

NKT Photonics A/S

Blokken 84
DK-3460 Birkerød

CVR No. 10 04 82 65

Annual Report 2023

1 January – 31 December 2023

The Annual Report was presented and approved
at the Company's Annual General Meeting on
29 April 2024

Morten Halskov
Chairman

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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 2023.

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 2023 and of the results of the Company's operations for the financial year 1 January - 31 December 2023.

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, 29 April 2024

Executive Board:

Basil Garabet
Chief Executive Officer

Board of Directors:

Jens Due Olsen
Chairman

Mark Skriver Ostensen
Nielsen

Line Andrea Fandrup

Stig Nissen Knudsen

Anne Bjørnskov Langballe Krabbe

Independent Auditor's Report

To the Shareholder of NKT Photonics A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2023, and of the results of the Company's operations for the financial year 1 January - 31 December 2023 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of NKT Photonics A/S for the financial year 1 January - 31 December 2023, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

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 Financial Statements* section of our report. We are independent of the Company 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.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover Management's Review, 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 Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review 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 in Management's Review.

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 Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company 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 judgment and maintain professional skepticism 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 Company'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 Company'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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, 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.

Copenhagen, 29 April 2024

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR no. 33 77 12 31

Søren Ørjan Jensen
State Authorised Public Accountant
Mne33226

Elife Savas
State Authorised Public Accountant
mne34453

Management's review

Company details

NKT Photonics A/S
Blokken 84
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 Due Olsen, Chairman
Mark Skriver Ostersen Nielsen
Line Andrea Fandrup
Stig Nissen Knudsen
Anne Bjørnskov Langballe Krabbe

Executive Board

Basil Garabet, Chief Executive Officer

Auditor

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup
CVR no. 33 77 12 31

Financial highlights

Seen over a 5-year period, the development of the Company may be described by means of the following financial highlights:

DKKm	2023	2022	2021	2020	2019
Key figures					
Revenue	564	557	449	390	372
Gross profit	156	177	145	49	177
Operating profit/loss	-72	-32	-47	-76	85
EBITDA	2	23	-1	-41	106
Loss from financial income and expenses	-67	9	-26	-28	-1
Profit/loss before tax	-139	-23	-73	-104	84
Profit/loss for the year	-108	-3	-54	-78	76
Ratios					
Total assets	1,114	1,139	950	953	919
Equity	-142	-35	-32	22	100
Investment in property, plant and equipment	32	43	48	13	14
Gross margin	28%	32%	32%	13%	48%
Solvency ratio	-13%	-3%	-3%	2%	11%
Average number of full-time employees	305	264	215	191	174

Definition of financial ratios:

Gross margin: $\text{Gross profit} * 100 / \text{Revenue}$

Solvency ratio: $\text{Equity at year end} * 100 / \text{Total equity and liabilities at year end}$

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 A/S is wholly owned by NKT A/S.

Development in activities

Revenue for NKT Photonics A/S increased slightly in 2023 to DKK 564 million from DKK 557 million in 2022 (growth rate: 1%) and NKT Photonics delivered an EBITDA of DKK 2 million in 2023 compared to an EBITDA of DKK 23 million in 2022. The main growth drivers were Medical & LifeScience – with a particularly positive development within ophthalmology – and Quantum & Nano Technology segments. Growth momentum slowed in Q4 2023 as some orders were moved into 2024.

The development in 2023 was impacted by higher input costs due to the inflationary pressure that started in 2022 and despite the increased revenue, gross profit decreased from DKK 177 million in 2022 to DKK 156 million in 2023. Loss before tax DKK 139 million in 2023, compared to DKK 23 million in 2022, was affected negatively by impairment of completed development projects (2023: DKK 12 million), increased amortizations, and depreciations as well as increased interest expenses to group entities. In 2022, income from subsidiaries contributed positively by DKK 49 million because of the divestment of the LIOS sensing business.

Overall, the financial performance of NKT Photonics A/S in 2023 was somewhat below the stated expectations in the Annual Report for 2022 as a result of slower market development and inflationary pressures on multiple cost items.

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

Development in financial position (going concern)

NKT Photonics A/S had a negative equity end of 2023 of DKK 142 million. Management expects to recover the share capital through profits in the coming few years. In parallel with planned revenue growth, Management expects to see improvements in profitability both from scale advantages and specific underlying profitability initiatives related to e.g., gross margins.

On 31 December 2023, the NKT Photonics Group had a credit facility with NKT A/S in the form of long-term debt. The facility amounted to DKK 1,192 million of which DKK 1,082 million was utilized. The facility is shared with the subsidiaries. NKT A/S has issued a letter of support to NKT Photonics A/S covering the next 12 months or until such a point in time when a change of control of NKT Photonics A/S may occur, whichever comes first.

Management assesses that the Company can fulfill all financial obligations as they fall due and, therefore, the Annual Report is submitted based on a going concern assumption.

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 encourages diversity in the organization 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 behavior internally as well as externally in relation to vendors, partners, the supply chain, and the general public.

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. For NKT Photonics A/S' statutory reporting cf. section 99a of the Danish Financial Statements Act, please refer to our Group report, NKT Sustainability Report 2023, prepared by our parent company NKT A/S, CVR no. 62725214. The report is available here:

<https://investors.nkt.com/static-files/71c390f6-00f1-42f6-861f-e60ed9d9d8bf>

Statutory report on the underrepresented gender

The Board of Directors believes that diversity strengthens any governing body and acknowledges the importance of diversity in general, including diversity of gender, nationality and competencies. The following constitutes NKT Photonics A/S' statutory gender reporting according to section 99b of the Danish Financial Statements Act.

NKT Photonics commits to secure that men and women have equal career opportunities in the company. Consequently, we expect to achieve a more equal representation of men and women in leadership positions in the years to come.

NKT Photonics has recently established its own policy and target for gender representation in upper management levels. Reporting on status and progress will be initiated with effect from the Annual Report for 2024.

NKT Photonics Group Gender Representation

2023

Board of Directors

Total number of AGM elected members	3
Share of underrepresented gender	33%
Target	N/A*
Year of fulfillment	N/A*

Other management levels*

Total number of members	7
Share of underrepresented gender	14%
Target	25%
Year of fulfillment	2029

* In accordance with the guidelines from the Danish Business Authority no policy for increasing the gender diversity in the Board of Directors has been implemented, since equal representation is already achieved.

Statement of policy for data ethics

NKT respects all relevant data which is received or collected from its employees, customers and other stakeholders, and such data is handled in compliance with applicable laws and regulations and in accordance with internal ethical standards. In 2021, NKT established a formal data ethics policy defining the overall approach to handling data and the foundation for ethical decision-making when adopting or developing new data-driven technologies.

For NKT Photonics A/S' statutory reporting cf. section 99d of the Danish Financial Statements Act, please refer to our Group report, NKT Annual Report 2023 (page 53), prepared by our parent company NKT A/S, CVR no. 62725214. The report is available here:

<https://investors.nkt.com/static-files/2bb9e66a-1f62-4e6c-9246-fdbdbe9c2e8f>

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 have an impact on earnings, cash flows and equity as these are affected by exchange rates and interest rates in several currencies. The predominant currencies were DKK and EUR, which constitute 70-75% of the sales and costs. For 2023, the income statement and balance sheet were to a minor degree affected by fluctuations in USD.

Events after the balance sheet date

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Outlook

For 2024, NKT Photonics A/S expects single-digit organic revenue growth, with EBITDA margin being roughly in line with 2022.

Financial Statements

Income statement 1 January – 31 December

DKK'000	Note	2023	2022
Revenue	3	563,722	557,329
Cost of goods sold		-341,529	-310,627
Other operating income	4	13,431	7,215
Other external costs		-79,354	-76,623
Gross profit		156,270	177,294
Staff costs	5	-153,785	-150,566
Depreciation, amortization and impairment losses	6	-74,683	-55,088
Other operating costs		-232	-3,374
Operating loss		-72,430	-31,734
Income from subsidiaries	7	-15	49,603
Financial income		3,882	5,994
Financial expenses	8	-70,408	-46,385
Loss before tax		-138,971	-22,522
Tax on loss for the year	9	31,446	19,936
Loss for the year	10	-107,525	-2,586

Financial Statements

Balance sheet 31 December

DKK'000	Note	31 December 2023	31 December 2022
ASSETS			
Fixed assets			
Intangible assets	11		
Completed development projects		131,315	53,684
Patents, licenses, trademarks and software		44,618	59,495
Development projects in progress		105,761	109,429
		281,694	222,608
Property, plant and equipment	12		
Land and buildings		46,024	34,540
Plant and machinery		19,407	10,591
Fixtures, tools and equipment		19,446	18,516
Property, plant and equipment in progress		15,813	22,748
		100,690	86,395
Investments			
Equity investments in group entities	13	396,110	396,667
Receivables from group entities	14	72,357	0
Deposits		3,469	3,234
		471,936	399,901
Total fixed assets		854,320	708,904
Current assets			
Inventories			
Raw materials and consumables		70,782	83,592
Work in progress		36,814	35,016
Finished goods and goods for resale		27,733	17,948
		135,329	136,556
Receivables			
Trade receivables		85,703	115,008
Receivables from group entities		7,412	144,876
Other receivables		10,117	11,907
Joint taxation receivable		13,194	16,923
Prepayments	15	7,695	4,794
		124,121	293,508
Total current assets		259,450	430,064
TOTAL ASSETS		1,113,770	1,138,968

Financial Statements

Balance sheet 31 December

DKK'000	Note	31 December 2023	31 December 2022
EQUITY AND LIABILITIES			
Equity			
Contributed capital		15,200	15,200
Reserve for development costs		184,919	127,228
Retained earnings		-342,210	-176,994
Total equity		-142,091	-34,566
Provisions			
Deferred tax	16	12,542	8,273
Other provisions	17	6,112	6,714
Total provisions		18,654	14,987
Liabilities			
Non-current liabilities			
Payables to group entities	18	0	1,013,952
Deferred income		583	900
		583	1,014,852
Current liabilities			
Prepayments received from customers		17,241	25,082
Trade payables		31,544	39,712
Payables to group entities		1,149,142	35,513
Other payables		37,724	42,902
Deferred income	19	973	486
		1,236,624	143,695
Total liabilities		1,237,207	1,158,547
TOTAL EQUITY AND LIABILITIES		1,113,770	1,138,968
Contractual obligations, contingencies, etc.			
	20		
Related party disclosures			
	21		
Events after the balance sheet date			
	22		

Financial Statements

Statement of changes in equity

DKK'000	Contributed capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2023	15,200	127,228	-176,994	-34,566
Reserve for development projects	0	57,691	-57,691	0
Profit for the year	0	0	-107,525	-107,525
Equity at 31 December 2023	15,200	184,919	-342,210	-142,091

Financial Statements

Notes

1 Accounting policies

The Annual Report of NKT Photonics A/S for 2023 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

The annual report is presented in DKK, which is the company's functional currency, rounded to the nearest DKK 1 thousand. 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 recognized on 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 recognized 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 affected 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 recognized in the income statement when earned, whereas costs including depreciation and impairment losses are recognized 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 recognized 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 recognized in the income statement as financial income or financial expenses.

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 from sale of extended warranties sold separately from the related goods and services, is recognized in the income statement over the extended warranty period.

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 recognized 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 and gain and losses on disposal of property, plant and equipment.

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.

Income from investments in subsidiaries

Dividend from subsidiaries is recognized in the financial year in which the dividend is declared. Dividend from investments is recognized in the reporting year in which the dividend is declared.

Depreciation, amortization and impairment losses

Depreciation, amortization and impairment losses comprise the year's amortization, depreciation and impairment 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, amortization 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.

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 recognized in the income statement where it relates to the profit/loss for the year, and directly in equity where it relates to items recognized directly in equity.

Balance sheet

Intangible assets

DEVELOPMENT PROJECTS

Development costs comprise costs, wages, salaries and amortization 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 recognized 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 recognized in the income statement as incurred.

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

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

PATENTS, LICENCES, TRADEMARKS AND SOFTWARE

Patents, licenses, 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 amortization 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 recognized 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.

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	10-20 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 recognized 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 recognized 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 recognized 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 amortization.

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 realizable 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 of depreciation of production machinery, buildings, and equipment as well as factory administration and management. Borrowing costs are not included in cost.

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

Receivables

Receivables, which comprise trade receivables, receivables from group entities and other receivables, are measured at amortized cost less write-down for bad and dubious debts. An impairment loss is recognized if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognized on an individual basis.

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 recognized when, as a result of an event occurring before or at the balance sheet date, the Company has a legal or a constructive obligation, the settlement of which is expected to result in an outflow of resources from the company embodying financial benefits.

The measurement of provisions is based on Management's best estimate of the amount expected to be required to settle the obligation. In connection with the measurement of provisions, the costs required to settle the obligation are discounted to net present value if this has a material effect on the measurement of the obligation.

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.

Liability in respect of credit facilities under the cash pool is presented as payables to group entities.

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 recognized 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 recognized at the expected value of their utilization 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 realizable value.

Liabilities other than provisions

Other liabilities are measured at net realizable value.

Deferred income

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

Segment information

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

2 Capital loss

NKT Photonics A/S had a negative equity end of 2023 of DKK 142 million. Management expects to recover the share capital through profits in the coming few years. In parallel with planned revenue growth, Management expects to see improvements in profitability both from scale advantages and specific underlying profitability initiatives related to e.g., gross margins.

On 31 December 2023, the NKT Photonics Group had a credit facility with NKT A/S in the form of long-term debt. The facility amounted to DKK 1,192 million of which DKK 1,082 million was utilized. The facility is shared with the subsidiaries. NKT A/S has issued a letter of support to NKT Photonics A/S covering the next 12 months or until such a point in time when a change of control of NKT Photonics A/S may occur, whichever comes first.

Management assesses that the Company can fulfill all financial obligations as they fall due and, therefore, the Annual Report is submitted based on a going concern assumption.

3 Revenue

DKK'000	2023	2022
Revenue Denmark	6,972	7,515
Revenue other Europe, Middle East and Africa	298,105	286,973
Revenue Americas	128,394	155,324
Revenue Asia-Pacific	130,251	107,517
Total revenue	563,722	557,329

Revenue is essentially derived from the sale activity of fiber lasers and photonic crystal fibers. The offerings range widely, however, constitutes one operating and reporting segment. Revenue derived from sale of extended warranties amounted to DKK 510 thousand (2022: 827 thousand).

4 Other operating income

DKK'000	2023	2022
Grants etc.	13,431	7,215
Total other operating income	13,431	7,215

5 Staff costs

DKK'000	2023	2022
Wages and salaries	155,940	151,862
Pensions	21,630	19,736
Other social security costs	2,826	3,994
Capitalised development costs	-26,611	-25,026
Total staff costs	153,785	150,566
Average number of full-time employees	305	264

Pursuant to section 98b (3.2) of the Danish Financial Statements Act, remuneration to the Executive Board is not disclosed.

6 Depreciation, amortization and impairment losses

DKK'000	2023	2022
Impairment loss for the year	12,153	0
Amortization for the year	44,765	39,754
Depreciation for the year	17,765	15,334
Total depreciation, amortization, and impairment losses	74,683	55,088

7 Income from subsidiaries

DKK'000	2023	2022
Gain from sale of subsidiaries	0	49,603
Loss from liquidation of subsidiaries	-15	0
Total income from subsidiaries	-15	49,603

8 Financial expenses

DKK'000	2023	2022
Interest expense to group entities	63,968	44,077
Other financial expenses	6,440	2,308
Total financial expenses	70,408	46,385

9 Tax on loss for the year

DKK'000	2023	2022
Current tax for the year	13,194	16,924
Deferred tax for the year	18,079	3,505
Adjustment of tax concerning previous years	22,521	82
Adjustment of deferred tax concerning previous years	-22,348	-575
Tax on loss for the year	31,446	19,936

10 Proposed profit appropriation/distribution of loss

DKK'000	2023	2022
Retained earnings	-107,525	-2,586
Total distribution of loss	-107,525	-2,586

11 Intangible assets

DKK'000	Completed development projects	Patents, licenses, trademarks and software	Development projects in progress	Total
Cost at 1 January 2023	160,802	152,686	109,429	422,917
Additions for the year	68,071	0	47,933	116,004
Transfer from to/from other categories	51,601	0	-51,601	0
Cost at 31 December 2023	280,474	152,686	105,761	538,921
Amortization and impairment losses at 1 January 2023	-107,118	-93,191	0	-200,309
Amortization for the year	-29,888	-14,877	0	-44,765
Impairment for the year	-12,153	0	0	-12,153
Disposals for the year	0	0	0	0
Amortization and impairment losses at 31 December 2023	-149,159	-108,068	0	-257,227
Carrying amount at 31 December 2023	131,315	44,618	105,761	281,694
Carrying amount at 31 December 2022	53,684	59,495	109,429	222,608

12 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Fixtures, tools and equipment	Property, plant and equipment in progress	Total
Cost at 1 January 2023	49,000	76,616	47,958	22,748	196,322
Additions for the year	2,543	4,913	2,101	22,735	32,292
Disposals for the year	0	-235	-247	0	-482
Transfer from to/from other categories	11,909	8,951	8,810	-29,670	0
Cost at 31 December 2023	63,452	90,245	58,622	15,813	228,132
Depreciation and impairment losses at 1 January 2023	-14,460	-66,025	-29,442	0	-109,927
Depreciation for the year	-2,968	-4,923	-9,874	0	-17,765
Disposals for the year	0	110	140	0	250
Depreciation and impairment losses at 31 December 2023	-17,428	-70,838	-39,176	0	-127,442
Carrying amount at 31 December 2023	46,024	19,407	19,446	15,813	100,690
Carrying amount at 31 December 2022	34,540	10,591	18,516	22,748	86,395

13 Investments

DKK'000	Equity investments in group entities
Cost at 1 January 2023	396,667
Disposals for the year	-557
Cost at 31 December 2023	396,110
Revaluations at 1 January 2023	0
Revaluations for the year	0
Revaluations at 31 December 2023	0
Carrying amount at 31 December 2023	396,110

DKK'000	Domicile	Ownership	Equity	Profit/loss for the year
Legal entity				
NKT Photonics Technology GmbH	Köln, Germany	100%	12,652	1,037
NKT Photonics Inc.	New Jersey, US	100%	19,531	2,721
NKT Photonics Holdings Ltd.	Southampton, UK	100%	5,996	0
NKT Photonics Switzerland GmbH	Zürich, Switzerland	100%	72,752	4,786
NKT Photonics AB	Falun, Sweden	100%	1,496	51
NKT Photonics Shenzhen Ltd.	Shenzhen, China	100%	2,111	1,358
Advanced Laser Diode Systems A.L.S. GmbH	Berlin, Germany	100%	1,705	148
			116,243	10,101

14 Receivables from group entities

Non-current receivables from group entities consist of credit facilities made available to NKT Photonics Inc. and NKT Photonics Switzerland GmbH. The loan agreements are based on arm's lengths terms and mature respectively 1st of May 2026 and 1st of June 2026.

15 Prepayments

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

16 Deferred tax

DKK'000	2023	2022
Deferred tax at 1 January 2023	-8,273	-11,203
Deferred tax adjustment for the year in the income statement	18,079	3,505
Deferred tax adjustment regarding prior year	-22,348	-575
Deferred tax at 31 December 2023	-12,542	-8,273

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.

17 Other provisions

NKT Photonics A/S typically provides 1-2 years' warranty on certain products. The Group recognized a provision of DKK 6,112 thousand (2022: DKK 6,714 thousand).

18 Non-current liabilities

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

19 Deferred income

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

20 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 for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for the jointly taxed companies.

Operating lease obligations

Rental and other commitments under operating lease obligations amounts to DKK 48,079 thousand (2022: DKK 43,066 thousand), of which DKK 6,860 thousand falls due in 2024 and DKK 41,219 thousand between 2025 and 2042. Rental obligations reflect the useful life of buildings constructed on leased land.

21 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.

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.

22 Events after the balance sheet date

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

