0.0**	**307.1**

*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).

Parent company financial statements

Income statement and comprehensive income

1 January - 31 December

Amounts in EURm	Note	2017	2016
Income statement			
Dividends from subsidiaries		0.0	0.0
Sale of services		3.2	3.5
Revenue		**3.2**	**3.5**
Staff costs	3	-5.3	-4.8
Other costs	4	-8.4	-3.1
Operating earnings (EBIT)		**-10.5**	**-4.4**
Financial income	5	40.7	30.9
Financial expenses	6	-36.2	-21.4
Gain on Nilfisk shares distributed to shareholders	8	940.2	0.0
Earnings before tax (EBT)		**934.2**	**5.1**
Tax	7	1.9	-0.6
Profit for the year		**936.1**	**4.5**
Statement of comprehensive income			
Profit for the year		936.1	4.5
Other comprehensive income:			
Items that may be reclassified to income statement:			
Value adjustment of hedging instruments transferred to financial expenses		0.0	1.5
Tax		0.0	-0.3
Total comprehensive income		**936.1**	**5.7**
Proposed distribution			
Transferred to retained comprehensive income		936.1	5.7
		936.1	**5.7**

Balance sheet

31 December

Amounts in EURm	Note	2017	2016
Assets			
Non-current assets			
Investments in subsidiaries	8	401.9	401.9
Receivables from subsidiaries		943.7	669.9
Deferred tax	9	1.7	0.0
		1,347.3	**1,071.8**
Total non-current assets		**1,347.3**	**1,071.8**
Current assets			
Receivables from subsidiaries		1.5	4.9
Other receivables		2.0	7.5
Income tax receivable		0.8	0.4
Cash at bank and in hand		0.0	91.4
Shares in Nilfisk held for distribution to owners		0.0	216.1
		4.3	**320.3**
Total assets		**1,351.6**	**1,392.1**
Equity and liabilities			
Equity			
Share capital		72.8	72.0
Retained comprehensive income		937.5	1,031.3
Total equity		**1,010.3**	**1,103.3**
Non-current liabilities			
Deferred tax	9	0.0	0.7
Credit institutions, etc.	10	163.6	0.1
		163.6	**0.8**
Current liabilities			
Payables to subsidiaries	10	175.2	211.9
Trade payables and other liabilities	10	2.5	6.1
Liabilities associated with assets held for distribution to owners		0.0	70.0
		177.7	**288.0**
Total liabilities		**341.3**	**288.8**
Total equity and liabilities		**1,351.6**	**1,392.1**

Cash flow statement

1 January - 31 December

Amounts in EURm	Note	2017	2016
Operating earnings (EBIT) before depreciation		-10.6	-4.4
Non-cash items		0.1	0.2
Changes in working capital		-2.3	3.4
Cash flow from operations before financial items		-12.8	-0.8
Financial income received		40.9	30.9
Financial expenses paid		-36.2	-21.3
Cash flow from ordinary operations		-8.1	8.8
Income tax paid		-0.3	-3.3
Cash flow from operating activities		**-8.4**	**5.5**
Capital allocation Nilfisk / Increase of capital in subsidiaries		117.0	-3.3
Changes in loans to/from subsidiaries		-372.1	-23.6
Cash flow from investing activities		**-255.1**	**-26.9**
Changes in non-current loans		171.6	-49.0
Changes in current loans		-9.6	0.0
Dividend paid		0.0	-13.1
Dividend on treasury shares		0.0	0.1
Cash from disposal of treasury shares / share buyback programme		0.0	11.0
Cash from issue of new shares / exercise of warrants		10.1	139.5
Cash flow from financing activities		**172.1**	**88.5**
Net cash flow		**-91.4**	**67.1**
Cash at bank and in hand, 1 January		91.4	24.3
Net cash flow		-91.4	67.1
Cash at bank and in hand, 31 December		**0.0**	**91.4**

Statement of changes in equity

1 January - 31 December

Amounts in EURm	Share capital	Retained comprehen-sive income	Proposed dividends	Total equity
Equity at 1 January 2016	**64.9**	**882.0**	**13.0**	**959.9**
Changes in equity in 2016:				
Other comprehensive income for the year		1.2		1.2
Profit for the year		4.5	0.0	4.5
Total comprehensive income for the year		5.7	0.0	5.7
Proceeds from issue of new shares	6.5	129.3		135.8
Share issue costs		-3.8		-3.8
Proceeds from sale of treasury shares		52.8		52.8
Share buyback programme		-41.8		-41.8
Dividend paid		-0.1	-13.0	-13.1
Dividend, treasury shares		0.1		0.1
Share-based payment		0.2		0.2
Exercise of share warrants	0.6	6.9		7.5
Total changes in equity in 2016	**7.1**	**149.3**	**-13.0**	**143.4**
Equity at 31 December 2016	**72.0**	**1,031.3**	**0.0**	**1,103.3**
Equity at 1 January 2017	**72.0**	**1,031.3**	**0.0**	**1,103.3**
Changes in equity in 2017:				
Profit for the year		936.1	0.0	936.1
Total comprehensive income for the year		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 in 2017	**0.8**	**-93.8**	**0.0**	**-93.0**
Equity at 31 December 2017	**72.8**	**937.5**	**0.0**	**1,010.3**

Notes 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 Group Management's 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 risks, 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 6.6 to the consolidated financial statements and the sections 'Risk management' in the Business units sections.

Categories of financial instruments:

Amounts in EURm	2017	2016
Financial assets:		
Hedging portfolio (derivative financial instruments), measured at fair value	0.1	9.2
Loans and receivables	947.9	764.9
Financial liabilities:		
Hedging portfolio (derivative financial instruments), measured at fair value	0.0	10.1
Financial liabilities, measured at amortised cost	341.3	208.0

The parent company's payables fall due as follows:

2017	Within 1 year	1-2 years	2-3 years	> 5 years	Total
Credit institutions, etc.	0.0	0.0	163.6	0.0	163.6
Other financial liabilities	177.7	0.0	0.0	0.0	177.7
	177.7	0.0	163.6	0.0	341.3

2016	Within 1 year	1-2 years	4-5 years	> 5 years	Total
Credit institutions, etc.	0.0	0.0	0.1	0.0	0.1
Other financial liabilities	218.0	0.0	0.0	0.0	218.0
	218.0	0.0	0.1	0.0	218.1

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	2017	2016
Wages and salaries	4.9	4.2
Defined contribution plans	0.3	0.4
Share-based payments	0.1	0.2
	5.3	4.8
Average number of full-time employees	15	18

Note 4 Fees to auditor elected at the Annual General Meeting

Amounts in EURm	2017	2016
Deloitte :		
Statutory audit	0.1	0.1
Other services	0.3	0.1
	0.4	0.2

Note 5 Financial income

Amounts in EURm	2017	2016
Interest from subsidiaries	19.2	17.2
Foreign exchange gains	21.5	13.7
	40.7	30.9

Note 6 Financial expenses

Amounts in EURm	2017	2016
Interest, etc. relating to financial liabilities measured at amortised cost	15.5	4.7
Interest to subsidiaries	0.7	2.1
Loss on derivative financial instruments	0.0	6.5
Foreign exchange losses	20.0	8.1
	36.2	21.4

Note 7 Tax

Amounts in EURm	2017	2016
Current tax	0.5	0.6
Deferred tax	-2.4	0.0
	-1.9	0.6
Reconciliation of tax continuing operations:		
Tax at 22.0% of earnings before tax	205.5	1.1
Tax effect:		
Gain on Nilfisk shares distributed to shareholders not taxable	-206.8	
Tax effect from exercise of warrants	-2.0	-0.7
Non-deductable impairment	0.0	0.0
Non-deductable expenses	1.4	0.2
	-1.9	0.6

Note 8 Investments in subsidaries / Distribution of Nilfisk shares

Shares held for distribution to shareholders:

Amounts in EURm	2017	2016
Fair value of Nilfisk shares transferred to shareholder in NKT A/S	1,039.3	0.0
Book value 1 January	-216.1	0.0
Capital allocation	117.0	0.0
Gain on Nilfisk shares distributed to shareholders	940.2	0.0

Investments in subsidaries:

Amounts in EURm	2017	2016
Cost, 1 January	444.9	668.1
Acquisition of non controlling interest in NKT Photonics A/S	0.0	1.2
Capital contribution	0.0	2.1
Disposal	0.0	-10.4
Shares in Nilfisk A/S transferred to held for distribution to owners	0.0	-216.1
Cost, 31 December	444.9	444.9
Impairment, 1 January	-43.0	-51.3
Disposal	0.0	8.3
Impairment, 31 December	-43.0	-43.0
Book value, 31 December	401.9	401.9

Subsidiaries	Domicile	2017	2016
NKT Cables Group A/S	Brøndby, Denmark	100%	100%
NKT Photonics A/S	Birkerød, Denmark	100%	100%
Nilfisk A/S [1)]	Brøndby, Denmark	-	100%
LIOS Technology GmbH [2)]	Germany	-	100%

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

[1)] Distributed to shareholders in NKT A/S as adopted at the Extraordinary General Meeting held 10 October 2017.

[2)] Transferred to NKT Photonics A/S

Note 9 Deferred tax asset/liabilities

Amounts in EURm	2017	2016
1 January	-0.7	-0.7
Deferred tax cf. note 7	2.4	0.0
31 December	1.7	-0.7
Deferred tax relates to:		
Tax losses	1.7	0.0
Recapture of trading losses	0.0	-0.7
	1.7	-0.7

Note 10 Payables to credit institutions and other liabilities

Payables to credit institutions are predominantly subject to floating interest rates and measured at amortised 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

For 2017, EUR 0.2m (2016: EUR 0.2m) is charged to the income statement as operational leasing.

The term of notice for the CEO is 18 months. In conjunction with significant changes of control or level of activity the above terms of notice will be extended for a transitional period of a further 6 months. Beyond this there is no separation benefit plan for the CEO. See Note 3.3 to the consolidated financial statements.

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. 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.

Amounts in EURm	2017	2016
Guarantees for subsidiaries	911.0	122.1
Liability in respect of subsidiary company credit facilities under the cash pool	225.0	566.0
Leasing agreements for property, etc.	0.0	0.1
Of which payable within:		
0-1 years	0.0	0.1

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 affiliated undertakings.

The company's subsidiaries and 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	2017	2016
Transactions with subsidiaries:		
Sale of services	3.1	3.4
Interest received, net	18.5	15.1
Receivables, non-current	943.7	669.9
Receivables, current	1.5	4.9
Payables	175.2	211.9
Capital contribution	0.0	2.1

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 undertakings that have a functional currency other than DKK are recognised in the annual financial statements for the parent company under financial items in the income statement.

Revenue

Dividends from investments in subsidiaries are recognised 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 recognised 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 recognised 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 utilised. 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 utilised (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 6.7 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.

Group 5-year financial highlights

Amounts in EURm	2017	2016	2015	2014	2013
Income statement					
Revenue	1,479.3	1,046.1	1,252.1	1,211.8	1,241.3
Revenue in std. metal prices [1]	1,108.4	792.8	897.7	851.6	843.2
Operational earnings before interest, tax, depreciation and amortisation (Oper. EBITDA) [3]	141.8	74.9	77.3	63.1	41.5
Earnings before interest, tax, depreciation and amortisation (EBITDA)	96.9	27.9	54.1	22.3	44.0
Depreciation and impairment of property, plant and equipment	-61.3	-33.0	-72.3	-37.7	-43.0
Amortisation and impairment of intangible assets	-18.3	-8.6	-11.3	-7.2	-8.0
Operational earnings before interest and tax (Oper. EBIT) [4]	62.2	33.3	34.2	18.6	-1.8
Earnings before interest and tax (EBIT)	17.3	-13.7	-29.5	-22.6	-7.0
Financial items, net	-14.7	5.7	1.8	-2.8	-6.6
Earnings before tax (EBT)	2.6	-8.0	-27.7	-25.4	-13.6
Profit for the year from continuing operations	-3.4	-17.5	-40.5	-20.2	-11.1
Profit for the year from discontinued operation	932.2	29.6	41.7	58.1	45.1
Profit for the year	928.8	12.1	1.2	37.9	34.0
Profit attributable to equity holders of NKT A/S	928.8	12.1	1.0	37.9	33.8
Cash flow					
Cash flow from operating activities	87.8	153.9	173.2	212.4	73.2
Cash flow from investing activities	-493.3	-132.0	-87.9	-49.7	-93.2
hereof investments in property, plant and equipment	-50.6	-40.7	-39.0	-32.6	-34.4
Free cash flow	-405.5	21.9	85.3	162.7	-20.0
Balance sheet					
Share capital	72.8	72.0	64.9	64.2	64.3
Equity attributable to equity holders of NKT A/S	816.3	951.4	808.6	801.2	760.7
Non-controlling interest	0.0	0.0	0.9	0.8	0.9
Group equity	816.3	951.4	809.5	802.0	761.6
Total assets	1,904.6	1,747.1	1,683.6	1,656.1	1,744.3
Net interest-bearing debt [5]	293.2	-68.4	88.9	152.4	283.4
Capital employed [6]	1,109.5	883.0	898.4	954.4	1,045.0
Working capital [7]	-83.5	217.0	269.2	301.0	377.5
Financial ratios and employees					
Operational EBITDA margin, continuing operations (std. metal prices)	12.8%	9.4%	8.6%	7.4%	4.9%
Gearing (net interest-bearing debt as % of Group equity)	36%	-7%	11%	19%	37%
Net interest-bearing debt relative to oper. EBITDA [8]	1.9	-0.4	0.5	0.9	1.9
Solvency ratio (equity as % of total assets) [9]	43%	54%	48%	48%	44%
Return on capital employed (RoCE) [10]	11.8%	11.7%	10.1%	9.4%	6.7%
Number of DKK 20 shares ('000)	27,126	26,835	24,186	23,934	23,930
Earnings continuing oper., EUR, per outstanding share (EPS) [11]	-0.1	-0.7	-1.7	-0.8	-0.5
Earnings, EUR, per outstanding share (EPS) [11]	34.3	0.5	0.0	1.6	1.4
Dividend paid, DKK, per share	0.0	4.0	4.0	3.5	8.0
Distribution of shares in Nilfisk Holding A/S, value DKK per share	285.2	0.0	0.0	0.0	0.0
Equity value, EUR, per outstanding share [12]	30	35	34	34	32
Market price, DKK, per share	283	499	357	332	268
Average number of employees	3,600	8,958	8,895	9,078	8,899

[1) - 12)] Definitions appear in Note 8.5 to the consolidated financial statements.

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