

NKT Photonics A/S

Blokken 84
3460 Birkerød

CVR no. 10 04 82 65

Annual report 2021

The annual report was presented and approved
at the Company's annual general meeting on
30/5 2022

Morten Halskov
Chairman

Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Company details	5
Financial highlights	6
Operating review	7
Financial statements 1 January - 31 December	9
Income statement	9
Balance sheet	10
Statement of changes in equity	12
Notes to the financial statements	13

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of NKT Photonics A/S for the financial year 1 January - 31 December 2021.

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

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, of the results for the year and of the Company's financial position.

We recommend the annual report to be approved at the annual general meeting.

Birkerød, 30/5 2022
Executive Board:



Basil Garabet
Chief Executive Officer


Board of Directors:



Jens Maaø
Chairman



Mark Skriver Ostensen
Nielsen



Line Andrea Fandrup



Stig Nissen Knudsen



Jan Viste Sandager

Independent auditor's report

To the Shareholder of NKT Photonics A/S

Opinion

We have audited the financial statements of NKT Photonics A/S for the financial year 01.01.2021 - 31.12.2021, 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 31.12.2021 and of the results of its operations for the financial year 01.01.2021 - 31.12.2021 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 for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. 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.

Independent auditor's report

- 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, 30/5 2022

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR no. 33 96 35 56

Kirsten Aaskov Mikkelsen
State Authorised Public Accountant
Identification No (MNE) mne21358

NKT Photonics A/S
Annual report 2021
CVR no. 10 04 82 65

Management's review

Company details

NKT Photonics A/S
Blokken 85
3460 Birkerød
Denmark

CVR no.:	10 04 82 65
Established:	9 November 2000
Registered office:	Birkerød
Financial year:	1 January - 31 December

Board of Directors

Jens Maaløe, Chairman
Mark Skriver Ostersen Nielsen
Line Andrea Fandrup
Stig Nissen Knudsen
Jan Viste Sandager

Executive Board

Basil Garabet, Chief Executive Officer

Auditor

Deloitte
Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
DK-2300 Copenhagen S
CVR no. 33 96 35 56

Management's review

Financial highlights

DKKm	2021	2020	2019	2018	2017
Key figures					
Revenue	449	390	372	324	234
Gross profit	145	49	177	184	114
Operating profit/loss	-47	-76	85	33	-7
EBITDA	-1	-41	106	53	13
Loss from financial income and expenses	-26	-28	-1	-2	-3
Profit/loss before tax	-73	-104	84	31	-9
Total assets	950	953	919	759	666
Equity	-32	22	100	26	1
Investment in property, plant and equipment	48	13	14	8	19
Ratios					
Gross margin	32%	13%	48%	57%	49%
Solvency ratio	-3%	2%	11%	3%	0%
Average number of full-time employees	215	191	174	154	143

The financial ratios have been calculated as follows:

Gross margin

$$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$$

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$$

Management's review

Operating review

Primary activities

NKT Photonics is a leading supplier of high-performance fiber lasers and photonic crystal fibers. The main markets are Medical & Life Science, Industrial, Aerospace & Defense, and Quantum & Nano Technology. The products include supercontinuum white light lasers, low noise fiber lasers, ultrafast lasers, and a wide range of specialty fibers. NKT Photonics has its headquarters in Denmark with sales and service worldwide.

NKT Photonics is wholly owned by NKT A/S.

Development in activities and financial position

Revenue for NKT Photonics increased in 2021 to DKK 449 million from DKK 390 million in 2020 (growth rate: 15.1%) and NKT Photonics delivered a negative EBITDA of DKK 1 million in 2021 compared to loss of DKK 41 million in 2020. NKT Photonics returned to positive growth in 2021 after financial performance in 2020 was adversely impacted by the COVID-19 pandemic. Revenues and earnings recovered well, exceeding expectations particularly in the Industrial and Quantum & Nano Technology segments.

NKT Photonics has pursued its strategic direction to grow the business and increase profitability by prioritising focus on commercialization. NKT Photonics will continue to pursue commercialisation of solutions and technologies in the years ahead to sustain further growth.

The Company has a negative equity end of 2021 of DKK 32 million and consequently the company has lost more than 50% of the share capital. According to the Danish Financial Statements Act, Management is required to disclose how the company plans to recover the share capital.

As disclosed under Events after the balance sheet date, the LIOS sensing business was successfully divested on 10 March 2022, providing a gain approx. DKK 60 million. Additionally, based on current and future expected financial performance, Management is expecting an improvement in profitability. Consequently, Management expects to recover the share capital through the gain from the sale of the LIOS sensing business as well as profits for the year 2022.

Management assesses that the Company is capable of fulfilling all financial obligations as they fall due and, therefore, the annual report is submitted based on a going concern assumption.

During the year a misstatement has been identified regarding the transfer pricing adjustment in NKT Photonics Shenzhen, which mistakenly was not recorded in 2019 and 2020. This has resulted in a restatement of 2019 and 2020, whereby the adjustment has been incorporated in the comparative figures in the current year's financial statements. Please refer to note 1 for more details.

Intellectual capital resources

Attracting talented and highly skilled employees is essential to NKT Photonics as a high-technological company. To ensure an attractive working environment, NKT Photonics encourage diversity in the organisation and promotes gender equality without compromising on qualifications in terms of professional skills and personal competencies. Furthermore, the company operates from a compliance regime based on the corporate Business Code of Conduct. The code applies to all employees and defines the fundamental principles governing the behaviour internally as well as externally in relation to vendors, partners, the supply chain and the general public.

Management's review

Operating review

Environmental matters

With a long-term perspective of supporting the transition to renewable energy and improving human health and safety, NKT Photonics is committed to working for a sound environment through sustainable business practices. To ensure this, the majority of the company's products are manufactured in accordance with regulations such as the RoHS directive, which restricts the use of hazardous substances in electronic and electrical equipment to protect the environment and public health.

Development Activities

NKT Photonics performs various research and development projects to improve current photonics portfolio, develop new photonic capabilities and customer specific photonic products. Further, NKT Photonics also participates in various government supported projects.

Corporate social responsibility

We believe that our strong focus on sustainability and our adherence to the principles of the UN Global Compact will support our business opportunities and at the same time contribute to improved living conditions for future generations. Please read about our corporate social responsibility included in NKT Sustainability Report 2021.

<https://investors.nkt.com/static-files/def4dfe2-fa2e-453f-88d0-0a8549500335>

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.

Currency risks

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.

Events after the balance sheet date

NKT Photonics has divested its LIOS sensing business to the American company Luna Innovations Incorporated for a total consideration of EUR 20 million. With the divestment NKT Photonics fully focuses on its core business within lasers and fibre optic solutions to the Medical & Life Science, quantum and Nano Technology, Industrial, and Aerospace & Defence markets. The divested activities comprise sales, development and production including the main site in Cologne, Germany, and the sales office in Portland, USA, and covers 66 employees. The divestment was effective as of March 10, 2022.

Outlook

The organic revenue growth is expected to be approx. 12-17%, and the EBITDA margin is expected to be approx. 11-14% in 2022.

NKT Photonics is thereby expected to continue the positive financial development from 2021. The revenue growth is expected to be broad-based driven by product introductions and favourable market conditions. The main growth contributors are expected to be the Quantum & Nano Technology, Medical & Life Science, and Aerospace & Defence segments. In the Industrial segment, growth is anticipated to be more moderate after strong growth in 2021.

Financial statements 1 January - 31 December

Income statement

DKK'000	Note	2021	2020
Revenue	3	448,827	389,909
Cost of goods sold		-243,143	-290,201
Other operating income	4	9,860	9,037
Other external costs		-70,852	-59,599
Gross profit		144,692	49,146
Staff costs	5	-144,925	-88,931
Depreciation, amortisation and impairment losses		-45,824	-35,212
Other operating costs		-510	-586
Operating loss		-46,567	-75,583
Financial income		9,599	855
Financial expenses	6	-35,843	-29,264
Loss before tax		-72,811	-103,992
Tax on loss for the year	7	18,749	26,479
Loss for the year	8	-54,062	-77,513

Financial statements 1 January - 31 December

Balance sheet

DKK'000	Note	31/12/2021	31/12/2020
ASSETS			
Fixed assets			
Intangible assets			
	9		
Completed development projects		45,485	60,107
Patents, licenses, trademarks and software		66,441	79,705
Development projects in progress		72,836	51,635
		<u>184,762</u>	<u>191,447</u>
Property, plant and equipment			
	10		
Land and buildings		3,811	730
Plant and machinery		29,311	33,403
Property, plant and equipment in progress		26,732	4,012
		<u>59,854</u>	<u>38,145</u>
Investments			
	11		
Equity investments in group entities		403,867	403,310
Deposits		1,582	1,014
		<u>405,449</u>	<u>404,324</u>
Total fixed assets		<u>650,065</u>	<u>633,916</u>
Current assets			
Inventories			
Raw materials and consumables		56,504	40,777
Work in progress		18,460	18,363
Finished goods and goods for resale		8,436	6,892
		<u>83,400</u>	<u>66,032</u>
Receivables			
Trade receivables		76,533	84,080
Receivables from group entities		90,323	147,360
Other receivables		6,730	4,456
Joint taxation receivable		40,769	16,609
Prepayments	12	2,501	791
		<u>216,856</u>	<u>253,296</u>
Cash at bank and in hand		<u>16</u>	<u>16</u>
Total current assets		<u>300,272</u>	<u>319,344</u>
TOTAL ASSETS		<u>950,337</u>	<u>953,260</u>

Financial statements 1 January - 31 December

Balance sheet

DKK'000	Note	31/12/2021	31/12/2020
EQUITY AND LIABILITIES			
Equity			
Contributed capital		15,200	15,200
Reserve for development costs		85,158	97,514
Retained earnings		-132,338	-90,632
Total equity		-31,980	22,082
Provisions			
Deferred tax	13	11,203	5,791
Other provisions	14	5,131	5,131
Total provisions		16,334	10,922
Liabilities other than provisions			
Non-current liabilities other than provisions			
Payables to group entities	15	854,989	739,611
Other payables		51,407	14,441
Deferred income		2,524	1,088
		908,920	755,140
Current liabilities			
Prepayments received from customers		3,346	8,429
Trade payables		36,544	29,689
Payables to group entities		0	89,691
Other payables		15,360	35,136
Deferred income	16	1,813	2,171
		57,063	165,116
Total liabilities		965,983	920,256
TOTAL EQUITY AND LIABILITIES		950,337	953,260
Contractual obligations, contingencies, etc.	17		
Related party disclosures	18		
Events after the balance sheet date	19		

Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Contributed capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2021	15,200	97,514	-90,632	22,082
Provision for development projects	0	25,410	-25,410	0
Transfer of reserves	0	-32,176	32,176	0
Tax of equity postings	0	-5,590	5,590	0
Profit for the year	0	0	-54,062	-54,062
Equity at 31 December 2021	15,200	85,158	-132,338	-31,980

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of NKT Photonics A/S for 2021 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of cash flow statement

Pursuant to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are included in the cash flow statement in the consolidated financial statements of NKT A/S.

Omission of consolidated financial statements

Pursuant 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 are fully consolidated into the consolidated financial statements of NKT A/S.

Recognition and measurement in general

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 translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Differences arising between the rates of exchange on the transaction date and on the date of payment are recognised in the income statement as financial items.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled on the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction and the one in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

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

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 revenue.

Cost of goods sold

Cost 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 operating income

Other operating income comprises items secondary to the activities of the entity, including income from grants to cover development costs.

Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance, pension and other social security costs, etc., to the Company's employees.

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

Other operating costs

Other operating costs comprise items secondary to the activities of the entity, including losses on the disposal of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax on profit/loss for the year

The Company is covered by the Danish regulations on compulsory joint taxation of the NKT Group's Danish companies.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The Parent Company, NKT A/S, is the administrative company for the joint taxation scheme and consequently, settles all payments of corporate income tax with the tax authorities.

The current Danish income tax is shared between the jointly taxed companies in proportion to their taxable incomes. Companies with tax losses receive joint tax contributions from companies that have been able to use these losses to reduce their own taxable incomes.

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement where it relates to the profit/loss for the year, and directly in equity where it relates to items recognised directly in equity.

Balance sheet

Intangible assets

Development projects

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses as well development costs. Other development costs are recognised in the income statement as incurred.

Development costs recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Upon completion of development work, development costs are amortised on a straight-line basis over the estimated useful lives. The amortisation period is usually 4-5 years.

Patents, licences, trademarks and software

Patents, licences, trademarks and software are measured at cost less accumulated amortization and impairment losses and are amortized on a straight-line basis over the remaining patent or contract period or the useful life, whichever is the shorter. The amortisation period is usually 4-10 years.

Property, plant and equipment

Buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Buildings	10 years
Plant and machinery	4-8 years
Other fixtures and fittings	4-5 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively. There is no depreciation on Land.

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

Gains and losses on the disposal of property, plant and equipment are stated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating costs, respectively.

Equity investments in group entities

Equity investments in group entities are measured at cost and are written down to the lower of recoverable amount and carrying amount.

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

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The recoverable amount is the higher of an asset's net selling price and its value in use. The value in use is determined as the present value of the forecast net cash flows from the use of the asset or the group of assets, including forecast net cash flows from the disposal of the asset or the group of assets after the end of its useful life.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Trade receivables are at initial recognition measured at their transaction price less allowance for expected credit losses over the lifetime and are subsequently measured at amortized cost adjusted for changes to the expected credit losses. Expected credit losses at initial recognition are calculated for portfolios of receivables that share credit risk characteristics and is based on historical experience and, when applicable, adjusted for factors that are specific to the debtors and general economic conditions. When there is an indication of impairment, expected credit losses are calculated at individual level and when there are no reasonable expectations of recovering, the receivable is written off in part or entirely. The allowances for expected credit losses and write-offs for trade receivables are recognized in the income statement as Other costs.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Cash at bank and in hand

Cash and cash equivalents comprise cash.

Other provisions

Provisions comprise anticipated costs of warranties. Provisions are recognised when, as a result of Cashpast events, the Company has a legal or a constructive obligation, and it is probable that there may be outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at value in use.

Warranties comprise obligations to make good any defects within the warranty period of 1-2 years. Provisions are recognised based on the Company's experience with warranties. Provisions expected to be maintained for more than one year from the balance sheet date are discounted at a rate reflecting risk and the due date for payment.

Cash pool

NKT Photonics is part of the cash pool and funding arrangement under the parent company NKT A/S. Any support to fund the continued growth of NKT Photonics is consequently managed through these arrangements.

Provisions for deferred tax

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities based on the planned use of the asset or settlement of the liability. However, deferred tax is not recognised on temporary differences relating to goodwill non-deductible for tax purposes and on office premises and other items where the temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Any deferred net assets are measured at net realisable value.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Liabilities other than provisions

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises advance invoicing regarding income in subsequent years related to government funded grants.

Segment information

Segment information is provided on business segments and geographical markets. The segment information is in line with the Company's accounting policies, risks and internal financial management.

Restatements

Transfer pricing adjustment in NKT Photonics Shenzhen were mistakenly not included in 2019 and 2020. The financial statements for the years in question have been restated to correct this error. The effect of the restatement on those financial statements is summarised below. There is no effect in 2021.

2019	Before Adjustment	Adjustment	After Adjustment
DKK'000			
Cost of goods sold	-135,144	-2,576	-137,720
Loss for the year	10,205	-2,576	7,629
Payables to Group Entity	674,209	2,576	676,785
Retained earnings	10,205	-2,576	7,629
2020	Before Adjustment	Adjustment	After Adjustment
DKK'000			
Cost of goods sold	-287,456	-2,745	-290,201
Loss for the year	-74,768	-2,745	-77,513
Payables to Group Entity	734,290	5,321	739,611
Retained earnings	-85,311	-5,321	-90,632

2 Capital loss

At 31 December 2021, the Company's equity was negative by DKK 32 million. As disclosed under subsequent events, the LIOS sensing business was successfully divested on 10 March, 2022, providing a gain approx. DKK 60 million, reestablishing the equity.

Additionally, based on current and future expected financial performance, Management is expecting an improvement in profitability, why Management assesses that the Company is capable of fulfilling all financial obligations as they fall due and, therefore, the annual report is submitted based on a going concern assumption.

Financial statements 1 January - 31 December

Notes to the financial statements

3 Revenue

DKK'000	2021	2020
Revenue domestic	1,900	1,038
Revenue abroad	446,927	388,871
Total revenue	448,827	389,909

4 Other operating income

DKK'000	2021	2020
Grants, etc.	9,860	9,037

5 Staff costs

DKK'000	2021	2020
Wages and salaries	130,795	109,090
Pensions	15,880	12,916
Other social security costs	11,634	8,368
Capitalised development costs	-13,384	-41,443
	144,925	88,931
Average number of full-time employees	215	191

Staff costs include remuneration to the Executive Board of DKK 9,710 thousand (2020: DKK 13,071 thousand).

6 Financial expenses

DKK'000	2021	2020
Interest expense to group entities	31,126	18,109
Other financial expenses	4,717	11,155
	35,843	29,264

Increase in interest expenses is mainly related to higher level of interest level on the bank overdraft facilities from the parent company NKT Group. Other financial expenses is mainly related to realized exchange cost from balances with other NKT Photonics companies.

Financial statements 1 January - 31 December

Notes to the financial statements

7 Tax on loss for the year

DKK'000	2021	2020
Current tax for the year	24,583	16,605
Deferred tax for the year	-5,335	9,874
Adj. of tax concerning previous years	-423	0
Adj. of deferred tax concerning previous years	-76	0
	<u>18,749</u>	<u>26,479</u>

8 Proposed profit appropriation/distribution of loss

DKK'000	2021	2020
Retained earnings	<u>-54,062</u>	<u>-77,513</u>

9 Intangible assets

DKK'000	Completed development projects	Patents, licenses, trademarks and software	Development projects in progress	Total
Cost at 1 January 2021	122,505	145,767	51,635	319,907
Additions for the year	0	0	25,491	25,491
Disposals for the year	0	-81	0	-81
Reclassifications	4,290	0	-4,290	0
Cost at 31 December 2021	<u>126,795</u>	<u>145,686</u>	<u>72,836</u>	<u>345,317</u>
Amortisation and impairment losses at 1 January 2021	-62,398	-66,062	0	-128,460
Disposals for the year	0	81	0	81
Amortisation for the year	-18,912	-13,264	0	-32,176
Amortisation and impairment losses at 31 December 2021	<u>-81,310</u>	<u>-79,245</u>	<u>0</u>	<u>-160,555</u>
Carrying amount at 31 December 2021	<u>45,485</u>	<u>66,441</u>	<u>72,836</u>	<u>184,762</u>

Financial statements 1 January - 31 December

Notes to the financial statements

10 Property, plant and equipment

DKK'000

	Land and buildings	Plant and machinery	Property, plant and equipment in progress	Total
Cost at 1 January 2021	3,375	122,499	4,012	129,886
Additions for the year	12,794	7,019	28,452	48,265
Disposals for the year	-385	-20,500	0	-20,885
Reclassifications	36	5,696	-5,732	0
Cost at 31 December 2021	15,820	114,714	26,732	157,266
Depreciation and impairment losses at 1 January 2021	-2,645	-89,096	0	-91,741
Depreciation for the year	-9,749	-3,832	0	-13,581
Disposals	385	7,525	0	7,910
Depreciation and Impairment losses at 31 December 2021	-12,009	-85,403	0	-97,412
Carrying amount at 31 December 2021	3,811	29,311	26,732	59,854

11 Investments

DKK'000

	Equity investments in group entities
Cost at 1 January 2021	403,310
Addition	557
Cost at 31 December 2021	403,867
Revaluations at 1 January 2021	0
Revaluations at 31 December 2021	0
Carrying amount at 31 December 2021	403,867

Financial statements 1 January - 31 December

Notes to the financial statements

11 Investments (continued)

Legal entity	Domicile	Ownership	Equity	Profit/loss for the year
			DKK'000	DKK'000
NKT Photonics Technology GmbH	Köln, Germany	100%	11,747	976
NKT Photonics Inc.	New Jersey, USA	100%	16,453	9,762
NKT Photonics Ltd.	Southampton, UK	100%	66,768	1,696
NKT Photonics GmbH	Cologne, Germany	100%	18,468	-10,051
NKT Photonics Switzerland GmbH	Zurich, Switzerland	100%	54,171	2,953
NKT Photonics AB	Falun, Sweden	100%	1,566	-562
NKTP Shenzhen	Shenzhen, China	100%	2,122	1,143
Advance Laser Diode Systems A.L.S	Berlin, Germany	100%	1,368	344
NKT Photonics Korea Co. Ltd.	Seoul, Korea	100%	545	4
			<u>173,208</u>	<u>6,265</u>

12 Prepayments

Prepayments consist primarily of incurred costs relating to subsequent financial years and accrued income from funded projects.

13 Deferred tax provision

DKK'000	2021	2020
Deferred tax at 1 January	-5,791	-15,666
Deferred tax adjustment for the year in the income statement	-5,335	9,875
Deferred tax adjustment regarding prior year	-77	0
	<u>-11,203</u>	<u>-5,791</u>

Deferred tax provision consists of temporary differences between the carrying amount and the tax base of assets. This is partly offset by tax loss carry forwards from previous years, which are expected to be offset against taxable profits in the calculation of taxable income for NKT Group or the Company.

Financial statements 1 January - 31 December

Notes to the financial statements

14 Other provisions

NKT Photonics A/S typically provides 1-2 years' warranty on certain products. The Group recognised a provision of DKK 5,131 thousand (2020: DKK 5,131 thousand).

15 Non-current liabilities other than provision

Non-current liabilities other than provisions do not include any liabilities beyond 5 years' maturity.

16 Deferred income

Deferred income consists primarily of income subject to recognition in subsequent financial years, deferred income arrive from sold warranties and accrued income from funded projects.

17 Contractual obligations, contingencies, etc.

Contingent liabilities

NKT Photonics A/S participates in a Danish joint taxation arrangement in which NKT 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 and also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for the jointly taxed companies.

Operating lease obligations

Rental commitments under operating lease obligations amounts to DKK 11,070 thousand (2020: DKK 14,050 thousand), of which DKK 5,006 thousand falls due in 2022 and DKK 6,064 thousand between 2023 and 2026.

18 Related party disclosures

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

Control

NKT A/S, Brøndby (100%)
Vibeholms Allé 20
2605 Brøndby

The Company's financial statements are fully consolidated into the consolidated financial statements of NKT 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.

Financial statements 1 January - 31 December

Notes to the financial statements

18 Related party disclosures (continued)

Ownership

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

NKT A/S, Brøndby (100%)
Vibeholms Allé 20
2605 Brøndby

Related party transactions

In accordance with section 98 c(7) of the Danish Financial Statements Act, the Company has not disclosed any related party transactions as they were conducted on an arm's length basis.

19 Events after the balance sheet date

NKT Photonics A/S has divested its LIOS sensing business to the American company Luna Innovations Incorporated for a total consideration of EUR 20 million. With the divestment NKT Photonics fully focuses on its core business within lasers and fibre optic solutions to the Medical & Life Science, Quantum & Nano Technology, Industrial, and Aerospace & Defence markets. The divested activities comprise sales, development and production including the main site in Cologne, Germany, and the sales office in Portland, USA, and covers 66 employees. The divestment is effective as of March 10, 2022.