NKT Photonics A/S

Central Business Registration No: 10 04 82 65
Blokken 84, 3460 Birkerød

Annual Report 2016

The Annual General Meeting adopted the annual report.

Birkerød, 24 May 2017

Jørgen Janus Roijer Hillerup
Chairman of the General Meeting

Contents

Company Information

The company	NKT Photonics A/S Blokken 84 3460 Birkerød Central Business Registration No: 10 04 82 65 Financial year: 1 January – 31 December
Subsidiaries	NKT Photonics GmbH, Germany (100 %) NKT Photonics Inc., USA (100 %) NKT (Beijing) Photonics Technical Service Co. Ltd. (100%) Fianium Holdings Ltd., UK (100%)
Board of Directors	Jens Maaløe Jørgen Janus Roijer Hillerup Michael Hedegaard Lyng Stig Nissen Knudsen Mikael Svalgaard
Executive Board	Basil Garabet
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Weidekampsgade 6 2300 København S

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of NKT Photonics A/S for the financial year 1 January to 31 December 2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and of its financial performance for the financial year 1 January to 31 December 2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Birkerød, 24 May 2017

Executive Board:

Basil Garabet
Chief Executive Officer

Board of Directors:

Jens Maaløe *Chairman*	Jørgen Janus Roijer Hillerup	Michael Hedegaard Lyng
Stig Nissen Knudsen	Mikael Svalgaard	

Independent auditor's report

To the shareholders of NKT Photonics A/S

Opinion

We have audited the financial statements of NKT Photonics A/S for the financial year 01.01.2016 – 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations for the financial year 01.01.2016 – 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the *Auditor's responsibilities for the audit of the financial statements* section of this auditor's report. We are independent of the Entity 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.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity'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 financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements 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 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 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 24 May 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Lars Siggaad Hansen	Sumit Sudan
State-Authorised	State-Authorised
Public Accountant	Public Accountant

Management Commentary

Financial highlights

mDKK	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	195,3	169,9	148,3	131,6	110,4
Gross Profit	99,5	90,8	72,9	63,4	52,9
Operating profit/(loss)	8,6	0,6	-3,3	-6,9	-4,6
Financial items, net	-6,6	-3,8	-2,6	-3,5	-3,9
Result before tax	2,0	-3,2	-5,9	-10,4	-8,5
Profit/(loss) for the year	1,5	-1,9	-5,2	-8,5	-6,2
Balance Sheet	416,3	141,9	144,5	150,8	147,7
Investment in tangible assets	2,9	5,5	2,7	14,7	6,8
Equity	1,1	-0,3	1,6	6,8	-3,7
Financial ratios %					
Gross Margin	51%	53%	49%	48%	48%
Solvency	0%	0%	1%	5%	-3%
Average number of employees	126	116	117	112	94

Definition of Financial ratios:

Gross Margin	Gross Profit x 100 / Revenue
Solvency	Equity x 100 / total assets

The ratios are calculated in accordance with the Danish Finance Association's "Recommendations & Financial Ratios 2015"

Management Commentary

The company's main activities
NKT Photonics' main products are light sources based on optical fibers for industrial applications and production of fibers being part of several of the company's self-produced lasers but also sold to third parties.

In Denmark, NKT Photonics manufacture fiber lasers with either a very high spectral purity or with a very wide color spectrum. Fiber lasers are used as light sources for industrial products among others within security monitoring, seismology, spectroscopy, microscopy and light-based radar, also called LIDAR. Furthermore the lasers are in demand in research environments, e.g. for cooling atoms. Per end of March 2016 NKT Photonics acquired Fianium Limited – a UK manufacture of super continuum and ultrafast fiber lasers – thereby complementing the product offerings.

Development of operations and financials
In 2016 revenue was DKK 195.3m, compared to DKK 169.9m in 2015 - a growth of 14.9%. Result for the year amounts to a profit of DKK 1.5m against a loss of DKK 1.9m in 2015. During 2016, NKT Photonics invested considerable time and expenses to integrate the acquired business, increase capacity and production efficiency, which at year-end, was higher than at the beginning of the year.

NKT Photonics has experienced growth among existing customers. Both in the segments of SuperK products and aeroPULSE products NKT Photonics have experienced strong growth.

The development in 2016 is in line with the outlook for 2016 as communicated in the NKT Photonics A/S Annual report for 2015, i.e. revenue growth within our existing product lines and towards existing customers.

Significant development activities are ongoing and the costs of these activities have primarily been expensed. In total DKK 8.9m related to development activities was capitalized during 2016 as intangible assets – among others on development projects for new products within SuperK and high-power lasers.

Deferred tax assets constituting DKK 0.4m consists primarily of tax losses carried forward from previous years and are expected to be offset against taxable profits in the calculation of joint taxable income for the NKT Group or of the Company.

Intellectual capital resources
The Company's staff represent a very high level of specialized knowledge and a significant portion has been educated on a PhD level. The Company has a high technical profile and has not previously had trouble attracting employees with sufficient skills from Denmark or abroad nor do expect this to be a problem in the future. Further the combined company knowledge is anchored in procedures and business processes, which continuously are expanded and strengthened.

Environmental impact
NKT Photonics environmental footprint is insignificant in production terms. The principal environmental impact relates to the use of our products.

Many of our products find application in solutions aimed at improving either environmental conditions, supply of goods, personal safety or human living conditions. Examples include facilitating development of new and improved medicines and diagnosis of diseases, safe use of oil and gas pipelines, quality control of food. Demands for greater environmental accountability, increased security and improved living conditions are thus important drivers in our business development.

Particular risks

Interest rate risk:
As the Company is primarily financed with floating rate loans, the Company has an interest rate risk towards changes in interest rates. A change of 1%-point will affect the profit/loss with approx. 3,5 mDKK.

Currency risk:
Activities in foreign countries has an impact on earnings, cash flows and equity as these are affected by exchange rates and interest rates in a number of currencies. The company's policy is to hedge major commercial foreign exchange risk, which is done on group level by the parent company, NKT Holding A/S.

Liquidity risk including capital position:

In 2016, the company has realized a profit of DKK 1.5m. Equity at 31 December 2016 is DKK 1.1m, which is less than half of the share capital. The company is thus subject to the capital loss provisions in the Companies Act § 119. The company expects to restore equity through operations in the coming years.

The Company's current assets excluding deferred tax assets exceed short term liabilities at 31 December 2016 with a total of DKK 74,4m. At 31 December 2016, the Company has a credit facility with NKT Holding A/S in the form of long-term debt, which amounts to DKK 353,7m which is due in June 2018. The company has the ability to draw up to DKK 340m on this facility. The facility is shared with its subsidiaries, the sister company LIOS GmbH and its subsidiaries. The maximum drawing right is based on the companies' activity plans and are considered sufficient. Fianium Ltd. has a positive balance of 32,6m as of 31 December 2016 which allows NKT Photonics A/S to draw 353,7m as long term.

Based on this and the future outlook for operations and earnings, Management deems that the annual report for 2016 is prepared based on continuing operations.

Events after the balance sheet date

No other events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Outlook for 2017

Growth in revenue is expected primarily through existing product lines, especially as a result of the sales potential within the current customer portfolio. Revenue for the group is for 2017 expected to be up in the range 20-25% compared to 2016 and Profit before tax is expected to be positive in the range 8 to 12 mDKK.

Development and marketing activities will focus on market segments where we are already commercially established.

The expected performance is partly conditional on current markets - both in industrial lasers and within systems for research and development environments - not experiencing significant decline during 2017.

Accounting policies

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

Referring to section 112 (1) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements since the financial statements of NKT Photonics A/S and its subsidiaries is fully consolidated in the consolidated financial statements of NKT Holding A/S.

Referring to section 86 (4) of the Danish Financial Statements Act, the company has not prepared a cash flow statement, as cash flow for the NKT Photonics A/S and its subsidiaries are included in the statement of cash flows in the consolidated financial statements of NKT Holding A/S.

These financial statements are prepared using the same accounting policies as last year.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the company has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the company, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency
Transactions in foreign currencies are translated at the transaction dates exchange rate. Exchange differences arising between the transaction date and the date of payment are recognized in the income statement as a financial item.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rate at the balance date and the exchange rate when the receivable or payable was recognized in the income statement is recognized under financial income and expenses.

Fixed assets purchased in foreign currencies are recognized at the acquisition date at the exchange rate for the date of the transaction.

Derivative financial instruments
On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables or other liabilities, respectively.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. Do the future transaction results in the recognition of assets or liabilities, amounts previously recognized in equity are transferred to the cost of the asset or liability. Do the future transaction results in income or expenses, amounts previously recognized in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Income

Revenue
Revenue from sales of goods for resale and finished goods are recognized in the income statement when the delivery and transfer of risk has passed to the buyer. Revenue is recognized excl. VAT, taxes and discounts in connection with the sale.

Other operating income
Other operating income includes items of a secondary nature in relation to the Company's primary activities, including income from grants to cover development costs.

Costs for raw materials and consumables
Costs for raw materials and consumables comprise acquisitions and change in inventory of raw materials and consumables. This includes shrinkage, waste production and any write-downs for obsolescence.

Other external expenses
Other operating expenses include the costs of distribution, sales, advertising, administration, premises, bad debts etc.

Staff costs
Staff costs comprise salaries and wages as well as social security costs, pension contributions, etc.

Financial income and expenses
Financial income and expenses comprise interest income and expenses, realized and unrealized gains and losses on foreign currency transactions and gains and losses on disposal of financial assets.

Income taxes
Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

The Company participates in a joint taxation arrangement with NKT Holding A/S. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance Sheet

Intangible assets

Development projects
Development projects that are clearly defined and identifiable, where the technical feasibility, adequate resources and a potential future market or development opportunity can be demonstrated, and where the intention is to produce, market or use the outcome of the development project, are recognized as intangible assets if the cost can be measured reliably and it is probable that future earnings can cover the production, selling and administrative expenses and development costs. Other development costs including indirect production costs are recognized in the income statement as incurred.

Development projects comprise costs, salaries and depreciation that are directly and indirectly attributable to the Company's development projects.

Developments costs recognized in the balance sheet are measured at cost less accumulated depreciation and impairment losses.

Completed projects are fully amortized on a straight-line basis over the estimated useful lives of the assets. Amortization period is usually 4-5 years and do not exceed 20 years.

Development and research costs that do not meet the criteria for capitalization are included in other external costs and expensed as incurred.

Patents and licenses etc.
Patents and licenses etc. are measured at cost less accumulated amortization and impairment losses. Patents are fully amortized over the patent period, and licenses are amortized over the contract period, not exceeding 5 years.

Profits and losses from the sale of intangible assets is calculated as the difference between the selling price less selling costs and the carrying amount at the time of sale. Profits or losses are recognized in the income statement as other operating income or other external costs.

Property, plant and equipment
Land and buildings, plant and machinery and other fixtures and equipment are measured at cost less accumulated depreciation and impairment losses.

Depreciation is based on cost less estimated scrap value at the end of useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is ready for use.

The cost of an asset is divided into separate components that are depreciated separately if the useful life of the individual components is different.

Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

		Scrap
Buildings…………………………………	10 years	0%
Plant and machinery ……………………	4-8 years	0%
Other fixtures and fittings……………….	4-5 years	0%

Profits and losses from the sale of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the time of sale.

Investments in subsidiaries
Investments in subsidiaries are measured at cost and are written down to the lower of recoverable amount and carrying amount.

To the extent that distributed dividends exceed the accumulated earnings after the acquisition date, the dividend is recognized as a reduction of the investment cost.

Impairment of fixed assets
The carrying value of intangible and tangible assets and investments in subsidiaries are assessed annually for indications of impairment beyond what is expressed through amortization and depreciation.

If there are indications of impairment need, an impairment test of each asset or group of assets is performed. The asset in question is then written down to its recoverable amount if this is lower than the carrying value.

The recoverable amount is the higher of net selling price and capital value. The capital value is calculated as the present value of the discounted cash flows deriving from use of the asset or asset group.

Inventories
Inventories are measured at cost under the FIFO method. Where the net realizable value is lower than cost, the item is written down to the lower value.

The cost of finished goods and work in progress comprises raw materials, consumables, direct labor costs and indirect production costs. Indirect production costs comprise indirect materials and labor costs, costs of maintenance of and depreciation and impairment losses on machinery, factory buildings and equipment applied for the manufacturing process as well as costs for production administration and management.

The net realizable value of inventories is calculated as the estimated selling price less any costs of completion and costs incurred to execute sale. Net realizable value is determined taking into account marketability, obsolescence and the development in expected sales price.

Receivables
Receivables are measured at amortized cost, usually equaling nominal value less provisions for bad debts.

Provision is made for bad and doubtful debts where there is believed to exist objective evidence that a receivable or a portfolio of receivables are impaired. If there is objective evidence that an individual receivable is impaired, the provision is made on an individual level.

Receivables for which there is no objective evidence of impairment on individually level are assessed on a portfolio basis for objective evidence of impairment. Portfolios are primarily based on the debtor's domicile and credit in accordance with the Company's credit risk management policy. The objective indicators used for portfolios, are based on historical loss experience.

Impairment losses are calculated as the difference between the carrying value of accounts receivable and the present value of expected cash flows, including the realization of - if any - collateral received. As the discount rate, the effective rate for each receivable or portfolio is used.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Warranty provisions
Warranty provisions include expected warranty costs. Warranty provisions are recognized when it is a result of a past event and has a legal or constructive obligation and it is probable that the obligation will cause an outflow of economic resources.

Warranty provisions are measured at net realizable value or at fair value, when the fulfilment of the obligation in time is expected to be far in the future.

Corporation tax and deferred tax
Deferred tax is measured using the balance sheet liability method on all temporary differences between accounting and tax values of assets and liabilities.

Deferred tax assets, including the tax value of carry-forward tax losses are recognized under other non- current assets at the value at which they are expected to be used, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

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

Deferred income
Deferred income comprises received income for recognition in subsequent financial years. Deferred income is measured at cost.

Income Statement

Note		2016	2015
		DKK	DKK
1	Revenue	195.335.628	169.932.258
2	Other operating income	7.667.620	8.138.816
	Costs of raw materials and consumables	-64.806.676	-52.938.914
	Other external expenses	-38.697.787	-34.360.670
	Gross Profit	**99.498.786**	**90.771.490**
3	Staff costs	-75.460.393	-72.503.613
7	Amortization intangible assets	-9.285.241	-10.973.024
8	Depreciation tangible assets	-6.176.071	-6.744.671
	Operating Profit	**8.577.080**	**550.182**
4	Financial income	122.851	3.111
5	Financial expenses	-6.731.212	-3.772.869
	Result before tax	**1.968.719**	**-3.219.577**
6	Tax	-453.310	1.304.812
7	**Profit/(loss) for the year**	**1.515.409**	**-1.914.764**

Balance sheet at 31 December

Note		2016	2015
		DKK	DKK
	Assets		
	Fixed assets		
	Intangible assets		
8	Development projects completed	13.929.486	20.402.722
8	Development projects in progress	11.879.806	5.562.344
8	Patents and licenses etc.	60.927.534	574.641
		86.736.826	**26.539.707**
	Property, plant and equipment		
9	Land and buildings	2.189.268	2.554.148
9	Plant and machinery	11.355.235	14.386.017
9	Property, plant and equipment in progress	1.605.121	1.666.905
		15.149.624	**18.607.070**
	Fixed asset investments		
10	Investments in subsidiaries	194.878.542	1.009.169
10	Deposits	449.034	412.023
		195.327.576	**1.421.192**
	Total Fixed assets	**297.214.027**	**46.567.969**
	Current assets		
	Inventories		
	Raw materials and consumables	28.367.101	22.641.735
	Work in progress	3.882.047	4.338.138
	Finished goods	3.363.535	5.036.836
	Total inventories	**35.612.683**	**32.016.709**
	Current assets		
	Trade receivables	52.719.416	29.451.228
	Receivables from subsidiaries	20.675.239	16.625.295
11	Tax receivable	894.258	0
12	Deferred tax	442.148	10.429.054
	Other receivables	3.539.105	4.014.716
13	Prepayments	5.212.528	3.225.906
	Total Receivables	**83.482.694**	**63.746.199**
	Cash	**11.587**	**10.509**
	Total Current assets	**119.106.964**	**95.773.417**
	Total assets	**416.320.990**	**142.341.386**

Balance sheet at 31 December

Note		2016	2015
		DKK	DKK
	Liabilities		
	Equity		
	Share Capital	15.200.253	15.200.253
	Provision for development projects	6.918.819	0
	Retained earnings	-20.979.447	-15.549.781
	Total equity	**1.139.625**	**-349.528**
14	Warranty	1.787.445	1.329.640
	Total provisions	**1.787.445**	**1.329.640**
21	Payables to subsidiaries	353.676.502	94.052.647
	Defered income	6.746.518	9.526.127
	Other Liabilities	8.683.200	0
15	**Total Long term liabilities**	**369.106.220**	**103.578.773**
	Trade payables	13.287.932	15.273.086
	Payables to subsidiaries	5.237.963	396.559
11	Tax payable	0	482.496
16	Prepayments	10.296.690	6.001.191
	Other liabilities	15.465.116	15.629.168
	Total Short term liabilities	**44.287.700**	**37.782.500**
	Total liabilities	**413.393.920**	**141.361.274**
	Total equity and liabilities	**416.320.990**	**142.341.386**

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Statement of changes in equity

	Share capital	Provision for development projects	Retained earnings	Total equity
Equity at 1 January 2016 (DKK)	**15.200.253**	**0**	**-15.549.781**	**-349.528**
Adjustment of foreign exchange forward contracts at fair value hedges of future purchases and sales in foreign currencies	0	0	-26.256	**-26.256**
Provision for development projects		8.870.281	-8.870.281	**0**
Tax of equity postings		-1.951.462	1.951.462	**0**
Profit for the year	-		1.515.409	**1.515.409**
Equity at 31 December 2016	**15.200.253**	**6.918.819**	**-20.979.447**	**1.139.625**

Changes in share capital in the past five financial years:

DKK'000	**2016**	**2015**	**2014**	**2013**	**2012**
Balance at 1 January	15.200	15.200	15.200	14.255	14.255
Capital increase cash	0	0	0	945	0
Share capital at 31 December	15.200	15.200	15.200	15.200	14.255

Notes

Note		2016	2015
		DKK	DKK
1	**Revenue**		
	Revenue inland	624.188	1.496.585
	Revenue abroad	194.711.440	168.435.674
	Total revenue	195.335.628	169.932.258
2	**Other operating income**		
	Grants, etc.	7.667.620	8.138.816
	Total other operating income	7.667.620	8.138.816
3	**Staff costs**		
	Wages and salaries	72.462.552	68.417.975
	Pensions	7.319.292	6.795.451
	Other social security costs, etc.	923.060	1.250.370
	Staff costs Gross Total	80.704.903	76.463.796
	Capitalized development costs	-5.244.510	-3.960.183
	Total staff costs expensed	75.460.393	72.503.613
	Average number of employee	126	116
	Renummeration to Executive management and Board of Directors	3.471.483	3.737.580
4	**Financial income**		
	Interest income from subsidiaries	118.438	0
	Other interest income, etc.	4.413	3.111
	Total financial income	122.851	3.111
5	**Financial expenses**		
	Interest expenses to subsidiaries	6.365.339	2.994.224
	Other interest expenses, etc.	364.129	778.646
	Impairment of financial assets	1.744	0
	Total financial expenses	6.731.212	3.772.869
6	**Tax**		
	Current tax	894.258	-482.496
	Deferred tax	442.148	1.315.900
	Change in prior years' deferred taxes	-10.429.054	-6.744.978
	Adjustment to prior years' joint taxation	8.639.338	7.216.386
	Tax	-453.310	1.304.812
7	**Proposted distribution of profit/(loss) for the year**		
	Retained earnings	1.515.409	-1.914.764

8	**Intangible fixed assets**	**Development projects completed**	**Development projects in progress**	**Patents and licenses etc.**
	Cost 1 January 2016	47.232.319	5.562.344	34.625.932
	Additions	0	8.870.281	60.435.072
	Transferred	2.552.819	-2.552.819	177.007
	Cost 31 December 2016	49.785.138	11.879.806	95.238.011
	Amortization and impairment losses 1 January 2016	-26.829.597	0	-34.051.291
	Amortization and impairment losses	-9.026.055	0	-259.186
	Amortization and impairment losses 31 December 2016	-35.855.652	0	-34.310.477
	Carrying amount 31 December 2016	**13.929.486**	**11.879.806**	**60.927.534**

The above development projects in progress concerns development of new fiber lasers mainly for industrial use and with specific product features around physical footprint, cost structure and high output power etc. - all in all complementing our current product offerings. The development projects are progressing as expected and should be finalized within 1 - 2 years. Generally these new products are in demand from industrial customers where they are to substitute older/less cost efficient technology.

9	**Property, plant and equipment**	**Land and buildings**	**Plant and machinery**	**Property, plant and equipment in progress**
	Cost 1 January 2016	3.375.101	97.583.525	1.666.905
	Additions	0	0	2.895.632
	Transferred	0	2.780.409	-2.957.416
	Cost 31 December 2016	3.375.101	100.363.934	1.605.121
	Depriciation and impairment losses 1 January 2016	-820.953	-83.197.507	0
	Depriciation and impairment losses	-364.880	-5.811.191	0
	Depriciation and impairment losses 31 December 2016	-1.185.833	-89.008.698	0
	Carrying amount 31 December 2016	**2.189.268**	**11.355.235**	**1.605.121**

		2016	**2015**
		DKK	DKK
10	**Investments in subsidiaries and Deposits**		
	Cost 1 January	1.028.201	181.244
	Addition	193.869.373	846.957
	Cost 31 December	194.897.574	1.028.201
	Impairment losses 1 January	19.032	19.032
	Impairment losses 31 December	19.032	19.032
	Carrying value 31 December 2016	**194.878.542**	**1.009.169**

Name		Domicile	Result for the year	Equity
			mDKK	mDKK
NKT Photonics GmbH	(100% owned)	Köln, Germany	0,9	-0,3
NKT Photonics Inc.	(100% owned)	New Jersey, USA	0,5	1,3
NKT (Beijing) Photonics Technical Service Co. Ltd.	(100% owned)	Beijing, China	-0,2	0,7
Fianium Holdings Ltd.	(100% owned)	Southhampton, UK	48,4	63,1

	2016	**2015**
	DKK	DKK
Deposits		
Cost 1 January	412.023	365.323
Addition	37.011	46.700
Cost 31 December	449.034	412.023

		2016	**2015**
		DKK	DKK
11	**Payable/Receivable tax**		
	Payable/Receivable tax 1 January	-482.496	3.100.000
	Current year	894.258	-482.496
	Tax paid	-8.156.842	4.116.386
	Payable/Receivable tax for the year	8.639.338	-7.216.386
	Payable/Receivables tax 31 December	894.258	-482.496

		2016	**2015**
		DKK	DKK
12	**Deferred tax**		
	Deferred tax 1 January	10.429.053	15.858.131
	Change in deferred tax	-9.986.905	-5.429.078
	Deferred tax 31 December	442.148	10.429.053

Deferred taxes consist primarily of tax losses carried forward from previous years which are expected to be offset against taxable profits in the calculation of taxable income for the NKT Group or the Company.

13 **Prepayments - receivables**

These prepayments consistes primarily of incurred costs relating to subsequent financial years and accrued income from funded projects.

14 **Warranty**

NKT Photonics A/S typically provide 1-2 years warranty on certain products. The Group recognized a provision of DKK 1,787 K (2015: DKK 1,330 K) for expected warranty claims on the basis of the latest valid experience on the level of repairs and returns.

15 **Total long term liabilities**

Long term liabilities do not include any liabilities beyond 5 years maturity.

16 **Prepayments**

Prepayments consistes primarily of income for recognition in subsequent financial years, short term development costs, defered income from sold warranty and accrued income from funded projects.

17 **Unrecognised rental and lease agreements**

Rental commitments under operating lease agreements amounts to DKK 2,484,051 (2015: DKK 2.499 K), of which DKK 2,391,998 is due in 2017. Upon termination of the lease until 31 December 2022 the company has an obligation on DKK 2,189,268 by vacating.

18 **Contingent liabilities**

The Company participates in a Danish joint taxation arrangement in which NKT Holding A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable for income taxes etc. for the companies included in the joint taxation. For the jointly taxed companies and also for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies.

19 **Expected future transactions**

The company hedges the estimated currency risks relating to goods sold and bought in the next few years with exchange contracts. Gains and losses recognized in equity which is expected to be realized after the balance sheet date amounts to DKK 26,256.

20 **Related parties**

NKT Photonics A/S' related parties include the following:

Controlling interest:

NKT Holding A/S, Brøndby (100%)
Vibeholms Allé 25
2605 Brøndby

The Company's financial statements is fully consolidated in the consolidated financial statements of NKT Holding A/S respectively the smallest and largest group. The consolidated financial statements may be obtained by contacting the company on the website www.nkt.dk.

Ownership

The following shareholders are registered as holding more than 5% of the voting share capital or more than 5% of the nominal value of the share capital:

NKT Holding A/S, Brøndby (100%)
Vibeholms Allé 25
2605 Brøndby

Transactions

The company has no transactions with related parties on non market conditions. Referring to section 98c (7) of the Danish Financial Statements Act only non Arm's length - transactions are provided.

21 **Capital position and resources**

In 2016 the company has realized a profit of DKK 1,5m. Equity at 31 December 2016 is DKK 1.1m, which is less than half of the share capital. The company is thus subject to the capital loss provisions in the Companies Act § 119. The company expects to restore equity through operations in the coming years.

The Company's current assets excluding deferred tax assets exceed short term liabilities at 31 December 2016 with a total of DKK 74,4m. At 31 December 2016, the Company has a credit facility with the Parent Company in the form of long-term debt, which amounts to DKK 353,7m which is due in June 2018. The company has the ability to draw up to DKK 340m on this facility. The facility is shared with the sister company LIOS GmbH and the maximum drawing right is based on the companies activity plans and are considered sufficient.

Based on this and the future outlook for operations and earnings, Management deems that the annual report for 2016 is prepared based on continuing operations.

22 **Events after the balance sheet date**

No other events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.