

VIGO System S.A.

Annual report for 2021

Covering the period from 1 January 2021 to 31 December 2021

PREPARED IN ACCORDANCE WITH INTERNATIONAL

FINANCIAL REPORTING STANDARDS

APPROVED BY THE EUROPEAN UNION

Ożarów Mazowiecki, 2 March 2022

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Letter from the President of the Management Board to the Shareholders



Ladies and gentlemen,

I am pleased to present you with another annual report of VIGO System. If I were to sum up the past year in one sentence, I would say it was a year of changes.

Over 35 years of existence and activity of VIGO, the world of technology has changed dramatically in every dimension. We can all observe it in our immediate environment - from electronic technologies, communication and connectivity, to medicine. When analysing very closely the market and the industries in which VIGO brand is placed as number one, we started to notice that also this familiar world starts to change. Therefore, at the turn of 2020/2021, we began to look for new directions of development and opportunities to build a position of global leadership, using our knowledge, competitive advantages and experience gained. The product of these analyses is the new VIGO System development strategy for 2021-2026, which we presented to you in June last year. We indicated there six development initiatives and specific financial targets, which we plan to achieve in the following years up to 2023 inclusive. The first effects of these changes can already be seen in the financial results generated by the Company in 2021. Sales revenues reached PLN 71.5 million and were higher by PLN 18.1 million year-on-year. EBITDA adjusted for subsidies amounted to PLN 29.1 million and was higher by 18.5% y/y. EBIT amounted to PLN 24.7 million, compared to PLN 20.2 million in the previous year. Net profit adjusted for deferred tax totalled PLN 24.3 million, up by 34.5% on the previous year.

Achieving such good results was possible thanks to constantly increasing activity in business development, among other things. A noteworthy milestone was the opening of the company's second direct representation, this time in the United States, which is one of the most important markets for current and future products. This is already the second subsidiary (after Taiwan), through which we are strengthening our relations with key accounts and accelerating the acquisition of new customers. Another step in this direction, also related to the implementation of the objectives of 2021-2026 Strategy, is the change of the brand to VIGO Photonics, gradually introduced since December last year. We have decided to take this step because the new brand will be more recognisable for our potential customers as it directly points to the areas of our specialisation. The new name is not the only activity in the area of marketing that occupied us last year. Despite the ongoing COVID-19 pandemic, we did not slow down, taking part in many scientific events and industry conferences and trade fairs (PHOTONICS+, OPIE - Optics & Photonics, Photonics WEST Digital Forum). We have participated in both online formats as well as traditional in-person presentations and lectures. We have also independently organised several such events. VIGO was also honoured with several awards such as a high position in the Stock Exchange Company of the Year ranking or the Forbes Diamond. It would be impossible to list here all our activities, whose basic aim is to build the image of VIGO as a top-class expert in its field and a global leader developing modern technologies. This way we can also build relationships with potential customers and be closer to them. We will be supported by a consistently built network of distributors, which in 2021 was expanded by partners from Scandinavia (Nanor AB), Australia and New Zealand (Lastek), India (Dynotech), the DACH region (Acal BFI) and a distributor with global reach - TME.

Concurrently, we are working on technology development and new product launches. We have achieved record revenues from sales of semiconductor materials, with parallel development of numerous new products for our customers (e.g. laser structures - EEL or VSCEL, detector structures - InGaAs). We are developing a number of new projects with our customers in the area of low-cost modules and detector chips made of III-V materials, which will translate into sales as early as 2022. One of the milestones in this area will be the launch of a cleanroom dedicated to the production of detection chips, which should

happen later this year in Q1. Plans for this year also include further development of integrated circuit technology as well as infrared detector arrays. These projects are still at an early stage of technological maturity, but in the future they will have a very significant impact on the company's turnover.

While changing, we do not forget about the Company's Stakeholders, especially Shareholders and Investors. We care that you understand our new path of development, so we will also implement changes in communication with you. We hope that the effects of this cooperation will soon be discernible for you.

Any summary is always a good moment to say thank you, so on behalf of the Management Board of VIGO let me express my gratitude to all our Employees for their daily commitment. I would like to thank members of the Supervisory Board for their professional support, I would like to thank our Customers and Contractors for the possibility of cooperation and continuous development in this area. I would also like to thank the Company's Shareholders and Investors for the trust you place in us as well as for the interest and inquisitiveness you show, which we receive in your messages and during individual conversations. We encourage you to continue contacting us through our Investor Relations Team.

Last but not least, I warmly invite you to read this Annual Report.

Yours faithfully,

Adam Piotrowski

President of the Management Board VIGO System S.A.

1. Selected financial data

| Selected financial data (in PLN thousand) | 01.01.2021-31.12.2021 | | 01.01.2020-31.12.2020 | |
|--|-----------------------|---------|-----------------------|---------|
| | PLN | EUR | PLN | EUR |
| Statement of comprehensive income | | | | |
| Net income from sales of products, goods and materials | 71 497 | 15 619 | 53 451 | 11 947 |
| Cost of goods sold | 26 389 | 5 765 | 17 836 | 3 987 |
| Operating profit | 24 725 | 5 401 | 20 231 | 4 522 |
| Gross profit | 24 413 | 5 333 | 18 087 | 4 043 |
| Net profit | 32 348 | 7 067 | 32 547 | 7 275 |
| Adjusted net profit* | 24 337 | 5 317 | 18 096 | 4 045 |
| Number of shares in units | 729 000 | 729 000 | 729 000 | 729 000 |
| Net earnings per ordinary share (PLN/EUR) | 44.37 | 9,69 | 44,65 | 9.98 |
| Adjusted net earnings per ordinary share (PLN/EUR)* | 33.38 | 7,29 | 24,81 | 5.55 |
| Statement of financial position | | | | |
| Fixed assets | 184 684 | 40 154 | 129 106 | 27 976 |
| Current assets | 34 314 | 7 460 | 37 955 | 8 225 |
| Equity | 133 067 | 28 931 | 100 582 | 21 795 |
| Long-term liabilities | 56 660 | 12 319 | 49 630 | 10 754 |
| Short-term liabilities | 29 270 | 6 364 | 16 850 | 3 651 |
| Book value per share (PLN/EUR) | 182.53 | 39.69 | 137.97 | 29.90 |
| Adjusted book value per share (PLN/EUR)* | 171.65 | 37.32 | 118.14 | 25.60 |
| Cash flow statement | | | | |
| Net cash flows from operating activities | 24 131 | 5 272 | 21 192 | 4 737 |
| Net cash flow from investing activities | -34 561 | -7 550 | -15 923 | -3 559 |
| Net cash flow from financing activities | 3 065 | 670 | -5 119 | -1 144 |

* Adjusted net profit and adjusted book value per share (PLN/EUR) are cleared of the effect of: deferred income tax

| EUR/PLN Exchange rate | 2021 | 2020 |
|-----------------------------------|--------|--------|
| Statement of financial position | 4.5994 | 4.6148 |
| Statement of Comprehensive Income | 4.5775 | 4.4741 |

2. Introduction to the financial statements

2.1. Company background information

VIGO System Spółka Akcyjna ("Company") in Ożarów Mazowiecki was created on 20 February 2002 as a result of transformation of VIGO System Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw entered in the National Court Register in the District Court for the capital city of Warsaw in Warsaw under KRS 0000110129.

VIGO System Spółka Akcyjna was incorporated by way of Notarial Deed Roll of Deeds number 1459/2002 dated 20 February 2002 in the Notary's Office of Krzysztof Łaski - Notary in Warsaw and was entered in the National Court Register - Register of Entrepreneurs on 21 May 2002 under KRS number 0000113394. The Company has an perpetual existence. The Company was assigned tax identification number NIP: 5270207340 and statistical identification number REGON: 010265179.

The Company has been established for an indefinite period.

Contact details:

| | |
|----------------------------------|--|
| Name (registered business name): | VIGO System Spółka Akcyjna |
| Registered office: | Ożarów Mazowiecki |
| Address: | ul. Poznańska 129/133, 05 - 850 Ożarów Mazowiecki |
| Telecommunications numbers: | phone no. (+48 22) 733-54-00 fax no. (+48 22) 733-54-26 |
| E-mail address: | info@vigo.com.pl |
| Website address: | www.vigo.com.pl |

On the basis of permit No. 116/ARP S.A./2005 issued on 9 November 2005, since 1 March 2008 the Company has conducted its business activity in the Tarnobrzeg Special Economic Zone ("TSEZ") EURO-PARK WISŁOSAN in Ożarów Mazowiecki and on this grounds it is entitled to exemption from Corporate Income Tax due to capital expenditures incurred in the Zone. The company fulfilled all the conditions specified in the permit in order to be able to benefit from the tax exemption.

By virtue of the decision of the Minister of Economy concerning the indefinite prolongation of the permit for activities in the Special Economic Zone EURO-PARK WISŁOSAN, the exemption will be valid until TSEZ termination date (31 December 2026).

Income generated from business activities covered by the permit within the special economic zone is exempt under Article 17, Section 1, Point 34 of the Corporate Income Tax Act. The amount of aid obtained for the Issuer is 65% of discounted investment expenditures on fixed assets and purchased intangible assets incurred during the term of the permit. This aid is reduced by any discounted subsidies from public funds obtained for the purchase of fixed assets.

In the Tarnobrzeg SEZ, as indicated in the permit, the Company conducts the following production, trade and service activities with respect to products and services manufactured in the zone, defined under the following headings in the then-current Polish Classification of Products and Services of the Central Statistical Office:

- a. Section D, subsection DL, Division 32,
Class 32.10 - Electronic tubes and other electronic components,
- b. Section D, subsection DL, Division 33,

Class 33.20 - Instruments and appliances for measuring, checking, navigating and similar instruments and appliances,

Class 33.30 - Optical instruments and photographic equipment,

c. Section K, Division 73,

Class 73.10 - Research and development services for natural sciences and engineering.

2.1.1. Profile of VIGO System S.A. activity

VIGO System is a technology-based manufacturing company specialising in semiconductor materials and devices for photonic and microelectronic applications. VIGO System is a leader in the global market of mid-infrared photon detectors. All products are based on its proprietary, unique technology. The company provides ready-made and customised solutions, which allow to create products dedicated to a given customer's application.

The company has a complete production line for high-throughput semiconductor devices - from epitaxy of materials from complex semiconductors of groups II-VI (tellurium, cadmium, mercury) and groups III-V of the periodic table of elements (indium, arsenic, gallium, antimony), through production of detector chips and lasers, to their microassembly and integration into electronics. The company also has its own modern measurement laboratories, which enable fast and accurate measurements of products and semi-finished products at every stage of production.

Detectors currently manufactured by the Company are used in the world's largest research centres and in the development of advanced technical equipment, in applications such as:

- railway traffic safety (failure detection systems in the running gear of high-speed rail systems and fire detection systems),
- environmental protection (measurement of the threat to the environment posed by harmful chemical substances, monitoring of emissions of hazardous substances into the air, air quality surveillance)
- industrial applications (industrial scanners for temperature distribution, industrial automation equipment)
- military applications (missile guidance systems, laser-beam vehicle-tracking alert systems)
- security (detection of explosive and hazardous substances, prevention systems against terrorist activities, systems for checking the contents of passengers' luggage)
- research and science (measurement of high-temperature plasma parameters for thermonuclear fusion research, measurement of ultra-short pulses of infrared radiation emitted by lasers and synchrotrons, spectrometers for measuring extremely low concentrations of substances)
- space industry (laser communications in open Space, measurement equipment for space applications).

In order to meet the dynamic development of photonics market, VIGO System has added epitaxial semiconductor layers to its offer. The epitaxial layers, based on indium phosphide and gallium arsenide, are the basis for the production of cascade edge lasers, vertical cavity resonance lasers (VCSEL), other sources of infrared radiation and microelectronic components (transistors, diodes).

The company puts great emphasis on research and development of new products, thus continuously maintaining high competitiveness and quality of offered products since the 1990s. The technological advancement of VIGO System S.A. and the quality of its products as well as its position in the global market have been confirmed by the use of infrared detectors produced by VIGO in the Mars rover Curiosity, which landed on the Red Planet on 6 August 2012 as part of the NASA program and the subsequent detection of traces of methane on Mars in December 2014 with the use of these detectors. The Company's detectors were also used by the European Space Agency as part of the Exomars mission. In October 2016, Schiaparelli landing module, equipped with VIGO System detectors, attempted a landing on Mars.

2.2. Composition of the Management Board and Supervisory Board of the Company

Composition of the Management Board as at the balance sheet date and as at the preparation date of the report is as follows:

- Adam Piotrowski - President of the Management Board, General Director
- Łukasz Piekarski - Member of the Management Board, Financial Director

There were no changes in the composition of the Management Board in the financial year.

On 25 May 2021, in connection with the expiry of the Management Board's term of office, the Supervisory Board, pursuant to Article 368 § 4 of the Commercial Companies Code and § 26 Section 2 of the Company's Articles of Association, adopted a resolution on determining the number of members of the Management Board for a new 3-year joint term of office commencing on 28 June 2021, stipulating that the Management Board would consist of two members. Then, on the basis of Article 368 § 4 of the Commercial Companies Code and § 21 Section 2 Point 5 of the Company's Articles of Association, the Supervisory Board reappointed Mr Adam Piotrowski to the Issuer's Management Board, entrusting him with the function of the President of the Management Board, and reappointed Mr Łukasz Piekarski to the Management Board, entrusting him with the function of the Member of the Management Board.

The composition of the Supervisory Board on the balance sheet date and on the report preparation date is as follows:

- Przemysław Danowski - Chairman of the Supervisory Board;
- Marek Wiechno - Member of the Supervisory Board;
- Zbigniew Piotr Więclaw - Member of the Supervisory Board
- Janusz Kubrak - Member of the Supervisory Board;
- Piotr Nadolski - Member of the Supervisory Board;
- Krzysztof Kaczmarczyk - Supervisory Board Member;
- Mirosław Grudzień - Supervisory Board Member.

There were no changes in the composition of the Supervisory Board in the financial year.

On 28 June 2021, the Issuer's Ordinary General Meeting determined that the number of members of the Issuer's Supervisory Board for the new term of office would be 7 persons and appointed the following members of the Supervisory Board for the new joint term of office commencing on 28 June 2021:

- Przemysław Danowski - Chairman of the Supervisory Board;
- Marek Wiechno - Member of the Supervisory Board;
- Zbigniew Piotr Więclaw - Member of the Supervisory Board;
- Janusz Kubrak - Member of the Supervisory Board;
- Piotr Nadolski - Member of the Supervisory Board;
- Krzysztof Kaczmarczyk - Member of the Supervisory Board;
- Mirosław Grudzień - Member of the Supervisory Board.

2.3. Periods presented

The separate financial statements include data for the period from 1 January to 31 December 2021. Comparative data are presented as at 31 December 2020 for the separate statement of financial position and for the period from 1 January to 31 December 2020 for the statement of comprehensive income, statement of cash flows and statement of changes in equity.

2.4. Functional and presentation currency

Items included in the financial statements are measured in the currency of the primary economic environment in which the Company operates (functional currency). The financial statements are presented in Polish zloty (PLN), which is the Company's functional and presentation currency. Unless

otherwise indicated, all amounts presented in the separate financial statements are stated in thousands of PLN.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate prevailing at the date of the transaction. Foreign exchange gains and losses on the settlement of such transactions and on the balance sheet measurement of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income, unless deferred in Equity, when they qualify for recognition as cash flow hedges and net investment hedges.

Due to the presentation of amounts in the financial statements rounded to the nearest thousand, differences of +/- 1 may appear in the report.

2.5. Going concern assumption

The Company's financial statements have been prepared on the assumption that the Company will continue as a going concern for at least 12 months after the balance sheet date, i.e. until 31.12.2022.

As at the date of signing the report, the Company's Management Board does not identify any facts or circumstances that would indicate a threat to the Company's ability to continue as a going concern for a period of 12 months after the end of the reporting period as a result of the deliberate or compulsory abandonment or significant limitation of its current activities.

Up to the date of preparation of the separate financial statements for the period from 1 January to 31 December 2021, there were no events that were not but should have been recognised in the accounts of the reporting period. At the same time, there are no material events relating to previous years in the present financial statements.

Taking into account the overall economic and legal situation of the Company, including the known economic and social effect of the COVID-19 epidemic, as at the date of approval of these annual separate financial statements, no circumstances indicating a threat to the Company's going concern have been identified.

The impact of the COVID-19 pandemic on the Company's operations is detailed in Section 5.4.4 of this report.

2.6. Audit firm authorised to audit the financial statements

On 17 September 2020, the Company's Supervisory Board selected the firm authorised to audit and review the financial statements for the years 2021, 2022 and 2023. The firm selected to perform this function was Mazars Audyty Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw, address: 00-549 Warsaw, ul. Piękna 18, entered in the list of audit firms under number 186. The Supervisory Board made the above selection with a view to guaranteeing full independence and objectivity of the selection itself and of the auditor's performance of tasks. On 15 March 2021, the Company entered into an agreement with Mazars Audyty Spółka z ograniczoną odpowiedzialnością for the audit and review of the separate financial statements. The agreement was concluded for a period of three years.

The remuneration of Mazars Audyty Spółka z ograniczoną odpowiedzialnością will be, on a separate basis, as follows:

- audit of the annual financial statements for 2021 - PLN 27,000.00, for 2022 - PLN 28,000.00 and for 2023 - PLN 28,000.00;
- review of financial statements as at 30.06.2021 - PLN 15,000.00, as at 30.06.2022 - PLN 16,000.00 and as at 30.06.2023 - PLN 16,000.00.

2.7. Organisational or capital ties of the Company.

In 2020, the Company contributed capital to VIGO Photonics Taiwan (own representative office in Taiwan) in the amount of PLN 64 000. In accordance with Section 2a of Article 13 of the VII Directive, any parent company governed by the national law of a Member State, having only subsidiaries which are not material for the purposes, either individually or as a whole, is exempted from preparing consolidated financial statements. Accordingly, VIGO does not prepare consolidated financial statements as of 31 December 2021.

The Company holds a 50% interest in VIGO WE INNOVATION Sp. z o.o. ("VWI"). The purpose of this investment was to create an investment vehicle to develop innovative ventures (start-ups and spin-offs) in the field of production of advanced technical devices and components. VWI's investment strategy will include, in particular, ventures in the field of photonics.

Decisions on significant VWI activities require a unanimous consent of the parties sharing control. One of the Company's decision-making bodies, the Supervisory Board, consists of three members. At the balance sheet date these were:

1. Adam Markiel (Co-controlling Company)
2. Piekarski Łukasz (Member of the Management Board of VIGO)
3. Piotrowski Adam (President of the Management Board of VIGO).

Pursuant to the provisions of the Articles of Association of VWI, the Supervisory Board exercises constant supervision over its activities in all areas of its operation. Resolutions of this supervisory body are passed by unanimity only in the presence of all its members.

All investors jointly exercise control over the investee. They act collectively to direct significant activities. Therefore, no single investor controls the investee because no single investor can exercise management of the investee.

In view of the foregoing, the Management Board of VIGO represents that as at 31 December 2021, in its opinion, there is no change in one or more elements of joint control over VWI.

As at the balance sheet date, i.e. 31.12.2021, the Company holds 17,084 shares in VWI with the total value of PLN 6,688,000.00.

In 2021, the Company incurred expenditures on the acquisition of shares in VWI in the amount of PLN 2,431,000.00.

As at the date of approving the financial statements for 2021 for publication by the Management Board, the balance of shares in the VWI company amounted to 17,257 shares with the total value of PLN 6,912,900.00.

Major shareholders do not have voting rights other than those arising from their shares.

In 2021, the company established VIGO Photonics USA (its own representative office in the United States) and granted it a loan for current operations in the amount of PLN 1.33 million. In 2021, VIGO System granted a loan for current operations also to VIGO Photonics Taiwan in the amount of PLN 0.6 million. These companies have not yet conducted any business activities in 2021. Under Section 2a of Article 13 of the VII Directive, any parent company governed by the national law of a Member State which has only subsidiaries which are not material for the purposes, either individually or as a whole, is exempted from the obligation to prepare consolidated financial statements. Accordingly, VIGO does not prepare consolidated financial statements as of 31 December 2021.

2.8. Approval of the financial statements for publication

These financial statements were approved for publication by the Management Board on 2 March 2022 and will be published on 3 March 2022.

2.9. Merger of commercial companies

During the reporting period for which the financial statements were prepared, the Company did not merge with any other business entity.

2.10. Reference to published estimates

The Company has not published any estimates for the period presented.

2.11. Significant accounting policies adopted by the Company

2.11.1. Compliance with International Financial Reporting Standards

These annual financial statements have been prepared in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations promulgated as regulations of the European Commission, hereinafter referred to as "EU IFRS".

EU IFRS comprise standards and interpretations accepted by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) and endorsed for use in the EU.

The entity applies the same accounting policies in preparing the 2021 annual financial statements as it did in preparing the 2020 annual financial statements, except for amendments to standards and new standards and interpretations endorsed by the European Union for reporting periods beginning on or after 1 January 2021. In 2021, the Company adopted all new and approved standards and interpretations issued by the International Accounting Standards Board and the International Accounting Standards Interpretations Committee and approved for use in the EU, applicable to its operations and effective for reporting periods from 1 January 2021.

The data included in the report have been prepared with the observance of the principles of valuation of assets and liabilities and measurement of net profit or loss determined as at the balance sheet date. The accounting policies have not changed from those described in the Company's 2020 Annual Report.

The separate financial statements have been prepared under the historical cost convention, except for assets qualified for fair value measurement.

2.11.2. Changes to standards or interpretations

New standards and amendments to published standards and interpretations effective from 1 January 2021

The introduction of new standards and interpretations and amendments thereto effective from 1 January 2021 related to:

- amendments to IFRS 4 "Insurance Contracts", deferral of the application of IFRS 9 "Financial Instruments";
- amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - the reform of the reference interest rate

had no material impact on these financial statements.

New standards and interpretations and amendments thereto that have been published and approved by the European Union but are not yet effective and have not been applied by the Company.

The Company does not identify any new standards and amendments to standards and interpretations that have been published and approved by the European Union but are not yet effective for annual periods beginning on 1 January 2021 and have not been applied in the financial statements, yet which will have a significant impact on the financial statements.

New standards and interpretations and amendments thereto which have been published and are not endorsed by the European Union.

Amendments to:

- IFRS 16 "Leases" - simplification regarding changes arising from leases in connection with COVID-19;

New standards and interpretations and amendments thereto that have been published and endorsed by the European Union, which have been effective since 1 January 2022.

- IFRS 3 "Business Combinations" - updated reference to the Conceptual Framework;
- IAS 16 "Property, plant and equipment" - proceeds from goods produced in the period of preparing property, plant and equipment for the start of operations;
- IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" - clarification of the costs recognised in the analysis of whether a contract is an onerous contract;
- IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - definition of estimates;

The solutions adopted with regard to accounting records and the way information is grouped have been subordinated to the needs of management and internal control. They also take into account the requirements set by the provisions of the act and the needs of state statistics.

The Company intends to implement the above regulations on the dates provided for the application by standards or interpretations.

New standards and interpretations, and amendments thereto, which have been approved by the European Union for application after 1 January 2023.

- IFRS 17 "Insurance Contracts" and amendments to IFRS 17;
- IAS 1 "Presentation of Financial Statements" - classification of liabilities as current or non-current;
- IAS 1 "Presentation of Financial Statements" and the IFRS Board's Guidance on Disclosure of Accounting Policies in Practice - Requiring Material Disclosures about Accounting Policies;
- IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors" - definition of estimates
- IAS 12 "Income Taxes" - deferred tax on assets and liabilities arising from a single transaction

2.11.3. Intangible assets and development expenditure

Intangible assets are recognised in the Company's books at cost. After initial recognition, intangible assets are measured at cost less accumulated depreciation and impairment losses. The Company does not measure development work at fair value due to the lack of an active market for unique completed development work. Intangible assets include assets with an expected economic useful life in excess of 12 months.

The Company divides intangible assets into the following groups:

- capitalised development works,
- perpetual usufruct of land,
- other intangible assets.

Development work is capitalised only when it jointly meets all of the following criteria:

- the ability to complete the intangible asset from a technical point of view so that it is suitable for use or sale,
- the Company has the intention to complete the intangible asset and use or sell it,
- the ability to use or sell the intangible asset,

- the Company is able to determine how the intangible asset will generate probable future economic benefits,
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset,
- the ability to measure, reliably, the expenditure incurred during the development work.

Where it is not possible to separate the value of research expenditure from development expenditure, development work is expensed in full.

The Company is the perpetual usufructuary of land acquired before 2019. The perpetual usufruct of land is recognised as an intangible asset with an indefinite economic life.

The Company does not apply IFRS 16 to agreements that were not previously (in the period prior to the commencement of IFRS 16) identified as agreements involving lease in accordance with IAS 17 and IFRIC 4. Accordingly, the perpetual usufruct rights to the land on which all of the Company's properties are located are recognised as an intangible asset with an indefinite useful life.

Intangible assets with an indefinite useful life are tested for impairment annually.

For the purpose of impairment testing, assets are grouped at the lowest level at which they generate cash flows independently of other assets or groups of assets (so-called cash-generating units). Assets that generate cash flows independently are tested individually.

If the carrying amount exceeds the estimated recoverable amount of the assets or cash-generating units to which the assets belong, the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of the two values: fair value less costs to sell or value in use. In determining value in use, estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks associated with the asset.

Impairment losses are recognised in the result under other operating expenses.

At subsequent balance sheet dates, indications of the possibility of reversing impairment losses are assessed. The reversal of write-downs is recognised in the result under other operating income.

Other intangible assets include, in particular, the acquired software and licences. In the case of intangible assets with indefinite useful lives, the Company does not recognise depreciation and amortisation charges, but only regularly tests these assets for impairment.

For intangible assets with finite useful lives, the Company applies the following depreciation periods:

| Group | Depreciation period |
|------------------------------|---------------------|
| capitalised development work | 3 -5 years |
| other intangible assets | 3 years |

In justified cases, based on the decision of the Management Board, supported by technology utilisation forecasts, the depreciation period of capitalised development work may be extended beyond 5 years.

Depreciation costs are charged to "Cost of goods sold", "Management costs" or "Selling costs" in the statement of income, while those resulting from created write-downs are charged to "Other operating costs".

The Company has no significant lease agreements and therefore does not hold the right of use and the perpetual usufruct right benefits from the exemption under IFRS 16 as described above.

2.11.4. Property, plant and equipment

Fixed assets are recognised in the Company's books at cost.

Property, plant and equipment comprise fixed assets and capital work in progress. Property, plant and equipment include fixed assets with an expected useful economic life in excess of 12 months.

The Company distinguishes the following groups of fixed assets:

- buildings,
- technical equipment and machinery,
- means of transport,
- furniture and equipment.

All groups of fixed assets are valued at cost and after initial recognition less depreciation and impairment losses. The Company does not revalue any group of fixed assets.

The Company applies straight-line depreciation for all groups of fixed assets.

The following depreciation periods are applied for each group of fixed assets:

| Group | Depreciation period |
|---------------------------------|---------------------|
| Buildings | 40 years |
| Plant and machinery, including: | |
| laboratory equipment | 20 years |
| other technical equipment | 10 years |
| computer equipment | 5 years |
| means of transport | 5 years |
| furniture and equipment | 10 years |

In accordance with the provisions of IAS 16, the Company periodically, at least as at the balance sheet date, verifies the adopted depreciation rates, analysing whether they correspond with the periods of economic usefulness of the fixed assets held.

In the statement of comprehensive income, depreciation costs are charged to the item "Cost of goods sold", "Management costs" or "Selling costs", while costs resulting from created revaluation write-downs are charged to "Other operating costs".

Non-current assets held for sale are measured in accordance with IFRS 5, i.e. at the lower of the following: the net carrying amount of the asset and its fair value less costs to sell, and are presented separately in the statement of financial position.

2.11.5. Investments in subsidiaries, joint ventures and associates

In accordance with IAS 27, an entity recognises investments in subsidiaries, joint ventures and associates at cost when preparing separate financial statements.

2.11.6. Inventories

Inventories are recognised in the Company's books at cost.

Inventories are assets held for sale in the ordinary course of business, being in the course of production for such sale or having the form of materials or supplies of raw materials consumed in the production process or in the course of providing services. The Company distinguishes the following groups in this

item of the statement of financial position: materials, semi-finished products and work in progress, finished products, goods, advances on deliveries.

The Company recognises goods and materials in its books at cost not higher than the net realisable sales price. The cost of inventories comprises all costs of purchase, costs of processing and other costs incurred in bringing the inventories to their present location and condition.

The Company uses the FIFO method to measure the cost of inventories.

When the purchase price or production cost recorded in the books exceeds the realisable selling price, the Company makes write-downs. In addition, the Company periodically evaluates inventories in terms of their continued usefulness and makes write-downs based on the period in which they remain in stock. Revaluation write-downs are charged to period costs and recognised in other operating expenses.

Each time the Company assesses and writes down items that it knows to be impaired and will be unusable in the Company's continuing operations.

2.11.7. Loans granted and other receivables

The Company measures loans and receivables at amortised cost using the expected credit losses model.

The Company writes down their value based on the non-performance ratio. The amount of the allowance for receivables is charged to other operating expenses, while the release of the allowance increases other operating income in the statement of comprehensive income.

The Company applies the following methodology for calculating the default rate:

To calculate the default rate, balances are divided into homogeneous groups based on the similarity of credit risk and past customer behaviour. The Company has one homogeneous group: receivables from customers.

For the above group, the analysis shall be performed in the following steps:

- Step 1: defining the historical periods for which the analysis of the amount of allowances for uncollectible receivables and the age ranges is carried out. The Company has decided that the bad debt analysis will be conducted for the last 3 years in order to determine the overall default rate. It was agreed that the default rate would be determined for the age ranges: (1) not past due; (2) up to 30 days; (3) from 31-90 days; (4) from 91-180 days; (5) from 181-365 days and (6) over 365 days.
- Step 2: The repayment profile of corporate customers in the last three financial years is calculated. A comparison is then made between the balance of written-off receivables and the balance of not past due receivables to determine the default rate in the interval.
- Step 3: An analysis is made of the likely impact of future factors on the amount of credit losses.
- Step 4: An allowance for impairment is calculated using the ratio determined in Step 3.

2.11.8. Other financial assets

As at the balance sheet date, the Company holds other financial assets classified as financial assets at fair value through profit or loss. Under this item in the Statement of financial position the Company presents other investments in investment funds.

The effects of increases or decreases in the value of investments in funds are classified as financial income or expenses respectively.

2.11.9. Cash and cash equivalents

Cash at bank and in hand is measured at amortised cost.

The item cash shown in the cash flow statement consists of cash in hand and bank deposits with a maturity of three months or less, which have not been treated as investing activities.

2.11.10. Equity capital

Share capital. This is the capital contributed by the shareholders, which is stated at its nominal value, in accordance with the Company's Articles of Association and the entry in the National Court Register.

Share premium account. In this item the Company discloses the amount of the share premium ("agio").

Capital from revaluation. In this item the Company discloses, among other things, the value of capitals resulting from valuations performed, which are shown in other total incomes and actuarial profits and losses, presented in accordance with IAS 19.

Other capitals. In this item the Company presents accumulated results from previous years, undistributed financial result. The Company discloses in other capitals the capital created in accordance with the provisions of Article 396 of the Code of Commercial Companies.

Financial result of the current period. In this item the Company presents the result of the current financial year.

2.11.11. Provisions

Provisions are liabilities the amount or timing of which is uncertain. The Company establishes provisions when it has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The Company reviews its provisions at the end of each reporting period to ensure that the above conditions are met and to develop the most appropriate estimate of the amount of the provision. The Company discounts provisions where the effect of doing so is material.

Provisions are recognised at the estimated amount of expenditure required to settle the present obligation, based on the most reliable evidence available at the date of the separate financial statements, including the risks and uncertainties.

A detailed description is provided in Section 4.2.8.

2.11.12. Financial assets and liabilities

The Company classifies financial assets on initial recognition as:

- measured at amortised cost; or
- measured at fair value through profit or loss.

An asset is measured at amortised cost if the following two conditions are met: the asset is held within a business model that is designed to hold such in order to earn contractual cash flows; and, its contractual terms give rise at specified times to cash flows that are solely payments of principal and interest on the unpaid portion of the principal.

To financial assets measured at amortised cost the Company qualifies trade receivables with an allowance consistent with the expected credit loss model, cash on bank accounts and in hand, other financial assets. Gains and losses on measurement of financial assets and liabilities measured at fair value are recognised in profit or loss of the current period.

Financial assets and liabilities measured at fair value recognised in current period profit or loss include forward derivatives. The Company also classifies investments in investment funds as assets measured at fair value.

The Company derecognises an asset only when the contractual rights to the cash flows generated by the asset expire or when the financial asset together with substantially all the risks and rewards of ownership are transferred to another entity. If the Entity does not transfer or retain substantially all the risks and rewards of ownership and retains control of the asset, it shall recognise a retained interest in the asset and a related liability for potential payments. If, on the other hand, the Entity retains substantially all the risks and rewards of ownership of the transferred asset, it continues to recognise the related financial asset. On initial recognition, financial liabilities are classified into one of two categories:

- measured at amortised cost; or
- measured at fair value.

The Company classifies trade payables and bank loans as financial liabilities measured at amortised cost.

Financial liabilities measured at fair value through profit or loss are recognised at fair value and the resulting financial gains or losses are recognised in the income statement taking into account interest paid on the financial liability.

In 2021 and 2020, the Company had only financial liabilities which it measured at amortised cost.

Amortised cost is the amount at which a financial liability is measured at initial recognition, less principal repayments, plus or minus the cumulative amortisation using the effective interest rate of any difference between the initial value and the value at maturity.

The calculation of the effective interest rate includes all commissions and points paid and received by the parties to the contract that are an integral part of the effective interest rate, transaction costs and any other premiums or discounts.

The Company derecognises financial liabilities only when the relevant obligations of the Entity are discharged, cancelled or when they expire.

2.11.13. Deferred income tax

The Company, as a joint-stock company, is a corporate income tax payer ("CIT" tax). The item "Income tax" in the statement of comprehensive income consists of the current and deferred tax.

The current part, which is charged to the Company's result, is calculated at the end of each reporting period on the basis of taxable base, determined taking into account the differences between accounting and tax gross profit.

The deferred part of the tax is calculated using the balance sheet method, i.e. by comparing the balance sheet value of individual asset and liability items from the statement of financial position with their tax value.

The Company recognises deferred tax liabilities when the temporary differences between the tax and balance sheet values are positive, which means that in the future they will lead to an increase in current taxation.

Deferred tax assets arise when:

- a. there are deductible temporary differences, which are temporary differences that will reduce the tax base in the future,
- b. unused tax losses are carried forward,
- c. the Company carries forward unused tax credits.

The Company conducts business activities in the Special Economic Zone in Ożarów Mazowiecki and therefore recognises deferred tax assets (zone exemption) due to investment relief.

A deferred tax asset is recognised when it is probable that there will be future income against which the tax relief can be written off. The Company recognises deferred tax assets in correspondence with the result of the period in which the recognition condition is met. Settlement of deferred tax assets is made in correspondence with the income statement, in the amount of utilisation of the tax exemption in a given accounting period.

2.11.14. Employee benefits

The Company has the following employee benefits:

- current, i.e. wages, annual leave, sick leave, bonuses, Company Social Fund,
- retirement severance pay.

The Company recognises the cost of employee benefits in the period in which the employee works for the Company and not when the benefit is paid or payable.

Short-term employee benefits (i.e. those expected to be settled in full within 12 months after the annual period in which the service is rendered) are recognised as an expense in the period in which the employee renders service. Unpaid benefit obligations are measured at undiscounted value.

Bonuses are only recognised when the Company has a firm legal or constructive obligation to pay them and their cost can be reliably estimated.

Social fund assets do not meet the definition of assets in the IFRS Framework as they are not controlled but only administered by the Company and decisions on how to use them are made by the company's social committee.

Full exclusion of the fund will only be possible if the value of its assets is identical

with the value of write-offs and increases. The financial statements will offset the assets

and liabilities of the fund and the surplus will be shown in the statement of financial position - usually as a component of employee liabilities. At the same time, the notes will contain more information on the Company Social Fund.

2.11.15. Grants received

A government grant is not recognised until there is reasonable assurance that the Company will comply with the conditions attached to the grant and that the grant will be received.

For the purposes of accounting for grants, the Company applies the income approach described in IAS 20, whereby grants are recognised as income over one or more periods. Grants are recognised as income on a systematic basis over periods to ensure their commensurability with the related costs the grants are intended to compensate.

In the case of asset grants, the Company accounts for the grant through deferred income over the depreciation period of the asset covered by the grant.

The Company recognises grant income under "Other operating income".

2.11.16. Deferred income

The Company, apart from settled subsidies and investment relief concerning the zone activity described in other sections, the Company recognises in deferred income the amounts of uninvoiced revenue in relation to which the conditions for recognising such revenue have not yet been met as they are contract liabilities. The Company did not distinguish the item of contract liabilities due to insignificant value of prepayments.

2.11.17. Operating segments

An operating segment is a component of the Company:

- which engages in business activities in connection with which it may earn revenues and incur expenses (including income and expenses relating to transactions with other components of the same Company),
- whose operating results are regularly reviewed by the main body responsible for making operating decisions in the Company and using such results in making decisions about resources allocated to the segment and in assessing the segment's performance,
- for which separate financial information is available.

The Company's Management Board decided to identify segments based on the criterion of differentiated products and services.

The Company has identified two operating segments that meet the requirements described in IFRS 8. These segments are:

- detection modules segment
- semiconductor materials segment.

Internal reports on segment results are prepared on a monthly basis in an abbreviated version and on an extended basis in quarterly periods. The body that regularly reviews internal financial reports for the purpose of making major investment decisions is the Company's Management Board, which is responsible for resource allocation.

2.11.18. Revenue recognition

The Company's principal activity is the manufacture and sale of detectors and semiconductor materials. Revenue is defined as the gross inflow of economic benefits for a given period arising in the (ordinary) course of the Company's business and resulting in an increase in equity, other than an increase in equity resulting from contributions from shareholders.

The Company recognises revenue in accordance with IFRS 15.

Revenue is recognised when the customer obtains control of the goods or services. The customer obtains such control when it has the ability to manage the use of the goods or services and to obtain benefits from them. However, a transfer of control under IFRS 15 may occur at a particular point in time or over time, e.g. in the course of provision of services.

In the latter case, one of the following three criteria must be met:

1. the purchaser simultaneously receives and consumes the benefits delivered as the performance obligations are met,
2. the asset created or improved is controlled by the purchaser as the work progresses,
3. the entity's actions do not create an asset that can be used by the entity in the alternative and the entity has a legally enforceable right to receive payment for services already rendered.

If none of these three conditions is met, the transfer of control shall take place at a specific moment in time. In this case, the following criteria can be used:

1. currently, the entity has the right to pay for the asset
2. the purchaser has a legal right to the asset
3. significant risks and rewards of ownership have passed to the buyer
4. the buyer has accepted the asset.

The Company uses the following 5-element revenue recognition process to determine whether revenue should be spread over time or recognised once at a particular point in time.

Stage 1: Identifying contracts with customers.

An entity may recognise revenue if the sale is recognised in the form of a contract. The contract may be written, oral or may be apparent from the conduct of the parties that reveals their intentions sufficiently. In determining whether a contract with a customer has been formed, the terms of termination may be relevant. Contracts entered into simultaneously or in conjunction with other contracts may also be relevant.

Stage 2: Identifying the obligations that the entity must perform under the terms of the contract.

Revenue relates to the fulfilment of a promise to provide the customer with goods or services that are the subject of the sale, meeting the following cumulative conditions (§ 22 IFRS 15):

- 1) the customer can benefit from them independently or in combination with other resources available to the customer (i.e. the goods or services can be separated),
- 2) the entity's promise to transfer the goods or services to the customer can be distinguished from other promises in the contract (i.e. it stands out in the body of the contract). Example: an entity should recognise its obligations to provide products and services separately if it sells products and provides an optional service to customers under a warranty.

Stage 3: Setting the transaction price at the amount of consideration to which the entity expects to be entitled.

Depending on the nature of the sales contract, the consideration may be a fixed amount or (if it depends on the occurrence of a future event) a variable amount, depending on rebates, price discounts, refunds, incentives, performance bonuses, etc.

Stage 4: Allocating the transaction price to the individual obligations.

If the contract contains separate obligations to be fulfilled (identified in Stage 2), the transaction price should be allocated to them accordingly. The best basis for determining the individual price is the price at which the entity can sell the good or service separately.

Stage 5: Revenue recognition when the entity fulfils the obligation.

The contractual obligations are fulfilled when the entity transfers the promised goods or services to the customer, i.e. when the customer obtains control over them. The amount of revenue is the amount of consideration attributable to the obligation fulfilled. The obligation may be satisfied at a particular point in time (typically upon the delivery of goods) or over a period of time (typically with the provision of services). In the latter case, the entity should choose an appropriate method to measure the progress of the obligation being satisfied.

When preparing financial statements, the Company recognises revenue on the basis of INCOTERMS 2010 rules for those transactions where it is assessed that revenue is recognised at a point in time. The main rule applied by VIGO is the EXW rule, which means that the delivery is considered to have been made when the goods are placed at the buyer's disposal at the designated place, with no obligation for further action by the seller.

Relevant payment terms:

- payment normally becomes due when risk is transferred to the recipient, standard payment terms are 30 days.
- contracts do not contain a significant element of funding,
- the amount of remuneration is not variable and therefore the estimated variable remuneration is usually not capped,

a commercial guarantee of one year is provided, which does not deviate from standard product liability terms.

The Company recognises revenue from the provision of services in accordance with the method of measurement of work performed, based on the stage of completion at the end of the reporting period. Under this approach, revenue is recognised in the periods in which the services are performed. The degree of progress is determined on the basis of the actual performance of the work based on the agreed schedules. Contract costs and revenue are measured accordingly. As at the balance sheet date, the Company has only one contract in progress, the valuation of which, however, is not material.

2.12. Significant values based on professional judgement and estimates

The Company's Management Board is required to make estimates, judgements and assumptions about the valuation amounts of individual assets and liabilities. The estimates and related assumptions are based on historical experience and other factors considered relevant. Actual results may differ from the estimates adopted.

Estimates and underlying assumptions are reviewed on an ongoing basis. A change in an accounting estimate shall be recognised in the period in which the estimate is revised if it affects that period only, or in the current and future periods if it affects them in the same way as the current period.

The following are the key assumptions about the future and other bases for estimating uncertainties at the balance sheet date that have a significant impact on the risk of material adjustments to the carrying amounts of assets and liabilities in the next financial year.

2.12.1. Professional judgement

In the process of applying accounting principles (policies) to the issues listed below, management's professional judgement, in addition to accounting estimates, was of the greatest importance.

Allowance for overdue receivables.

The Company updates the value of trade receivables at each balance sheet date. When determining the level of recoverability of trade receivables, changes in their quality from the date of granting the trade credit to the date of preparing the financial statements are taken into account.

During the financial period, receivables were written down in accordance with IFRS 9.

Allowance for aging of inventories in stock.

At each balance sheet date, the Company analyses the ageing of inventories held in warehouses and makes an individual assessment of the price obtainable as at the balance sheet date, and on this basis makes a decision to create a revaluation write-down.

In a given financial period, an increase in the write-down of inventories in stock was made in the amount of PLN 325 thousand.

The Company releases finished goods, previously held only as replacement products in case of delays in the production process due to the judgement of the management, who decided that in connection with the planned increase in the production volume, most of the outstanding inventories will be used in the production process in the next financial year.

Allowance for perpetual usufruct of land.

The Company, on the basis of an appraisal report received from an independent surveyor determining the fair value of the right of perpetual usufruct of land, did not make a write-down.

Timing of commissioning of development work.

The Company settles the expenditures incurred for the execution of development works after the completion of financial inspection by the supervising institution. Upon receipt of an official protocol confirming the completion of work with a positive result, the Company settles the demonstrated outlays.

Expenditures incurred for the execution of development works financed from current funds are settled upon obtaining a positive result of these works. In the situation of unsuccessful development works, as soon as the Company becomes aware of this fact, the expenditures incurred on them are accounted for as other operating costs.

2.12.2. Estimation uncertainty

The key assumptions concerning the future and other key sources of uncertainty at the balance sheet date that hold a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of assets (notes 4.1.1, 4.1.2). At each balance sheet date, an entity assesses whether there is any indication that an asset may be impaired. If any such indication exists, the entity estimates the recoverable amount of the asset.

Valuation of provisions (note 4.2.8). Employee benefit provisions have been estimated using actuarial methods. The discount rate, the salary growth rate and the turnover rate are the key actuarial assumptions affecting employee benefit provisions. The choice of the discount rate is related to the current situation on the treasury bond market, while the choice of planned salary increases reflects the Company's strategy for shaping the remuneration policy in the future. In addition, the balance of provisions for employee benefits is influenced by the employee turnover rate which depends on the historical turnover of the Company's employees.

In accordance with IAS 19, the Company discloses a sensitivity analysis for each significant actuarial assumption at the end of the reporting period, showing how the liability would be affected by changes in the relevant actuarial assumptions.

Accordingly, a sensitivity analysis was performed for the following assumptions:

1. change in the discount rate ± 0.5 p.p.,
2. change in the growth rate of future salaries ± 0.5 p.p.,
3. change in the employee turnover ratio ± 0.5 p.p.

The sensitivity analysis was performed assuming that all other actuarial assumptions remain unchanged. The results of the calculations are as follows:

| Item (in PLN thousands) | Carrying amount | Sensitivity analysis | | | | | |
|-------------------------------------|--------------------|----------------------|--------------|--------------------|--------------|---------------|--------------|
| | | Discount rate | | Salary growth rate | | Turnover rate | |
| | | - 0.5% | + 0.5% | - 0.5% | + 0.5% | - 0.5% | + 0.5% |
| Retirement severance payments | 239 | 258 | 221 | 221 | 258 | 252 | 227 |
| Disability severance payments | 33 | 35 | 31 | 31 | 35 | 35 | 31 |
| Unused holiday leaves | 1 671 | 1 671 | 1 671 | 1 671 | 1 671 | 1 671 | 1 671 |
| Total | 1 942 | 1 964 | 1 923 | 1 923 | 1 963 | 1 957 | 1 929 |

Provisions for future claims. In the given financial period, a provision for possible costs of complaints to be incurred in 2022 in the amount of PLN 608 thousand was booked. Based on the professional

judgement of the Company's management, the amount of this provision is 0.85% of the sales revenue of 2021. If this level were 0.5 p.p. higher than the Company's estimate, the amount of the provision would increase to PLN 966 thousand.

Provisions for liabilities in connection with disputed liabilities. No provision for possible future liabilities was accrued in the financial period.

Deferred tax asset. In 2021, the Company recognised the following assets for deferred tax in the amount of PLN 7,935 million related to the investment tax allowance in connection with business activities in the Tarnobrzeg Special Economic Zone and other temporary differences.

Fair value of derivatives and other financial instruments (note 4.2.12).

The fair value of financial instruments is based on the valuations of these instruments at the balance sheet date received from financial institutions. Other financial instruments are not measured at fair value due to the fact that the fair value is assumed to approximate the carrying amount.

Revenue recognition. The Company uses the percentage of completion method when accounting for long-term contracts for transactions in progress for the provision of services. Use of this method requires the Company to estimate the proportion of work completed to date to the overall services to be performed.

Depreciation rates. The amount of depreciation rates is determined on the basis of the expected economic useful life of tangible and intangible assets. The Company verifies annually the adopted periods of economic usefulness based on current estimates.

The carrying amounts of all the estimates described above and their changes during the year as well as the impact on the result are presented in the additional information in the relevant notes.

2.13. Financial risk management objectives and policies

Apart from derivatives, the main financial instruments used by the Company include bank loans, financial resources, trade and other receivables and payables, short-term deposits, which arise directly in the course of its business. The main purpose of these financial instruments is to raise funds for the Company's operations.

It is the Company's policy now and throughout the period covered by the audited financial statements not to trade in financial instruments.

The principal risks arising from the Company's financial instruments include interest rate risk, liquidity risk, currency risk and credit risk.

The Management Board reviews and approves policies to manage each of these risks - these policies are briefly discussed below. The Company also monitors market price risk on all financial instruments it holds. The size of this risk during the period is shown below.

Basic principles of risk management

The Board is responsible for establishing and overseeing the Company's risk management. The Company's risk management policies are designed to identify and analyse the risks to which the Company is exposed, to set appropriate limits and controls, and to monitor risks and the extent to which limits are matched with those risks. Risk management policies and systems are reviewed regularly to take account of changing market conditions and changes in the Company's business. Through appropriate training, adopted management standards and procedures, the Company aims to build a mobilising and constructive control environment in which all employees understand their roles and responsibilities.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates, interest rates and stock prices will affect the Company's performance or the value of financial instruments held. The objective of market risk management is to maintain and control the Company's exposure to market risk within accepted parameters while seeking to optimise returns.

There is a low probability of impairment of investments in the funds. As this is a liquid portfolio, the Company is able to immediately withdraw the invested funds in the event of a fall in the quotations.

In the opinion of the Management Board, the market risk in relation to the Company concerns primarily exposure to the risk of changes in the PLN/EUR exchange rate as the Company trades mainly as an exporter.

Other market risks relate to changes in interest rates on financial liabilities, cash and cash equivalents. Short-term trade receivables in foreign currency represented 62% of total trade receivables as at 31 December 2021, while short-term trade payables in foreign currency represented 37% of total trade payables as at that date (as at 31.12.2020 - 84% and 37% respectively).

The Company uses financial instruments to hedge its foreign exchange risk.

Foreign exchange risk

The Company continuously analyses fluctuations in the EUR/PLN exchange rate. The table below shows the estimated sensitivity of the gross financial result to EUR exchange rate fluctuations (assuming no hedging through financial instruments):

| Year ending on 31.12.2021 (in PLN thousand) | Impact on net financial result | Impact on equity | Impact on net financial result | Impact on equity |
|--|--------------------------------|------------------|--------------------------------|------------------|
| | EUR + 10%/- 10%* | | USD + 10%/-10% | |
| Cash | +/- 124 | | +/- 51 | |
| Loans and receivables | +/- 653 | | +/- 1 220 | |
| Trade payables | +/- 168 | | +/- 920 | |
| Loans | +/- 1 476 | | | |
| Total | +/- 2 421 | | +/- 2 192 | |
| Year ending on 31.12.2020 (in PLN thousand) | Impact on net financial result | Impact on equity | Impact on net financial result | Impact on equity |
| | EUR + 10%/- 10%* | | USD + 10%/-10% | |
| Cash | +/-755 | | +/-90 | |
| Loans and receivables | +/-869 | | +/-107 | |
| Trade payables | +/-117 | | | |
| Loans | -/+2 944 | | | |
| Total | +1 203 | | +/-197 | |

*The analysis in 2021 includes changes of 10% due to the assumption that the risk associated with the possibility of fluctuations in the exchange rate of one currency in relation to another will not be higher.

The carrying amounts of the Company's monetary assets and liabilities denominated in foreign currencies at the balance sheet date are as follows:

| Assets (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--------------------------|------------|------------|
| Currency in EURO | 15 558 | 16 233 |
| Currency in USD | 2 704 | 1 990 |

| Liabilities (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|-------------------------------|------------|------------|
| Currency in EURO | 25 309 | 30 603 |
| Currency in USD | 920 | 8 |
| Currency in GBP | 12 | |

Interest rate risk

Interest rate risk occurs mainly due to the Company's use of bank loans. Borrowings are based on variable interest rates which exposes the Company to the risk of changes in earnings and cash flows. Given the current level of loan financing, it is assumed that the effects of changes in interest rates may have a moderate impact on the result for 2021.

For the purpose of interest rate sensitivity analysis, based on historical value changes and the Company's knowledge and experience of financial markets, interest rate changes that are "reasonably possible" have been estimated as at 31.12.2021 at -1/+1 percentage points for PLN as regards bank loans.

| In PLN thousand | Impact on net financial result | Impact on equity | Impact on gross financial result | Impact on equity |
|--|--------------------------------|------------------|----------------------------------|------------------|
| | 31.12.2021 + 1p.p./- 1p.p. | | 31.12.2020 + 1p.p./- 1p.p. | |
| Liabilities measured at amortised cost, including | | | | |
| - loans and borrowings received | +/-295 | | +/-305 | |
| EUR | +/-295 | | +/-305 | |

Credit risk

The Management Board has developed a credit policy under which each customer is assessed for creditworthiness before payment terms and other contractual conditions are offered. In the assessment, the customer's rating by external companies and in some cases bank references are taken into account where possible. A transaction limit is set for each customer, which represents the maximum amount of a transaction for which the Management Board's approval is not required.

The Company regularly monitors the timeliness of payment of receivables, calls on customers to make payment in the event of delays and, as a last resort, takes collection actions.

The vast majority of customers have been transacting with the Company for at least three years. Losses incurred by the Company as a result of non-receipt of payments are marginal. The Company's exposure to credit risk is mainly due to the individual characteristics of each customer. The Management Board believes that the credit risk is low as the counterparties are mainly reputable companies.

The Company's largest customer in 2021 generates 28.4% (2020: 17.8%) of the Company's revenue. The balance due from the Company's largest customer represents 31.9% of total gross trade receivables at 31 December 2021 (31 December 2020: 27.9%). All receivables are repaid in accordance with written agreements. The Company does not see any material risk in this respect.

Maximum exposure to credit risk

| Financial assets (in PLN thousand) | Carrying amount | |
|------------------------------------|-----------------|------------|
| | 31.12.2021 | 31.12.2020 |
| Trade and other receivables | 20 897 | 11 484 |

| | | |
|---------------------------|-------|--------|
| Cash and cash equivalents | 5 659 | 13 249 |
|---------------------------|-------|--------|

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting its obligations associated with financial liabilities that are settled in cash or other financial assets. The Company's liquidity management is to ensure, to the greatest extent possible, that the Company always has sufficient liquidity to meet its required obligations, both in normal and emergency situations, without incurring unacceptable losses or undermining the Company's reputation.

The Company minimises liquidity risk by conducting debt collection on a continuous basis, which ensures a constant cash flow. In addition, it controls and conducts activities to meet the terms of its loan agreements. To ensure financial resources, the Company relies on external financing - bank credit.

The Company's liquidity risk management tools include:

- regular monitoring of cash needs and expenditures,
- conducting debt collection on a continuous basis, which ensures a constant inflow of cash,
- activities aimed at meeting the conditions,
- use of external sources of financing in the form of bank loans.

Risks related to liquidity

| Specification (in PLN thousand) | On request | <3 months | From 3 to 12 miesiący | From 1 to 5 lat | >5 years |
|---------------------------------------|---------------|--------------|-----------------------------|--------------------|----------|
| 31.12.2021 | 9 806 | 1 634 | 10 808 | 21 368 | |
| Interest-bearing loans and borrowings | | 1 634 | 10 808 | 21 368 | |
| Trade and other payables | 9 806 | | | | |
| 31.12.2020 | | 4 637 | 4 938 | 24 121 | |
| Interest-bearing loans and borrowings | | 1 610 | 4 829 | 24 121 | |
| Trade and other payables | | 3 027 | 109 | | |

The Company assesses that, within its financial resources with respect to its current debt, the liquidity risk is moderate.

Capital management

The Company's fundamental policy in relation to capital management is to maintain a strong capital base that will underpin confidence on the part of investors, lenders and the market and which will ensure the future growth of the Company. The risk in capital management is the failure to achieve these objectives. The Company monitors changes in shareholdings, return on capital ratios and the level of dividends paid to shareholders.

The Company's objective is to achieve a return on capital at a level satisfactory to shareholders. The Management Board monitors the level of the return on capital ratio, which is defined as the ratio of operating profit to equity. The Management Board seeks to maintain a balance between the higher rate of return achievable with a higher level of debt and the benefits and security achieved with solid capital.

For the reporting period from 1 January 2021 to 31 December 2021, this ratio, calculated as net profit for the reporting period divided by equity less net profit, was 31.61% (adjusted was 22.03%) (2020: 47.84%, adjusted 21.92%). The Company's debt ratio, calculated as the ratio of total borrowings to total equity, was 25.41% (adjusted 27.02%) at 31 December 2021 (2020: 30.38%, adjusted 37.04%).

There were no changes in the Company's approach to capital management during the reporting period from 1 January 2021 to 31 December 2021.

The Company also monitors its capital position using a leverage ratio, which is calculated as net debt divided by total capital plus net debt. The Company's net debt includes interest-bearing loans and borrowings, trade and other payables, less cash and cash equivalents.

Capital management

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---------------------------------------|----------------|----------------|
| Interest-bearing loans and borrowings | 33 810 | 30 560 |
| Trade and other payables | 9 806 | 3 136 |
| Minus cash and cash equivalents | 5 659 | 13 249 |
| Net debt | 37 956 | 20 447 |
| Equity capital | 133 067 | 100 582 |
| Total equity | 133 067 | 100 582 |
| Capital and net debt | 171 023 | 121 029 |
| Leverage ratio | 0.2219 | 0.1689 |

2.14. Comparability of financial data for the current and previous year

During the period under review, the Company did not make any changes that would make it necessary to present data comparable with the previous financial period.

2.15. PLN exchange rates

In the period covered by the financial statements, the following PLN/EUR exchange rates, as determined by the National Bank of Poland, were applied:

| No. | Content | 1.01.2021 – 31.12.2021 | 1.01.2020 – 31.12.2020 |
|-----|--|---------------------------|---------------------------|
| 1. | Average exchange rate of the National Bank of Poland at the balance sheet date | 4.5994 | 4.6148 |
| 2. | Average exchange rate for the period | 4.5575 | 4.4741 |
| 3. | Highest average exchange rate in the period | 4.7210 | 4.6330 |
| 4. | Lowest average exchange rate in period | 4.4541 | 4.2279 |

The data of the statement of financial position were converted using the average exchange rate of the National Bank of Poland as at the balance sheet date. The profit and loss account and statement of cash flows items were translated at an exchange rate that is the arithmetic average of the average exchange rates applicable on the last day of each month in the period based on information published by the National Bank of Poland.

3. Financial statements

Statement of financial position as at 31.12.2021

| Item | Note | As at 31.12.2021 (in PLN thousand) | As at 31.12.2020 (in PLN thousand) |
|---|--------|--|--|
| ASSETS | | | |
| Fixed assets | | 184 684 | 129 106 |
| Tangible fixed assets | 4.1.2 | 99 219 | 70 749 |
| Intangible assets | 4.1.1 | 13 593 | 14 896 |
| Expenditure on development projects - assets under construction | 4.1.4 | 42 652 | 24 667 |
| Assets on account of long-term deferred tax | 4.3.4 | 22 395 | 14 460 |
| Investments in jointly controlled entities | 4.1.3 | 6 802 | 4 321 |
| Accruals and deferred income | 4.1.4 | 22 | 11 |
| Current assets | | 34 314 | 37 955 |
| Inventories | 4.1.5 | 6 899 | 9 224 |
| Trade receivables | 4.1.6 | 14 370 | 9 925 |
| Other receivables | 4.1.6 | 5 652 | 1 524 |
| Other financial assets | 4.1.7 | | 3 033 |
| Other financial receivables | 4.1.6 | 875 | 35 |
| Accruals and deferred income | 4.1.4 | 858 | 965 |
| Cash and cash equivalents | 4.1.8 | 5 659 | 13 249 |
| TOTAL ASSETS | | 218 997 | 167 062 |
| LIABILITIES | | | |
| Equity capital | | 133 067 | 100 582 |
| Initial capital | 4.2.1 | 729 | 729 |
| Share premium account | 4.2.2 | 8 865 | 8 865 |
| Capital from revaluation | 4.2.3 | -24 | -85 |
| Other capitals | 4.2.5 | 91 148 | 58 525 |
| Financial result of the current period | 4.2.4 | 32 348 | 32 547 |
| Long-term liabilities | | 56 660 | 49 630 |
| Loans and credits | 4.2.9 | 21 368 | 24 121 |
| Deferred income | 4.2.14 | 35 066 | 25 255 |
| Provision for pensions and similar benefits | 4.2.8 | 226 | 254 |
| Short-term liabilities | | 29 270 | 16 850 |
| Loans and borrowings | 4.2.9 | 12 441 | 6 439 |
| Trade and other payables | 4.2.10 | 8 103 | 1 735 |
| Other liabilities | 4.2.10 | 1 704 | 1 401 |
| Deferred income | 4.2.14 | 2 363 | 2 937 |
| Provision for pensions and similar benefits | 4.2.8 | 1 717 | 1 206 |
| Other provisions | 4.2.8 | 2 942 | 3 132 |
| TOTAL LIABILITIES | | 218 997 | 167 062 |

Statement of comprehensive income for the period 1.01.2021 - 31.12.2021

| Specification | NOTE | 1.01.2021- 31.12.2021 (in PLN thousand) | 1.01.2020- 31.12.2020 (in PLN thousand) |
|---|-------|--|--|
| Revenues from sales | 4.3.1 | 71 497 | 53 451 |
| Revenues from sale of products | | 69 428 | 46 823 |
| Revenues from sale of services | | 2 023 | 6 536 |
| Revenues from sale of goods and materials | | 46 | 92 |
| Cost of products, goods and materials sold | 4.3.5 | 26 389 | 17 836 |
| Cost of production of sold products and services | | 26 389 | 17 833 |
| Value of goods and materials sold | | | 3 |
| Gross profit (loss) on sale | | 45 108 | 35 615 |
| Other operating income | 4.4 | 5 902 | 4 417 |
| Selling costs | | 4 348 | 3 373 |
| General administration costs | | 20 017 | 15 855 |
| Other operating expenses | 4.5 | 1 920 | 573 |
| Profit (loss) on operating activities | | 24 725 | 20 231 |
| Financial income | 4.6 | 530 | 43 |
| Financial expenses | 4.7 | 842 | 2 177 |
| Profit (loss) before taxation | | 24 413 | 18 096 |
| Income tax | | -7 935 | -14 451 |
| Current income tax | 4.3.4 | | 9 |
| Deferred income tax | | - 7 935 | -14 460 |
| Net profit (loss) from continuing operations | | 32 348 | 32 547 |
| Net profit (loss) | | 32 348 | 32 547 |
| Components of other comprehensive income: | | 61 | -29 |
| Items that will not be reclassified to the income statement in subsequent periods | | 61 | -29 |
| Actuarial gains (losses) on defined benefit plans | 4.3.3 | 61 | -29 |
| Total comprehensive income | | 32 410 | 32 518 |
| Net profit (loss) per share (in PLN) | 4.2.7 | | |
| Basic for the financial period | | 44.37 | 44.65 |
| Diluted for the financial period | | 44.37 | 44.65 |

Statement of changes in equity for the period from 01.01.2021 to 31.12.2021

| (in PLN thousand) | Share capital | Share premium account | Revaluation reserve | Other capital | Financial result of the current period | Total equity |
|--|---------------|-----------------------|---------------------|---------------|--|----------------|
| Dwanaście miesięcy zakończone w dniu 31 grudnia 2021 roku | | | | | | |
| Equity as of 01.01.2021 | 729 | 8 865 | -85 | 91 072 | | 100 582 |
| Financial result of the period | | | | | 32 348 | 32 348 |
| Conditional increase in capital | | | | 76 | | 76 |
| Other comprehensive income: actuarial gains/losses | | | 61 | | | 61 |
| Equity as at 31.12.2021 | 729 | 8 865 | -24 | 91 148 | 32 348 | 133 067 |
| Twelve months ending on 31 December 2020 | | | | | | |
| Equity as at 01.01.2020 | 729 | 8 865 | -56 | 58 525 | | 68 063 |
| Financial result of the period | | | | | 32 547 | 32 547 |
| Other comprehensive income: actuarial gains/losses | | | -29 | | | -29 |
| Equity as at 31.12.2020 | 729 | 8 865 | -85 | 58 525 | 32 547 | 100 582 |

Statement of cash flows (Note 4.8)

| (in PLN thousand) | for the period 01.01.2021 - 31.12.2021 | for the period 01.01.2020 - 31.12.2020 |
|--|--|--|
| OPERATING ACTIVITIES | | |
| Gross profit/loss | 24 413 | 18 096 |
| Income tax | -7 935 | -14 451 |
| Net profit/loss | 32 348 | 32 547 |
| Total adjustments: | -282 | 3 104 |
| Depreciation | 6 753 | 6 244 |
| Foreign exchange gains (losses) | 35 | 2 222 |
| Interest and shares in profits (dividends) | 266 | 396 |
| Profit (loss) on investment activity | 98 | 101 |
| Change in the state of provisions | 354 | 2 244 |
| Change in inventories | 2 325 | -2 306 |
| Change in the state of receivables | -7 981 | -3 114 |
| Change in liabilities, except for loans and credits | 2 469 | 300 |
| Change in the state of prepayments | -435 | 744 |
| Change in prepayments and accrued income | -5 380 | -3 600 |
| Result of entities accounted for using the equity method | 1 042 | |
| Other adjustments | 172 | -127 |
| Cash from operating activities | 24 131 | 21 201 |
| Income tax (paid)/received | | -9 |
| A. Net cash flows from operating activities | 24 131 | 21 192 |
| INVESTMENT ACTIVITIES | | |
| Receipts | 15 055 | 10 100 |
| Subsidies received | 15 053 | 10 099 |
| Proceeds from sale of fixed assets | 2 | 1 |
| Expenditure | -49 616 | -26 023 |
| Acquisition of intangible and tangible fixed assets | -29 394 | -8 503 |
| Expenditure on acquisition of shares | -3 523 | -2 512 |
| Expenditure on investment funds | 3 033 | -3 033 |
| Expenditure on unfinished development works | -18 298 | -11 975 |
| Loans granted | -1 433 | |
| B. Net cash flows from investment activities | -34 561 | -15 923 |
| FINANCIAL ACTIVITIES | | |
| Receipts | 11 469 | 1 512 |
| Credits and loans | 11 469 | 1 512 |
| Expenditure | -8 404 | -6 631 |
| Repayments of loans and credits | -8 092 | -6 238 |
| Interest | -312 | -393 |
| C. Net cash flows from financial activities | 3 065 | -5 119 |
| D. Total net cash flows | -7 365 | 150 |
| E. Balance sheet change in cash, including | -7 590 | 452 |
| - change in cash due to exchange differences | 225 | -301 |
| F. Cash at the beginning of the period | 13 022 | 12 872 |
| G. Cash at the end of the period | 5 658 | 13 022 |

4. Additional information and notes to the financial statements

4.1. Assets

4.1.1. Intangible assets

Changes in intangible assets (by type group) in 2021

| Specification (in PLN thousand) | Perpetual usufruct of land | Completed development work | Other (including computer software) | Total |
|---|-------------------------------|-------------------------------|---|---------------|
| Gross carrying amount as at 01.01.2021 | 3 050 | 14 457 | 2 621 | 20 129 |
| Increases, due to: | 45 | 1 889 | 13 | 1 947 |
| - acquisition | 45 | | 13 | 58 |
| - recognised completed development works | | 1 889 | | 1 889 |
| - accepted from assets in progress | | | | |
| Decreases, due to: | | 865 | 33 | 898 |
| - liquidation | | 865 | 33 | 898 |
| Gross carrying amount as at 31.12.2021 | 3 095 | 15 480 | 2 603 | 21 179 |
| Depreciation as at 01.01.2021 | | 4 185 | 1 048 | 5 233 |
| Increases, due to: | | 2 694 | 549 | 3 243 |
| - depreciation | | 2 694 | 549 | 3 243 |
| Decreases, due to: | | 865 | 26 | 891 |
| - liquidation | | 865 | 26 | 891 |
| Depreciation as at 31.12.2021 | | 6 015 | 1 571 | 7 586 |
| Net carrying amount as at 31.12.2021 | 3 095 | 9 465 | 1 033 | 13 593 |

Changes in intangible assets (by type group) in 2020

| Specification (in PLN thousand) | Perpetual usufruct of land | Completed development work | Other (including computer software) | Total |
|---|-------------------------------|-------------------------------|---|---------------|
| Gross carrying amount as at 01.01.2020 | 3 050 | 12 229 | 2 598 | 17 878 |
| Increases, due to: | | 5 002 | 204 | 5 206 |
| - acquisition | | | 99 | 99 |
| - recognised completed development works | | 5 002 | | 5 002 |
| - accepted from assets in progress | | | 105 | 105 |
| Decreases, due to: | | 2 774 | 181 | 2 955 |
| - liquidation | | 2 774 | 181 | 2 955 |
| Gross carrying amount as at 31.12.2020 | 3 050 | 14 457 | 2 621 | 20 129 |
| Depreciation as at 01.01.2020 | | 4 790 | 717 | 5 507 |

| Specification (in PLN thousand) | Perpetual usufruct of land | Completed development work | Other (including computer software) | Total |
|---|-------------------------------|-------------------------------|---|---------------|
| Increases, due to: | | 2 169 | 512 | 2 681 |
| - depreciation | | 2 169 | 512 | 2 681 |
| Decreases, due to: | | 2 774 | 181 | 2 955 |
| - liquidation | | 2 774 | 181 | 2 955 |
| Depreciation as at 31.12.2020 | | 4 185 | 1 048 | 5 233 |
| Net carrying amount as at 31.12.2020 | 3 050 | 10 272 | 1 573 | 14 896 |

Value and area of land in perpetual usufruct

| Real property address | Land and mortgage register or file number | Plot area [m ²] at 31.12.2021 | Plot area [m ²] at 31.12.2020 | Value as at 31.12.2021 (in PLN thousand) | Value as at 31.12.2020 (in PLN thousand) |
|---|---|--|--|---|---|
| 05-850 Ożarów Mazowiecki, ul. Poznańska 129/133 | WA1P/00087633/6 | 1 302 | 1 302 | 363 | 363 |
| 05-850 Ożarów Mazowiecki, ul. Poznańska 129/133 | WA1P/00082343/1 | 2 750 | 2 750 | 252 | 252 |
| 05-850 Ożarów Mazowiecki, ul. Poznańska 129/133 | WA1P/00083348/3 | 4 928 | 4 928 | 2 435 | 2 435 |
| 05-850 Ożarów Mazowiecki, ul. Poznańska 129/133 | WA1P/00104889/1 | 1 694 | | 45 | |
| In total | | 10 674 | 8 980 | 3 095 | 3 050 |

The Company acquired significant lands in perpetual usufruct prior to 2019 and therefore does not apply IFRS 16 thereto.

In 2021, the Company did not conduct any research work in respect of which costs should have been recognised in the statement of comprehensive income. All expenditure on development work incurred in 2021 has been capitalised in the statement of financial position.

The Company assesses that the following non-tangible assets are material from the perspective of its financial statements:

| Specification (in PLN thousand) | Carrying amount as at 31.12.2021 | Remaining depreciation period (in months) |
|-------------------------------------|-------------------------------------|---|
| PLAISIR technology | 96 | 12 |
| INAS photodiode technology | 27 | 3 |
| Petra module technology | 273 | 10 |
| Medium-wave module technology | 498 | 36 |
| Exposure detector technology | 383 | 36 |
| Exposure detector technology | 740 | 36 |
| Exposure detector chip technology | 1 294 | 36 |
| Exposure detector module technology | 445 | 36 |
| INDII detector technology | 692 | 39 |

| Specification (in PLN thousand) | Carrying amount as at 31.12.2021 | Remaining depreciation period (in months) |
|------------------------------------|----------------------------------|---|
| Semiconductor materials technology | 1 514 | 159 |
| CHEQUERS technology | 1 589 | 46 |
| HOT-TANGO detector technology | 120 | 48 |
| MCT technology | 198 | 38 |
| Dual-colour matrix technology | 67 | 38 |
| Monolithic lens technology | 237 | 38 |
| ACCORDS module technology | 1 067 | 51 |

| Specification (in PLN thousand) | Carrying amount as at 31.12.2020 | Remaining depreciation period (in months) |
|-------------------------------------|----------------------------------|---|
| PLAISIR technology | 193 | 24 |
| INAS photodiode technology | 134 | 15 |
| Petra module technology | 601 | 22 |
| Medium-wave module technology | 664 | 48 |
| Exposure detector technology | 510 | 48 |
| Exposure detector technology | 986 | 48 |
| Exposure detector chip technology | 1 726 | 48 |
| Exposure detector module technology | 593 | 48 |
| INDII detector technology | 905 | 51 |
| Semiconductor materials technology | 1 628 | 51 |
| CHEQUERS technology | 2 003 | 58 |

The Company's Management Board has analysed the significant factors affecting the useful life of the perpetual usufruct rights to lands and on this basis it has concluded that there is no foreseeable limit to the period over which the asset can be expected to generate net cash inflows to the entity. Over the long term, the perpetual usufruct rights to the lands will not, in the Company's opinion, require significant expenditure to maintain their useful life. The useful life of the perpetual usufruct rights to the lands arises directly from the legal title giving rise to the usufruct rights, but the possibility of amending and extending the usufruct period or entering into another agreement relating to these rights is not excluded. The Company is also unable to predict the end of the period of its operation and it is considered that this time is unlimited. Therefore, the perpetual usufruct rights to the lands on which all real properties held by the Company are located qualify for an unlimited useful life. In addition, the Company's Management Board finds that the cost of obtaining the renewal of the perpetual usufruct rights in the future will not be significant and the benchmark is the expected economic benefits to accrue to the entity from the renewal. The Company, through the ability to use perpetual usufruct rights, will be able to obtain economic benefits in its business operations.

The carrying amount of intangible assets with an indefinite useful life (perpetual usufruct rights) as at 31 December 2021 is PLN 3,095 thousand.

4.1.2. Tangible fixed assets

Changes in property, plant and equipment (by type group) 2021

| Specification (in PLN thousand) | Buildings and structures | Machinery and equipment | Means of transport | Other fixed assets | Fixed assets under construction | Total |
|---|-----------------------------|-------------------------------|-----------------------|-----------------------|---------------------------------------|----------------|
| Gross carrying amount as at 01.01.2021 | 37 769 | 33 623 | 935 | 13 672 | 3 381 | 89 380 |
| Increases, due to: | 42 | 1 869 | | 2 684 | 31 769 | 36 364 |
| - acquisition of fixed assets | 42 | 1 068 | | 702 | | 1 813 |
| - settlement of fixed assets under construction | | 800 | | 1 982 | | 2 783 |
| - increase in value | | | | | 31 769 | 31 769 |
| Decreases, due to: | 227 | 54 | | 23 | 2 782 | 3 086 |
| - liquidation | 227 | 54 | | 23 | | 304 |
| - taking fixed assets into inventory | | | | | 2 782 | 2 782 |
| Gross carrying amount as at 31.12.2021 | 37 584 | 35 428 | 935 | 16 343 | 32 368 | 122 657 |
| Depreciation as at 01.01.2021 | 3 509 | 10 139 | 678 | 4 304 | | 18 630 |
| Increases, due to: | 988 | 2 721 | 104 | 1 270 | | 5 083 |
| - depreciation | 988 | 2 721 | 104 | 1 270 | | 5 083 |
| Decreases, due to: | 207 | 44 | | 23 | | 274 |
| - liquidation | 207 | 44 | | 23 | | 274 |
| Depreciation as at 31.12.2021 | 4 290 | 12 816 | 782 | 5 550 | | 23 438 |
| Net carrying amount as at 31.12.2021 | 33 294 | 22 612 | 153 | 10 792 | 32 368 | 99 219 |

Changes in property, plant and equipment (by type group) 2020

| Specification (in PLN thousand) | Buildings and structures | Machinery and equipment | Means of transport | Other fixed assets | Fixed assets under construction | Total |
|---|-----------------------------|-------------------------------|-----------------------|-----------------------|---------------------------------------|---------------|
| Gross carrying amount as at 01.01.2020 | 33 718 | 33 268 | 935 | 9 910 | 4 109 | 81 940 |
| Increases, due to: | 4 173 | 680 | | 3 937 | 6 971 | 15 761 |
| - acquisition of fixed assets | | 400 | | 750 | | 1 150 |
| - settlement of fixed assets under construction | 4 167 | 240 | | 3 187 | 6 971 | 14 565 |
| - increase in value | 6 | 40 | | | | 46 |
| Decreases, due to: | 122 | 325 | | 175 | 7 699 | 8 321 |
| - liquidation | 122 | 325 | | 175 | | 622 |
| - taking fixed assets into inventory | | | | | 7 699 | 7 699 |
| Gross carrying amount as at 31.12.2020 | 37 769 | 33 623 | 935 | 13 672 | 3 381 | 89 380 |
| Depreciation as at 01.01.2020 | 2 682 | 7 759 | 574 | 3 471 | | 14 486 |

| Specification (in PLN thousand) | Buildings and structures | Machinery and equipment | Means of transport | Other fixed assets | Fixed assets under construction | Total |
|---|-----------------------------|-------------------------------|-----------------------|-----------------------|---------------------------------------|---------------|
| Increases, due to: | 921 | 2 659 | 104 | 979 | | 4 663 |
| - depreciation | 921 | 2 659 | 104 | 979 | | 4 663 |
| Decreases, due to: | 94 | 279 | | 146 | | 520 |
| - liquidation | 94 | 279 | | 146 | | 520 |
| Depreciation as at 31.12.2020 | 3 509 | 10 139 | 678 | 4 304 | | 18 630 |
| Net carrying amount as at 31.12.2020 | 34 260 | 23 484 | 257 | 9 368 | 3 381 | 70 749 |

Fixed assets and intangible assets under construction (in PLN thousands)

| Status as at 01.01.2021 | Expenditure incurred during the financial year | Settlement of expenditure | | | | | | Impairment losses on closing balance sheet | Status as at 31.12.2021 |
|-------------------------------|--|---|------------------------|-----------------------|--------------------------|----------------------|-------|--|-------------------------------|
| | | Buildings, premises and civil engineering works | Plant and machinery | Means of transport | Other fixed assets | Intangible assets | Other | | |
| 3 381 | 31 769 | | 800 | | 1 982 | | | | 32 368 |

| Status as at 01.01.2020 | Expenditure incurred during the financial year | Settlement of expenditure | | | | | | Impairment losses on closing balance sheet | Status as at 31.12.2020 |
|-------------------------------|--|---|------------------------|-----------------------|--------------------------|----------------------|-------|--|-------------------------------|
| | | Buildings, premises and civil engineering works | Plant and machinery | Means of transport | Other fixed assets | Intangible assets | Other | | |
| 4 109 | 6 971 | 4 167 | 240 | | 3 187 | 105 | | | 3 381 |

Capitalised borrowing costs (in PLN thousand)

| Specification | 01.01.2021- 31.12.2021 | 01.01.2020- 31.12.2020 |
|-----------------------|---------------------------|---------------------------|
| Tangible fixed assets | 19 | 2 |
| Total | 19 | 2 |

Capital expenditure in 2021 and planned expenditure for 2022

In the financial year 2021, the Company incurred capital expenditures for the purchase of fixed assets and intangible assets (apart from expenditures for development work in progress) in the amount of PLN 30 million (in 2020 - PLN 8.4 million).

Collaterals on fixed assets are described in Section 4.2.9 of this report.

The amounts of contractual obligations incurred to acquire property, plant and equipment as at the balance sheet date are as follows:

- epitaxial system (delivery, installation and commissioning as well as training of employees regarding its operation) - the subject of the contract amounts to EUR 3,617,000. The total investment related to the purchase of the device, additional production and measurement equipment and the cost of developing the infrastructure will amount to approximately EUR 5.4 million.

The Company's investments were primarily related to the construction of a new production plant, the purchase of machinery for the manufacture of products and the replacement of old infrastructure with modern one. A detailed description of the progress of the investment programme is provided in Section 5.2 of the Report.

| Programme | <2017 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | Total |
|----------------------------|--------------|--------------|---------------|---------------|--------------|---------------|--------------|---------------|
| New plant construction | 2 671 | 1 585 | 22 336 | 12 895 | 2 117 | | | 41 604 |
| Materials for photonics | - | - | 4 676 | 14 006 | 2 483 | 2 380 | | 23 546 |
| Processing 2.0 (cleanroom) | - | - | - | 812 | 4 963 | 22 466 | 5 500 | 33 741 |
| Total | 2 671 | 1 585 | 27 012 | 27 713 | 9 564 | 24 846 | 5 500 | 98 891 |

The Company did not incur significant capital expenditure on environmental protection in the current year. No significant expenditure on environmental protection is planned for the following year. However, numerous activities related to reducing energy and water consumption and protecting the environment are described in Section 5.8 of the Report.

Other information on fixed assets

The Company does not make investments in real estate. The Company has no significant non-depreciated or non-written-off fixed assets used under rental, lease or hire purchase agreements at the end of 2021.

4.1.3. Investments in jointly controlled entities

| Name of the company, legal form, town where the management board is located | Value of shares at acquisition price (in PLN thousand) | Revaluation adjustments | Carrying amount of shares (in PLN thousand) | Percentage of shares held | Percentage of votes held |
|---|--|-------------------------|---|---------------------------|--------------------------|
| VIGO WE INNOVATION Sp. z o.o. ul. Święty Marcin 29/8, 61-806 Poznań | 6 688 | | 6 688 | 50% | 50% |

Pursuant to the agreement signed in 2016, VIGO holds a 50% interest in VWI. The Company does not control the aforementioned entity, classifies it as an investment in a joint venture and, in accordance with Article 10(a) of IAS 27, accounts for it at cost as at the balance sheet date.

Decisions on material activities of the VWI Company require the unanimous consent of the parties sharing control. One of the Company's decision-making bodies, the Supervisory Board, comprises three members. At the balance sheet date, these were:

1. Adam Markiel (Co-controlling Company),
2. Piekarski Łukasz (Member of the Management Board of VIGO),
3. Piotrowski Adam (President of the Management Board of VIGO).

In accordance with the provisions of the VWI Company's Articles of Association, the Supervisory Board exercises continuous supervision over its activities in all areas of its operation. Resolutions of this supervisory body are adopted only unanimously in the presence of all its members. Therefore, there is no prerequisite of exercising individual control over VWI by VIGO despite holding 50% of voting rights in its share capital. This investment agreement gives all parties collective control over the contractual arrangements.

The Management Board conducted tests and based on these tests concluded that there were no indicators of impairment of the investment in VWI.

The Company did not enter into any transactions with VWI during the financial year.

On 21 December 2017, an amendment (the "Amendment") was concluded to the investment agreement between VIGO System S.A. and Greenlight Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (the "Fund" - previous name - WARSAW EQUITY PE FUND I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) and VIGO WE Innovation Sp. z o.o. ("Incubator" formerly Ron Investment Sp. z o.o.) executed on 9 February 2017 (the "Agreement"). The said Amendment extends the term of the Agreement until 31 December 2022, subject to the possibility of extending it for an indefinite period upon receiving the consent of the Company's Supervisory Board. At the same time, under the provisions of the Amendment, the parties to the Agreement provided for the Incubator's budget for 2018-2022 in the amount not exceeding PLN 25,000,000. The Company and the Fund undertook to contribute in equal parts to the operations of the Incubator. The budget amount is preliminary, non-binding and may change at any time. Any disposal of shares, including the issuance of new shares, will require the consent of the other parties to the investment agreement.

The data from the statement of accounts and balances of VWI for the period 01.01.2021-31.12.2021 are as follows (in PLN thousand):

| Equity capital | Share capital | Other capital | Net profit/loss | Value of assets | Fixed assets | Current assets | Value of liabilities | Value of income |
|----------------|---------------|---------------|-----------------|-----------------|--------------|----------------|----------------------|-----------------|
| 9 380 | 3 355 | 7 023 | -998 | 9 418 | 8 990 | 428 | 38 | 85 |

In 2021, the Company established VIGO Photonics USA (its own representative office in the United States) and granted it a loan for current operations in the amount of PLN 1.33 million. In 2021, VIGO System also granted a loan for current operations to VIGO Photonics Taiwan in the amount of PLN 0.6 million. These companies have not yet conducted any business activities in 2021. According to Section 2a in Article 13 of the VII Directive, any parent company governed by the national law of a Member State which only has subsidiaries that are not material for the purposes, either individually or as a whole, is exempted from the obligation to prepare consolidated financial statements. Accordingly, VIGO does not prepare consolidated financial statements as of 31 December 2021.

4.1.4. Development expenditure and accruals

A summary of development expenditure incurred is shown in the table below:

| Expenditure on development works (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|------------|------------|
| MIRPHAB | 2 243 | 2 059 |
| WATERSPY | 1 390 | 1 390 |
| AQUARIUS | 1 612 | 1 607 |
| ACCORDS | | 1 256 |
| TRANSFER | 1 247 | 1 249 |
| INNOVATION VOUCHER PIAP | 648 | 648 |
| INNOVATION VOUCHER WAT | 385 | 162 |
| New production plant | 2 170 | 2 144 |
| Low-cost detector module | 772 | 557 |
| III-V detectors | 639 | 297 |
| Production quality improvement | 42 | 117 |
| Multi-element detectors | 1 120 | 996 |
| Processing 2.0 | 1 068 | 1 211 |
| Sensors for Industry 4.0 and IoT | 11 214 | 5 588 |

| Expenditure on development works (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| Materials for photonics | | 77 |
| Epitaxial structures and VCSELs | 7 819 | 3 461 |
| DEMETER | 4 143 | 1 833 |
| Travel | 237 | 13 |
| WidePower | 618 | 5 |
| Optoelectronic Systems | 1 534 | |
| Matrices | 1 527 | |
| Pemir | 317 | |
| Car2Tera | 67 | |
| Wikinet | 237 | |
| Triage | 508 | |
| Ingaas With Asic | 1 097 | |
| Expenditure on development work, of which: | 42 652 | 24 669 |
| long-term | 42 652 | 24 669 |
| short-term | | |

| Other accruals and deferred costs (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---|------------|------------|
| - property insurance | 214 | 140 |
| - subscriptions, charges | 29 | 19 |
| - invoices to be settled in the new period | 399 | 357 |
| - membership fees | 6 | 6 |
| - penalties and damages | | 361 |
| - advance invoices | 230 | 29 |
| - costs to be settled in a subsequent period | | 63 |
| - other | 2 | |
| Prepaid expenses: | 880 | 975 |
| long-term | 22 | 11 |
| short-term | 858 | 964 |

A detailed description of the research and development work carried out is provided in Section 5.3 of the Report.

4.1.5. Inventories

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---|--------------|--------------|
| Materials for production | 4 093 | 4 191 |
| Deliveries en route | 174 | 437 |
| Semi-finished products and work in progress | 754 | 1 559 |
| Finished products | 2 315 | 3 148 |
| Gross inventories | 7 336 | 9 335 |
| Inventory write-down | 437 | 111 |
| Net inventories | 6 899 | 9 224 |

Stock ageing analysis for the period 01.01.2021-31.12.2021

| Specification (in PLN thousand) | Non-moving stock in days | | | | | Total |
|--|--------------------------|--------------|------------|------------|------------|--------------|
| | 1-180 | 181-365 | 366-548 | 549-730 | over 730 | |
| Materials (gross) | 2 418 | 746 | 272 | 154 | 503 | 4 093 |
| Materials (write-offs) | | | 2 | 84 | 330 | 417 |
| Materials, net | 2 418 | 746 | 270 | 69 | 173 | 3 676 |
| Semi-finished products and work in progress (gross) | 481 | 203 | 25 | 18 | 28 | 754 |
| Semi-finished products and work in progress (write-offs) | | | | 11 | 9 | 20 |
| Semi-finished products and work in progress (net) | 481 | 203 | 25 | 7 | 19 | 734 |
| Finished products (gross) | 565 | 139 | 101 | 13 | 69 | 887 |
| Finished products (write-offs) | | | | | | 0 |
| Deviations from the inventory prices | 910 | 224 | 163 | 21 | 111 | 1 428 |
| Finished products (net) | 1 475 | 362 | 264 | 33 | 180 | 2 315 |
| Advances on deliveries | 174 | | | | | 174 |
| Total inventories | 4 548 | 1 311 | 559 | 110 | 372 | 6 899 |

Stock ageing analysis for the period 01.01.2020-31.12.2020

| Specification (in PLN thousand) | Non-moving stock in days | | | | | Total |
|--|--------------------------|--------------|--------------|------------|------------|--------------|
| | 1-180 | 181-365 | 366-548 | 549-730 | over 730 | |
| Materials (gross) | 1 946 | 1 044 | 691 | 229 | 281 | 4 191 |
| Materials (write-offs) | | | | 34 | 61 | 95 |
| Materials, net | 1 946 | 1 044 | 691 | 194 | 220 | 4 096 |
| Semi-finished products and work in progress (gross) | 1 160 | 212 | 110 | 68 | 10 | 1 559 |
| Semi-finished products and work in progress (write-offs) | | | | 11 | 5 | 16 |
| Semi-finished products and work in progress (net) | 1 160 | 212 | 110 | 57 | 5 | 1 543 |
| Finished products (gross) | 546 | 135 | 127 | | 7 | 815 |
| Deviations from the inventory prices | 1 562 | 388 | 362 | | 21 | 2 334 |
| Finished products (net) | 2 108 | 523 | 489 | | 28 | 3 148 |
| Advances on deliveries | 437 | | | | | 437 |
| Total inventories | 5 651 | 1 779 | 1 290 | 251 | 253 | 9 224 |

Change in inventory write-downs

| Specification (in PLN thousand) | Revaluation write-offs for materials | Write-offs to semi-finished products and work in progress | Revaluation write-offs of finished products | Total inventory revaluation write-offs |
|--|--------------------------------------|---|---|--|
| Status as at 01.01.2021 | 95 | 16 | | 111 |
| Increases, of which: | 322 | 4 | | 325 |
| - creation of write-downs in correspondence with other operating costs | 322 | 4 | | 325 |
| Status as at 31.12.2021 | 417 | 20 | | 437 |
| Status as at 01.01.2020 | 116 | | 29 | 145 |
| Increases, of which: | | 16 | | 16 |

| Specification (in PLN thousand) | Revaluation write-offs for materials | Write-offs to semi-finished products and work in progress | Revaluation write-offs of finished products | Total inventory revaluation write-offs |
|--|--------------------------------------|---|---|--|
| - creation of impairment losses in correspondence with other operating costs | | 16 | | 16 |
| Decreases, of which: | 21 | | 29 | 50 |
| - release of impairment losses in correspondence with other operating income | 21 | | 29 | 50 |
| Status as at 31.12.2020 | 95 | 16 | | 111 |

Materials in stock constitute a reserve for securing technological processes and will be used in the next accounting period. Backlog of elements in material warehouses is caused by:

- holding items withdrawn from production by suppliers for the purposes of service delivery,
- holding items used for orders that appear sporadically but in large quantities,
- elements which are used for infrequent orders with special parameters.

Finished products backlogged for more than 365 days are products manufactured in surplus during the minimum technological process series, which can be sold in the future if there is individual demand for them.

Due to the planned increase in production volumes, the majority of the backlog will be consumed in the production process in 2022.

Keeping finished products in stock is due to:

- holding stock for high-volume production orders,
- having in stock individual detectors manufactured in excess as part of single orders with very specific parameters, where repetition of such special parameters occurs at intervals of several months,
- manufacturing, as part of lowering the price for the customer, products in larger batches, where part of the batch is sold immediately and the rest within the next few months.

The value of inventories recognised as cost in the period is as follows:

- in the cost of production the cost of direct materials is PLN 8,976 thousand and indirect costs and other costs are PLN 17,413 thousand.

The value of inventories recognised as goods sold was not disclosed in the period.

The Company has no collateral for liabilities on its inventories.

4.1.6. Receivables

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---------------------------------|---------------|---------------|
| Trade receivables | 14 370 | 9 925 |
| - from other entities | 14 370 | 9 925 |
| Revaluation allowances | 40 | 111 |
| Gross trade receivables | 14 410 | 10 037 |

Change in impairment allowance for trade receivables

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---|------------|------------|
| Balance of write-downs on trade receivables at the beginning of the period | 111 | 419 |
| Increases, including: | 120 | |
| - making write-downs for overdue and disputed receivables | 120 | |
| Decreases, including: | 192 | 308 |
| - release of write-downs repayment of receivables | 192 | 294 |
| - write-downs on bad receivables | | 14 |
| Balance of write-downs on trade receivables from other entities at the end of the period | 40 | 111 |

Change in impairment allowances for other financial receivables

| Specification (in PLN thousand) | Loan write-downs | total inventory write-downs |
|--|------------------|-----------------------------|
| Balance as at 01.01.2021 | | |
| Increases of which: | 558 | 558 |
| - creation of write-downs in correspondence with other operating costs | 558 | 558 |
| Balance as at 31.12.2021 | 558 | 558 |
| Balance as at 01.01.2020 | | |
| Balance as at 31.12.2020 | | |

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|-------------------------------------|--------------|--------------|
| Other receivables, of which: | | |
| - on account of taxes, | 5 576 | 1 507 |
| - other | 75 | 17 |
| Other receivables, gross | 5 652 | 1 524 |
| Other financial receivables | | |
| - loans granted | 875 | 35 |
| Revaluation write-offs | 558 | |
| Gross financial receivables | 1 433 | 35 |

| Currency structure of gross short-term receivables (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| in Polish currency | 6 330 | 1 804 |
| in foreign currencies (by currency and after conversion to PLN) | 14 567 | 9 792 |
| EUR | 2 842 | 1 883 |
| after translation into PLN | 13 069 | 8 688 |
| USD | 508 | 294 |
| after translation into PLN | 1 498 | 1 104 |
| Total short-term receivables | 20 898 | 11 595 |

Structure of receivables

| Specification (in PLN thousand) | Total | Not overdue | Overdue in days | | | | |
|---------------------------------|---------------|---------------|-----------------|----------------|----------------|-----------------|----------------|
| | | | up to 1 month | up to 3 months | up to 6 months | up to 12 months | over 12 months |
| 31.12.2021 | | | | | | | |
| Trade receivables | 14 410 | 13 482 | 822 | 84 | | 12 | 11 |
| revaluation allowances | 40 | 21 | 6 | 3 | | 3 | 7 |
| Other receivables | 7 085 | 7 085 | | | | | |
| revaluation allowances | 558 | 558 | | | | | |
| Total | 20 898 | 19 988 | 816 | 81 | | 9 | 4 |
| 31.12.2020 | | | | | | | |
| Trade receivables | 10 037 | 7 561 | 1 683 | 688 | 93 | 2 | 10 |
| revaluation allowances | 111 | 44 | 36 | 20 | 11 | 1 | |
| Other receivables | 1 559 | 1 559 | | | | | |
| Total | 11 485 | 9 076 | 1 647 | 668 | 82 | 1 | 10 |

The amount receivable is based on the standard payment terms granted to customers by the Company. In the opinion of the Management Board of the Company, there is no significant risk of non-receipt of payments arising from the above receivables.

4.1.7. Other financial assets

A financial asset is measured at fair value through profit or loss if it does not meet the criteria to be measured at amortised cost or fair value through other comprehensive income and is not an equity instrument designated on initial recognition to be measured at fair value through other comprehensive income. The Company classifies financial assets designated on initial recognition as at fair value through profit or loss because they meet the criteria set out in IFRS 9.

Instruments in this category are measured at fair value and the effects of the measurement are recognised in the result under "Financial income" or "Financial expenses", as appropriate. Gains and losses on the valuation of financial assets are determined by the change in fair value determined on the basis of current prices from an active market at the balance sheet date.

4.1.8. Cash and cash equivalents

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|--------------|---------------|
| Cash in hand and bank accounts: | | |
| Cash PLN | | 4 |
| Cash EURO | | 4 |
| converted into PLN | | 18 |
| Cash USD | | 3 |
| converted into PLN | | 11 |
| Bank PLN | 3 119 | 4 803 |
| Bank EURO | 541 | 1 631 |
| converted into PLN | 2 489 | 7 527 |
| Bank USD | 13 | 236 |
| converted into PLN | 51 | 886 |
| Total | 5 659 | 13 249 |

The reason for the difference between the change in the cash item in the statement of financial position and the change in this item shown in the cash flow statement is negative exchange differences - as a foreign exchange gain of PLN 2 thousand from the balance sheet valuation as at 31.12.2021.

Restricted cash:

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|------------------------------------|--------------|---------------|
| Cash received for development work | 2 457 | 11 305 |
| Total | 2 457 | 11 305 |

Cash at the disposal of the entity not included in the balance sheet item

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---------------------------------|------------|------------|
| Cash of the Company Social Fund | 147 | 84 |
| Total | 147 | 84 |

4.2. Liabilities

4.2.1. Share capital (structure)

| Series/issue | Type of shares | Type of preference of shares | Type of restriction of rights to shares | Number of shares (in units) | Value of series/issue at nominal value (PLN) | Method of capital coverage | Date of registration | Right to dividend (as of date) |
|----------------------------------|----------------|---------------------------------|---|-----------------------------|--|--------------------------------------|----------------------|--------------------------------|
| Series A | bearer shares | the shares are non-preferential | none | 547 000 | 547 000 | from the conversion of share capital | 20.02.2002 | in accordance with the CCC |
| Series C | bearer shares | the shares are non-preferential | none | 147 000 | 147 000 | private placement | 29.09.2010 | in accordance with the CCC |
| Series D | bearer shares | the shares are non-preferential | none | 35 000 | 35 000 | public issue | 15.12.2014 | in accordance with the CCC |
| Total number of shares | | | | | | | | 729 000 |
| Total share capital | | | | | | | | 729 000 |
| Nominal value of one share (PLN) | | | | | | | | 1,00 |

The capital ownership structure is presented in Section 5.9 of the Report.

4.2.2. Share premium account

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---------------------------------|--------------|--------------|
| Share premium account | 8 865 | 8 865 |
| Total | 8 865 | 8 865 |

4.2.3. Revaluation reserve

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---------------------------------|------------|------------|
| Revaluation reserve | -24 | -85 |
| Total | -24 | -85 |

4.2.4. Current-period financial result

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---------------------------------|---------------|---------------|
| Current-period financial result | 32 348 | 32 547 |
| Total | 32 348 | 32 547 |

4.2.5. Other capital

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| Accumulated results of previous years | 58 525 | 44 641 |
| Previous year's profit not distributed as dividend | 32 547 | 13 884 |
| Contingent capital increase (incentive scheme) | 76 | |
| Total | 91 148 | 58 525 |

Change in other capital:

| Specification (in PLN thousand) | Cumulative results from previous years | Undistributed profit | Total |
|--|--|----------------------|---------------|
| 01.01.2021 | 58 525 | | 58 525 |
| Increases in the period | 32 623 | | 32 623 |
| Distribution of 2020 net profit to accumulated results from previous years | 32 547 | | 32 547 |
| Contingent capital increase (incentive scheme) | 76 | | 76 |
| Decreases in the period | | 32 547 | 32 547 |
| Distribution of net profit 2020 to accumulated previous years' results | | 32 547 | 32 547 |
| 31.12.2021 | 91 148 | | 91 148 |
| 01.01.2020 | 44 641 | 13 884 | 58 525 |
| Increases in the period | 13 884 | | 13 884 |
| Distribution of 2019 net profit to accumulated results from previous years | 13 884 | | 13 884 |
| Decreases in the period | | 13 884 | 13 884 |
| Distribution of net profit 2019 to accumulated previous years' results | | 13 884 | 13 884 |
| 31.12.2020 | 58 525 | | 58 525 |

4.2.6. Amounts not distributable as dividends

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|------------|------------|
| Capital under the CCC - 1/3 of the share capital | 243 | 243 |
| Adjustments due to conversion from AIFRS to IFRS/IAS | 2 090 | 2 090 |

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| Share premium account | 8 866 | 8 866 |
| Total capitals | 11 199 | 11 199 |
| Finished development works | 15 494 | 14 470 |
| Expenditures on development work | 42 652 | 24 669 |
| Total unsettled development works | 58 146 | 39 139 |
| Total | 69 345 | 50 338 |

4.2.7. Earnings per share

| Calculation of earnings per share - assumptions (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|-------------------------|-------------------------|
| Net profit from continuing operations | 32 348 | 32 547 |
| Net profit attributable to ordinary shareholders used to calculate diluted earnings per share | 32 348 | 32 547 |
| Profit shown for the purpose of calculating diluted earnings per share | 32 348 | 32 547 |

| Calculation of earnings per share - assumptions (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|-------------------------|-------------------------|
| Net profit from continuing operations adjusted* | 24 337 | 18 087 |
| Net profit attributable to ordinary shareholders used to calculate diluted earnings per share adjusted* | 24 337 | 18 087 |
| Profit shown for the purpose of calculating diluted earnings per share adjusted* | 24 337 | 18 087 |

*Adjusted net profit is cleared of the impact of deferred income tax

| Number of shares issued | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|-------------------------|-------------------------|
| Weighted average number of shares used to calculate basic earnings per share in units | 729 000 | 729 000 |
| Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share in units | 729 000 | 729 000 |
| Earnings per share (in PLN) | 44,37 | 44,65 |
| Earnings per share (in PLN) adjusted* | 33,38 | 24,81 |

*Earnings per share (in PLN) adjusted is cleared of the impact of deferred income tax

Proposals as to the manner of profit distribution or loss coverage for the financial year:

The net profit for 2020 in the amount of PLN 32,547 thousand was fully allocated to increase the supplementary capital.

The Management Board will make recommendations regarding the distribution of profit for 2021 after analysing the Company's current financial situation.

4.2.8. Provisions

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|--------------|--------------|
| Provisions for retirement and disability severance pay | 272 | 284 |
| Provisions for holiday leaves | 1 671 | 1 176 |
| Total, of which: | 1 943 | 1 460 |
| - long-term | 226 | 254 |
| - short-term | 1 717 | 1 206 |

Changes in provisions for pensions and similar benefits

| Specification (in PLN thousand) | Provisions for retirement and disability severance pay | Provisions for holiday leaves |
|--|--|-------------------------------|
| Balance as at 01.01.2021 | 284 | 1 176 |
| Establishment of the provisions | | 494 |
| Release of provisions | 12 | |
| Balance as at 31.12.2021, including | 272 | 1 671 |
| - long-term | 226 | |
| - short-term | 46 | 1 671 |
| Balance as at 01.01.2020 | 201 | 624 |
| Establishment of the provisions | 83 | 552 |
| Balance as at 31.12.2020, of which: | 284 | 1 176 |
| - long-term | 254 | |
| - short-term | 30 | 1 176 |

| Specification (in PLN thousand) Provisions for retirement and disability severance pay | 2021 | 2020 |
|--|------------|------------|
| Present value of obligation at the beginning of the period | 284 | 201 |
| Current service cost | 45 | 50 |
| Interest expense | 4 | 4 |
| Actuarial gains/losses due to changes in demographic assumptions | -61 | 29 |
| Benefits paid | | |
| Present value of obligation at end of the period | 272 | 284 |

The Company has an employee share scheme.

On 18 October 2021, the Extraordinary General Meeting adopted a resolution to create an incentive program for key employees of VIGO System S.A.

The Incentive Program is based on the following key assumptions:

1. The aim of the Incentive Programme is to introduce additional mechanisms to motivate Members of the Management Board and key employees of the Company and its subsidiaries (excluding employees of Vigo We Innovation sp. z o.o. with its registered office in Warsaw) to undertake activities leading to intensification of the Company's organic development and to achieve the highest possible financial results in the long term. Moreover, the Incentive Programme is to contribute to long-term commitment of the Members of the Management Board and key employees of the Company and its subsidiaries to the Company, which will ensure maintenance of a high level of professionalism in the Company's and its subsidiaries' affairs.

2. The Incentive Programme shall be implemented by way of gratuitous granting to participants of the Incentive Programme of registered subscription warrants of series A and B entitling to take up not more than 29,160 (twenty nine thousand one hundred and sixty) ordinary series E bearer shares with the nominal value of PLN 1.00 (one zloty) each.

3. The Incentive Programme shall be implemented in the years 2021-2023, in three stages (falling within each calendar year of the Incentive Programme).

4. Participants of the Incentive Programme will be members of the Company's Management Board and key employees of the Company and its subsidiaries (except for the company Vigo We Innovation sp. z o.o. with its registered office in Warsaw) elected by the Company's Management Board after consulting the Supervisory Board from among directors and deputy directors or other employees responsible for the implementation of the Company's strategic initiatives and employees of the subsidiaries fulfilling managerial functions (except for the company Vigo We Innovation sp. z o.o. with its registered office in Warsaw).

In connection with the adoption of the Incentive Scheme, the Extraordinary General Meeting has resolved and adopted:

- a) the rules of procedure for the Incentive Programme (the "Rules") and authorised and obliged the Management Board of the Company as well as the Supervisory Board of the Company to take all actions necessary for the implementation and proper execution of the Incentive Programme, in particular the relevant actions described in the Rules;
- b) issue of not more than 29,160 registered subscription warrants of series A and B, including 11,664 warrants of series A allocated to the Members of the Management Board of the Company (40% of the Warrants) and 17,496 warrants of series B allocated to the persons selected from among the Key Employees (60% of the Warrants) within three stages of the Incentive Programme, under the condition of registration of amendments to the Articles of Association of the Company related to the conditional increase of share capital of the Company concerning the issue of Shares
- c) depriving existing shareholders of pre-emptive rights to the Warrants;
- d) a conditional increase of the Company's share capital by an amount not higher than PLN 29,160 by way of an issue of Shares, i.e. not more than 29,160 series E ordinary bearer shares with a nominal value of PLN 1 (one zloty) each;
- e) depriving existing shareholders of pre-emptive rights to the Shares;
- f) the holder of the Warrants shall be entitled to: a) to take up the Shares in a number equal to the number of Warrants they hold, at the Issue Price equal to PLN 655.89 (six hundred and fifty-five PLN 89/100), corresponding to the volume-weighted average price of the Company's shares on the regulated market operated by the Warsaw Stock Exchange in the period from 1 June 2020 to 31 August 2021 with a 10% discount or b) take up the Shares only from a part of the Warrants held, at the nominal price of the Shares equal to PLN 1.00 (one zloty), under the condition of a free transfer to the Company for redemption of the remaining part of the Warrants held, determining the number of the Shares which may be taken up and at the same time the number of the Warrants which will be subject to redemption according to the following formulas:

$$S = W \times (MP - IP) / MP$$

$$R = W - S$$

where: S - number of Shares which the Warrant Holder may take up at the nominal price of the Shares;

W - number of Warrants which the Warrant Holder holds;

MP - the market price of the Company's shares corresponding to the closing price of the Company's shares at the Warsaw Stock Exchange on the day preceding the day on which the Warrant Holder submits the Warrant Holder's Statement to Take Up Shares

IP- the Issue Price; R - the number of Warrants to be redeemed.

- g) amendment to § 7 of the Company's Articles of Association by adding after Section 1, Subsections 1a - 1d in relation to the conditional share capital increase and authorised the Company's Supervisory Board to determine the consolidated text of the amended Company's Articles of Association;
- h) creation of the reserve capital in the amount of PLN 15,300,601 intended for financing of taking up E series shares of the Company;

- i) the principles of financing by the Company of the take-up of the Company's Shares within the Incentive Programme;
- j) consent to the Company concluding loan agreements with Members of the Management Board of the Company in order to finance the taking up of Shares.

The Company booked the amount of PLN 76 thousand in remuneration costs on account of meeting the terms and conditions of the incentive programme for 2021.

- The performance target (EBITDA adjusted for, inter alia, the effect of subsidies) was achieved in 98.64% (EBIDTA achieved: PLN 29.12 million), therefore:
- the number of subscription warrants for 2021 was reduced by 8%,
- the issue price amounted to PLN 655.89,
- the value of the incentive programme at the end of 2021 amounted to PLN 75,706.36 and was booked to increase the reserve capital.

Costs recognised in the income statement for retirement and disability benefits.

| Specification (in PLN thousand) | 2021 | 2020 |
|--|-----------|-----------|
| Current service cost | 45 | 50 |
| Interest expenses | 4 | 4 |
| Total income statement | 49 | 54 |
| Actuarial gains/losses due to changes in demographic assumptions | -25 | 29 |
| Total other comprehensive income | 24 | 83 |

The main assumptions used by the actuary at the balance sheet date to calculate the liability are as follows:

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|-----------------------------------|------------|------------|
| Discount rate (%) | 3.70% | 1.50% |
| Staff turnover rate (%) | 4.50% | 4.70% |
| Expected salary increase rate (%) | 5.00% | 5.00% |

Sensitivity analysis for the provision established at the balance sheet date

| Specification (in PLN thousand) | -0.50% | +0.50% |
|----------------------------------|--------|--------|
| Discount rate (%) | 1 964 | 1 923 |
| Expected growth rate of salaries | 1 923 | 1 963 |
| Anticipated turnover rate (%) | 1 957 | 1 929 |

The table shows how the balance of the provision would develop after a change in rates.

The entity estimates that the following payments from the defined benefit plan are expected in the periods below:

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---------------------------------|------------|------------|
| Next year | 56 | 32 |
| Between 1 and 5 years | 12 | 39 |
| More than 5 years | 2 401 | 1 717 |

Other provisions

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---|--------------|--------------|
| Provision for Q4 bonuses | 2 233 | 1 618 |
| Provisions for warranty repairs and returns | 608 | 454 |
| Provision for audit of financial statements | 27 | 27 |
| Other provisions | 75 | 1 033 |
| Total, of which: | 2 942 | 3 132 |
| - short-term | 2 942 | 3 132 |

Change in other provisions

| Specification (in PLN thousand) | Provisions for warranty repairs and returns | Other provisions | Total |
|--|---|------------------|--------------|
| Balance as at 01.01.2021 | 454 | 2 678 | 3 132 |
| Created during the financial year | 153 | 717 | 870 |
| Released | | 1 059 | 1 059 |
| Balance as at 31.12.2021, of which: | 607 | 2 336 | 2 943 |
| - short-term | 607 | 2 336 | 2 943 |
| Balance as at 01.01.2020 | 365 | 1 130 | 1 495 |
| Created during the financial year | 454 | 2 678 | 3 132 |
| Released | 365 | 1 130 | 1 495 |
| Balance as at 31.12.2020, of which: | 454 | 2 678 | 3 132 |
| - short-term | 454 | 2 678 | 3 132 |

4.2.9. Credit agreements and long-term liabilities

Loans, as at 31.12.2021

| Name of bank and type of credit | Amount of loan under the agreement (PLN thou. / EUR thou.) | Amount outstanding (PLN thou. / EUR thou.) | Nominal interest rate | Repayment date | Collateral |
|---|--|--|-----------------------|----------------|-----------------|
| ING Bank Śląski - corporate foreign currency investment loan | EUR 5 800 | EUR | EURIBOR 1M + margin | 31.03.2026 | described below |
| ING Bank Śląski - corporate foreign currency investment loan | EUR 3 600 | EUR | EURIBOR 1M + margin | 31.12.2026 | described below |
| ING Bank Śląski investment loan - PLN investment technological loan | PLN 6 000 | PLN | WIBOR 1M +margin | 30.09.2022 | described below |
| ING Bank Śląski - corporate foreign currency investment loan | EUR 2 000 | EUR | EURIBOR 1M +margin | 31.03.2026 | described below |

Loans, as at 31.12.2020

| Name of bank and type of credit | Amount of loan under the agreement (PLN thou. / EUR thou.) | Amount outstanding (PLN thou. / EUR thou.) | Nominal interest rate | Repayment date | Collateral |
|---|--|--|-----------------------|----------------|-----------------|
| ING Bank Śląski - corporate foreign currency investment loan | EUR 5 800 | EUR | EURIBOR 1M + margin | 31.03.2026 | described below |
| ING Bank Śląski - corporate foreign currency investment loan | EUR 3 600 | EUR | EURIBOR 1M + margin | 31.12.2026 | described below |
| ING Bank Śląski investment loan - PLN investment technological loan | PLN 6 000 | PLN | WIBOR 1M +margin | 30.09.2022 | described below |
| ING Bank Śląski - corporate foreign currency investment loan | EUR 2 000 | EUR | EURIBOR 1M +margin | 31.03.2026 | described below |

a. Agreement for a corporate foreign exchange loan to finance the investment and to refinance the capital expenditures incurred by the Company under the investment.

Loan in the amount of EUR 5,800,000.00 (the amount of the loan and its start and end dates were amended by Amendment No. 1 dated 6 June 2018), to finance the investment and to refinance the capital expenditures incurred. The loan is granted for the period from 06.06.2018 to 31.03.2026.

The loan bears interest at a floating interest rate determined by the Bank based on EURIBOR for 1-month interbank deposits increased by a margin.

The Parties have agreed on the Collateral in the following form:

- a) a joint contractual mortgage of up to EUR 17,100,000.00 on: (i) the Company's right of perpetual usufruct of the land along with the ownership right to the building erected thereon, located in Ożarów Mazowiecki at ul. Poznańska, entered in the land and mortgage register No. WA1P/00087633/6, (ii) the Company's right of perpetual usufruct of the land along with the ownership right to the equipment situated thereon, located in Ożarów Mazowiecki at ul. Poznańska, entered in the land and mortgage register No. WA1P/00082343/1, (iii) the Company's right of perpetual usufruct of the land (and ultimately together with the ownership right to the building currently being constructed on the land) located in Ożarów Mazowiecki at ul. Poznańska, entered in the land and mortgage register No. WA1P/00083348/3. The establishment of the mortgage shall take place within 180 calendar days from the conclusion of the Agreement;
- b) assignment of rights from the insurance policy of the object of the collateral described in letter a).
- c) a blank bill of exchange issued by the Company together with a bill of exchange declaration;
- d) registered pledge on machinery and equipment purchased as part of the Investment,
- e) assignment of rights from the insurance policy of the object of collateral described in letter d),
- f) assignment of rights from the insurance policy against construction/installation risks under the contract.
- g) Other terms and conditions of the contract do not differ from market standards used in agreements of this type.

b. Corporate foreign exchange loan agreement for investment financing.

A loan of EUR 3,600,000.00 to finance the purchase of a MOCVD epitaxial system and the implementation of technology in the production of semiconductor materials from groups III-V of the periodic table of elements, intended for the manufacture of advanced electronic and optoelectronic products. The loan is granted from the date of its availability until 31.12.2026.

The loan bears interest at a floating interest rate determined by the Bank based on EURIBOR for 1-month interbank deposits, increased by a margin.

The Parties have agreed on the Collateral in the following form:

- a) a joint contractual mortgage of up to EUR 17,100,000.00 on: (i) the Company's right of perpetual usufruct of the land along with the ownership right to the building erected thereon, located in Ożarów Mazowiecki at ul. Poznańska, entered in the land and mortgage register No. WA1P/00087633/6, (ii) the Company's right of perpetual usufruct of the land along with the ownership right to the equipment situated thereon, located in Ożarów Mazowiecki at ul. Poznańska, entered in the land and mortgage register No. WA1P/00082343/1, (iii) the Company's right of perpetual usufruct to the land (and ultimately together with the ownership right to the building currently being constructed on the land) located in Ożarów Mazowiecki at ul. Poznańska, entered in the land and mortgage register No. WA1P/00083348/3. The establishment of the mortgage shall take place within 180 calendar days from the conclusion of the Agreement;
- b) assignment of rights from the insurance policy of the object of collateral described in letter a);
- c) a registered pledge on machinery and equipment purchased in the course of the Investment,
- d) assignment of rights from the insurance policy of the object of collateral described in letter c),
- e) power of attorney to dispose of funds accumulated on all current and future accounts opened and maintained by the Bank in favour of the Company in PLN, EUR and USD.
- f) representation on submission to enforcement proceedings of the Company, pursuant to Article 777 Section 1 Point 5 of the Code of Civil Procedure, regarding the obligation to pay the amount of up to EUR 5,400,000.00.
- g) The remaining conditions of the agreement do not differ from market standards used in agreements of this type.

c. An agreement for a technological credit in PLN to finance an investment.

Credit in the amount of PLN 6,000,000.00 intended for the pre-financing of the technology bonus granted by the Bank Gospodarstwa Krajowego from the resources of the Technology Credit Fund - Sub-measure 3.2.2 of the Operational Programme Intelligent Development 2014-2020 "Credit for technological innovations". The loan is granted for the period from 29.03.2019 to 30.09.2022.

The loan bears interest at a floating interest rate determined by the Bank based on the WIBOR rate for 1-month interbank deposits increased by a margin.

The Parties have agreed on the Collateral in the following form:

- a) a joint contractual mortgage up to the amount of PLN 22,500,000.00 on the perpetual usufruct rights to the real estate together with the buildings located in Ożarów Mazowiecki
- b) assignment of rights from the insurance policy of the real properties constituting the collateral
- c) representation on submission to enforcement proceedings concerning the obligation to pay the sum of money up to the amount of PLN 9,000,000.00
- d) power of attorney to dispose of funds on all current and future accounts opened with ING Bank Śląski S.A. in PLN, EUR and USD
- e) assignment of rights from the General Contractor's construction risks insurance policy - min. for the amount corresponding to the value of the General Contractor's works
- f) registered pledge on machinery and equipment purchased in the course of the investment
- g) assignment of rights from the insurance policy of the object of security of plant and machinery Agreement on corporate foreign exchange loan for investment financing and for refinancing investment outlays incurred by the Company within the investment.

d. Corporate foreign exchange loan agreement for investment financing.

Credit in the amount of EUR 2,000,000.00 to finance investments and refinance capital expenditures incurred. The loan is granted for the period from 29.03.2019 to 31.03.2026.

The credit facility bears interest at a floating interest rate determined by the Bank on the basis of the EURIBOR rate for 1-month interbank deposits increased by a margin.

The Parties have agreed on the Collateral in the following form:

- a) a joint contractual mortgage up to the amount of EUR 17,100,000.00 on the perpetual usufruct rights to the real estate together with the buildings located in Ożarów Mazowiecki
- b) assignment of rights from the insurance policy of real properties constituting the collateral
- c) representation on submission to enforcement proceedings concerning the obligation to pay the amount of up to EUR 3,000,000.00
- d) power of attorney to dispose of funds on all current and future accounts opened with ING Bank Śląski S.A. in PLN, EUR and USD
- e) assignment of rights from the General Contractor's construction risks insurance policy - min. for the amount corresponding to the value of the General Contractor's works
- f) registered pledge on machinery and equipment purchased in the course of the investment
- g) assignment of rights from the insurance policy of the object of security of plant and machinery.

Maturity structure of credits and loans

| Specification (in PLN thousand) | 31.12.2021 | | 31.12.2020 | |
|---------------------------------|-------------------|---------------|-------------------|---------------|
| | value in currency | value in PLN | value in currency | value in PLN |
| PLN | | 4 299 | | 1 120 |
| EURO | 6 416 | 29 511 | 6 379 | 29 440 |
| Total credits and loans | | 33 810 | | 30 560 |

Amount of loans available for use at the end of the reporting period:

1. The Agreement for a corporate foreign exchange loan to finance investments and to refinance capital expenditure incurred by the Company under the investment in the amount of EUR 2,000,000 - EUR 479,692.64 remains to be used.

Table of credit facilities movements 2021 (in PLN/EUR thousands)

| Credit amount | balance as at 01.01.2021 | +/- capital | + accrued interest/- accrued interest paid | + valuation (decrease of liability)/valuation (increase of liability) | balance as at 31.12.2021 |
|--------------------|--------------------------|-----------------------|--|---|--------------------------|
| EUR 5 800 | 16 580 | -/-4 006 | -1 | -/-101 | 12 472 |
| EUR 3 600 | 12 453 | -/-2 356 | +114/-114 | -/-51 | 10 046 |
| EUR 2 000 | 407 | +6 560/- | -1 | +26 /- | 6 993 |
| PLN 6 000 | 1 120 | +4 880/-1 730 | -1 | | 4 270 |
| in current account | | +29/- | | | 29 |
| Total | 30 560 | +11 469/-8 092 | -1 | +26/-152 | 33 810 |

Table of credit facilities movements 2020 (in PLN/EUR thousands)

| Credit amount | balance as at 01.01.2020 | +/- capital | + accrued interest/- accrued interest paid | + valuation (decrease of liability)/valuation (increase of liability) | balance as at 31.12.2020 |
|---------------|--------------------------|----------------------|--|---|--------------------------|
| EUR 5 800 | 19 051 | -/-3 910 | +182/-182 | -/-1 438 | 16 580 |
| EUR 3 600 | 13 681 | -/-2 299 | +135/-135 | -/-1 070 | 12 453 |
| PLN 6 000 | 29 | -/-29 | | | |
| EUR 2 000 | | +392/- | | -/-15 | 407 |
| PLN 6 000 | | +1 120/- | +1/-1 | | 1 120 |
| Razem | 32 762 | +1 512/-6 238 | +318/-318 | -/-2 524 | 30 560 |

Other long-term liabilities

The Company has no further long-term liabilities other than loans, grants and provisions.

Loans, sureties and guarantees granted

In 2021, the Company established VIGO Photonics USA (its own representative office in the United States) and granted it a loan for current operations in the amount of PLN 1.33 million. In 2021, VIGO System also granted a loan for current operations to VIGO Photonics Taiwan in the amount of PLN 0.6 million.

In 2020, Company did not grant any loans, sureties or guarantees.

4.2.10. Trade and other payables

Maturity structure of trade liabilities

| Specification (in PLN thousand) | Total | Not overdue | Overdue | | | | |
|---------------------------------|--------------|--------------|--------------|--------------|---------------|----------------|-----------|
| | | | < 60 days | 60 – 90 days | 90 – 180 days | 180 – 360 days | >360 days |
| 31.12.2021 | 8 103 | 6 817 | 1 255 | 31 | | | |
| Towards remaining entities | 8 103 | 6 817 | 1 255 | 31 | | | |
| 31.12.2020 | 1 735 | 1 626 | 30 | 10 | | 69 | |
| Towards remaining entities | 1 735 | 1 626 | 30 | 10 | | 69 | |

Other short-term liabilities

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|--------------|--------------|
| Liabilities for other taxes, custom duties, social security and other, except corporate income tax, of which: | 1 554 | 1 140 |
| Personal income tax | 529 | 300 |
| Social insurance contributions (ZUS) | 1 011 | 822 |
| PFRON [State Fund for Rehabilitation of Disabled People] | 14 | 18 |
| Remaining liabilities | 150 | 261 |
| Other liabilities | 122 | 142 |
| Liabilities towards employees on account of wages and salaries | 28 | 119 |
| Total other liabilities | 1 704 | 1 401 |

Currency structure of short-term liabilities

| Short-term liabilities (currency structure) in 2021 (in PLN thousand) | Amount |
|---|--------------|
| a) in the Polish currency | 5 515 |
| b) in foreign currencies (by currency and after conversion to PLN) | 4 291 |
| EUR | 730 |
| after conversion into PLN | 3 358 |
| USD | 227 |
| after conversion to PLN | 920 |
| GBP | 2 |
| after conversion to PLN | 12 |
| Total short-term liabilities | 9 806 |

| Short-term liabilities (currency structure) in 2020 (in PLN thousand) | Amount |
|---|--------------|
| a) in the Polish currency | 1 956 |
| b) in foreign currencies (by currency and after conversion to PLN) | 1 180 |
| EUR | 254 |
| after conversion into PLN | 1 172 |
| USD | 2 |
| after conversion to PLN | 8 |
| Total short-term liabilities | 3 136 |

4.2.11. Social assets and liabilities of the Social Fund

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|------------|------------|
| Loans granted to employees | 1 | 6 |
| Cash and cash equivalents | 147 | 84 |
| Liabilities on account of the Fund | 149 | 90 |
| Charges on the Fund during the financial period | 286 | 242 |

4.2.12. Financial instruments

The value of financial assets presented in the statement of financial position as at 31 December 2021 relates to the following categories of financial instruments as defined in IFRS 9:

- financial assets measured at amortised cost (AC) - trade and other receivables as well as cash and cash equivalents,
- financial assets at fair value through profit or loss - designated as such on initial recognition or subsequently (FVTPL) - investment in investment funds

The Company has no other categories of financial assets.

The value of financial liabilities presented in the statement of financial position as at 31 December 2021 relates to the following categories of financial instruments as defined in IFRS 9

- financial liabilities measured at amortised cost.

The Company has no other categories of financial liabilities.

| Financial assets (in PLN thousand) | Carrying amount | | Fair value | | Category of qualification in 2021 | Category of qualification in 2020 |
|---------------------------------------|-----------------|------------|------------|------------|-----------------------------------|-----------------------------------|
| | 31.12.2021 | 31.12.2020 | 31.12.2021 | 31.12.2020 | | |
| Trade and other financial receivables | 15 245 | 9 960 | 15 245/ * | 9 960/ * | AC | AC |
| Cash and cash equivalents | 5 659 | 13 249 | 5 659/ * | 13 249/ * | AC | AC |
| Investments in funds | | 3 033 | | 3 033 | FVTPL | |

*Fair value is assumed to approximate carrying amount, therefore no techniques have been used to value these balance sheet items

| Financial liabilities (in PLN thousand) | Carrying amount | | Fair value | | Category of qualification in 2021 | Category of qualification in 2020 |
|--|-----------------|---------------|------------------|------------------|--|--|
| | 31.12.2021 | 31.12.2020 | 31.12.2021 | 31.12.2020 | | |
| Interest-bearing bank credits and loans, of which | 33 810 | 30 560 | 33 810/ * | 30 560/ * | | |
| - other - short-term | 12 441 | 6 439 | 12 441/ * | 6 439/ * | financial liabilities measured at amortised cost | financial liabilities measured at amortised cost |
| - other - long-term | 21 368 | 24 121 | 21 368/ * | 24 121/ * | | |
| Trade liabilities | 9 806 | 1 735 | 9 806/ * | 1 735/ * | | |

*Fair value is assumed to approximate carrying amount, therefore no techniques have been used to value these balance sheet items

The Company at both 31.12.2021 and 31.12.2020 did not hold any derivative instruments.

| 01.01.2021–31.12.2021 | Financial assets at amortised cost (in PLN thousand) | Financial assets at fair value through profit or loss (in PLN thousand) | Financial liabilities at amortised cost (in PLN thousands) - loans | Financial liabilities by amortised cost (in PLN thousands) - trade payables | Total valuation of financial instruments (in PLN thousand) |
|---|--|---|--|---|--|
| Revenues/ costs related to fair value measurement | | Costs:-81 | | | Costs:-81 |
| Revenues/ costs on account of interest | Revenues:+2 Costs:-1 | | Costs: -398 | | Revenues:+2 Costs:-399 |
| Trade receivables and cash | Revenues:+554 Costs:-761 | | | | Revenues:+554 Costs:-761 |
| Loans | | | Revenues:+489 Costs:- 362 | | Revenues:+489 Costs:-362 |
| Trade payables | | | | Revenues:+308 Costs:-60 | Revenues:+308 Costs:-60 |
| Total + profit/-loss | +556/-762 | -/-81 | +489/-760 | +308/-60 | +1 353/-1 664 |

| 01.01.2020–31.12.2020 | Financial assets at amortised cost (in PLN thousand) | Financial assets at fair value through profit or loss (in PLN thousand) | Financial liabilities at amortised cost (in PLN thousands) - loans | Financial liabilities by amortised cost (in PLN thousands) - trade payables | Total valuation of financial instruments (in PLN thousand) |
|-----------------------|--|---|--|---|--|
|-----------------------|--|---|--|---|--|

| | | | | | |
|---|--------------------|---------------|------------------|-----------------|----------------------|
| Revenues/ costs related to fair value measurement | | Revenues: +33 | | | Revenues: +33 |
| Revenues/ costs on account of interest | Revenues: +4 | | Costs: -309 | | Revenues: +4 |
| | Costs: -2 | | | | Costs: -311 |
| Gains/losses on exchange rate differences | | | | | |
| Trade receivables and cash | Revenues: +1 682 | | | | Przychody: +1 682 |
| | Costs: -827 | | | | Costs: -827 |
| Loans | | | Costs: -2 523 | | Costs: -2 523 |
| Trade payables | | | | Revenues: +84 | Revenues: +84 |
| | | | | Costs: -132 | Costs: -132 |
| Total + profit/-loss | +1 686/-829 | +33/- | +5/-2 832 | +84/-132 | +1 808/-3 793 |

4.2.13. Other contingent liabilities and off-balance-sheet commitments

The Company has no contingent assets as at 31.12.2021.

Collaterals relating to concluded loan agreements are described in Section 4.2.9 of this report.

Other contingent liabilities are described below:

1. A blank promissory note providing security for due performance of the agreement No. POIR.03.02.02-00- 1638/18 titled "Implementation of the detection chip manufacturing technology developed under the "Exposure" project" realised under the POIR 2014-2020 programme. Bank Gospodarstwa Krajowego has the right to fill the bill of exchange, at any time, for the amount of the grant to be returned, together with interest at the rate specified for tax arrears, calculated from the date of transfer of funds to the account of the Beneficiary until the date of return.
2. A blank promissory note at the disposal of the Polish Agency for Enterprise Development as collateral for the proper performance of obligations under the grant agreement POIR.02.03.02-14-0210/18-00 dated 26.06.2019 for the project "Development and implementation of an innovative technology for gluing infrared sensors" funded by the Operational Programme Intelligent Development 2014-2020 under sub-measure 2.3.2 Innovation vouchers for SMEs.
3. A blank promissory note at the disposal of the Polish Agency for Enterprise Development as collateral for the proper performance of obligations under the grant agreement POIR.02.03.02-14- 0085/19-00 dated 06.12.2019 for the project "Technology of electrical contacts for semiconductor epitaxial layers A(III)B(V) used in infrared detectors" funded by the Operational Programme Intelligent Development 2014-2020 under sub-measure 2.3.2 Innovation vouchers for SMEs.
4. A blank promissory note at the disposal of the National Centre for Research and Development as collateral for the due performance of obligations arising from the grant agreement MAZOWSZE/0032/19-00 dated 21.11.2019 for the project "Production technology of innovative epitaxial structures and VCSEL laser instruments critical for the development of photonics" under the competition Path for Mazovia/2019.
5. A blank promissory note at the disposal of the National Centre for Research and Development as collateral for the proper performance of obligations under the grant agreement MAZOWSZE/0090/19-00 dated 03.12.2019 for the project "Sensors for Industry 4.0 and IoT" under the competition Path for Mazovia/2019.
6. A blank promissory note at the disposal of the Mazowieckie Voivodeship as collateral for the proper performance of obligations under the grant agreement RPMA.01.02.00-14-b451/18-00 dated 28.02.2020 for the project "Multi-element infrared detectors for non-contact multifunctional diagnostics" under Action 1.2 "Research and development activity of enterprises" Regional Operational Programme of the Mazowieckie Voivodeship for 2014-2020.

7. A blank promissory note providing security for the proper performance of obligations under the Grant Agreement for the project "Manufacture of InGaAs sensors with integrated ASIC electronics for the range of 1.7 - 2.6 μm " with the number POIR.01.01.01-00-0480/20-00 dated 2021-09-23. The National Centre for Research and Development has the right to fill the promissory note, at any time, for the amount of grant to be returned, together with interest at the rate specified for tax arrears, calculated from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
8. A blank promissory note as a collateral for proper performance of obligations under the Grant Agreement for the project "PEMIR - development of mid-infrared detectors using plasmonic amplification" numbered POLTUR4/PEMIR/2/2021 dated 2021-03-15. The National Centre for Research and Development has the right to fill in the promissory note, at any time, for the amount of grant to be returned, together with interest at the rate specified for tax arrears, calculated from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
9. A blank promissory note securing the proper performance of obligations under the Grant Agreement for the project "MIRPIC - Integrated photonics chip technologies for mid-infrared" number TECHMATSTRATEG-III/0026/2019-00 dated 2021-03-25. The National Centre for Research and Development has the right to fill the promissory note, at any time, for the amount of grant to be returned, together with interest at the rate specified for tax arrears, calculated from the date of transfer of funds to the account of the Beneficiary until the date of repayment.
10. A blank promissory note securing the proper performance of obligations under the Grant Agreement for the project "Polish matrix active in infrared for space applications" with the number POIR.01.01.01-00-0185/20-00 dated 2021-05-24. The National Centre for Research and Development has the right to fill the promissory note, at any time, for the amount of grant to be returned, together with interest at the rate specified for tax arrears, calculated from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
11. A blank promissory note securing the proper performance of obligations under the Grant Agreement for the project "Production of InGaAs sensors with integrated ASIC electronics for the range of 1.7 - 2.6 μm " with the number POIR.01.01.01-00-0480/2020 dated 2021-09-23. The National Centre for Research and Development has the right to fill the promissory note, at any time, for the amount of grant to be returned, together with interest at the rate specified for tax arrears, calculated from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
12. Obligation to contribute to the budget of Incubator VIGO WE INNOVATION Sp. z o.o.

On 21 December 2017, an amendment (the "Amendment") to the investment agreement between VIGO System S.A. and Greenlight Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (the "Fund" - previous name - WARSAW EQUITY PE FUND I Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych) and VIGO WE Innovation Sp. z o.o. (the "Incubator" formerly Ron Investment Sp. z o.o.) concluded on 9 February 2017 (the "Agreement").

The said Amendment extends the term of the Agreement until 31 December 2022, subject to the possibility of its extension for an indefinite period upon prior approval of the Company's Supervisory Board.

At the same time, under the provisions of the Amendment, the parties to the Agreement provided for a budget for the Incubator for 2018-2022 in the amount not exceeding PLN 25,000,000. The Company and the Fund undertook to contribute in equal parts to the operations of the Incubator. The budget amount is preliminary, non-binding and may change at any time. Any disposition of shares, including the issuance of new shares, will require the consent of the remaining parties to the investment agreement.

Accordingly, as at the balance sheet date, the Company recognised the obligation to make a cash contribution to the Incubator budget in the amount of PLN 5,812,000 as a contingent liability.

13. Agreement dated 20 September 2018 with Dr Włodzimierz Strupiński for the implementation of a joint venture, under which the Company will purchase equipment for the production of

semiconductor layers and implement them in its production plant in Ożarów Mazowiecki, while Dr Włodzimierz Strupiński, under an employment contract, will provide comprehensive work for VIGO on the production of epitaxial layers of III-V semiconductor compounds and will lead and manage the epitaxy department of VIGO, using his know-how and knowledge of the production of different types of semiconductor layers.

The value of the investment was estimated at PLN 20.5 million. The project implementation period has been divided into two stages ("Implementation Period" until the end of 2019 and "Production Period" through 2020-2024).

The agreement contains verification procedures regarding the achievement, in cooperation with Dr Włodzimierz Strupiński, of VIGO's production capacity in the field of III-V semiconductor compounds as well as sets out the principles of Dr. Włodzimierz Strupiński's liability, including contractual penalties, for breach of the agreement.

Under the terms of the agreement, the Company agreed to pay Dr Włodzimierz Strupiński a salary under the employment agreement as well as a separate remuneration representing a percentage of profits generated by VIGO from the sale of semiconductor compounds. The amount of the annual bonus will be 15% of the net profit from sales of semiconductor compounds reported by VIGO's Epitaxy Division in a given fiscal year.

In addition, Dr Strupinski will be entitled to remuneration dependent on the success of the entire venture, i.e. on the increase in the value of the Company as a result of the sale of semiconductor materials.

The special bonus will depend on the amount of the "Reference Amount", being the product of the ratio of EBITDA of the Epitaxy Division (EBITDA EPI) to EBITDA of the entire Company and the average capitalisation of the Company calculated for the last financial year in the Production Period (year 2024), less the expected return on VIGO's investment in the development of the Epitaxy Division, assuming a rate of return of 10% per year. Depending on the level of EBITDA of the Epitaxy Division, the premium will be 15% (when EBITDA EPI does not exceed PLN 13 million) or 24% (when EBITDA EPI exceeds PLN 13 million) of the Reference Amount.

The consideration for the joint venture may be paid to Dr Włodzimierz Strupiński by way of a grant of VIGO System shares or in cash, or a combination of both. 80% of the bonus will be paid in a form of VIGO's choice (in the form of shares or share options or in cash) and 20% in a form of Dr Strupinski's choice.

As at the balance sheet date, the condition relating to the payment of the annual bonus to Dr Włodzimierz Strupiński has not been met and therefore the Company recognises the item as a contingent liability.

4.2.14. Accruals and deferred income:

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| Subsidies for fixed assets | 7 662 | 6 603 |
| SPOWPK/2.2.1/14/0155 | 135 | 193 |
| Technology bonus 3.2.2 | 7 528 | 6 410 |
| Deferred income - subsidies - funds received for development work | 29 409 | 20 783 |
| EXPOSURE | 1 875 | 2 500 |
| PETRA | 137 | 300 |
| LASERY | 3 | 6 |
| PLAISIR | 74 | 148 |
| MIREGAS | 487 | 649 |

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|---|---------------|---------------|
| CHEQUERS | 1 557 | 1 963 |
| MIRPHAB | 1 257 | 1 289 |
| WATERSPY | 1 446 | 1 524 |
| INDII5 | 477 | 515 |
| AQUARIUS | 1 668 | 1 396 |
| ACCORDS | 532 | 626 |
| TRANSFER | 688 | 688 |
| Sensors for Industry 4.0 and IoT | 7 962 | 4 762 |
| Epitaxial structures and VCSELs | 5 447 | 3 232 |
| PIAP Voucher for innovations | 340 | 278 |
| Regional | 2 288 | 734 |
| WAT Voucher for innovations | 327 | 138 |
| Car2Tera | 29 | 35 |
| TRAVEL | 131 | |
| PEMIR | 334 | |
| WidePOWER | 366 | |
| WikiNet | 183 | |
| MIRPIC | 702 | |
| MATRICES | 654 | |
| TRIAGE | 445 | |
| Donated tangible assets received | 32 | 46 |
| Prepayments received for the realisation of future liabilities | 326 | 761 |
| Deferred income, of which | 37 430 | 28 193 |
| Long-term | 35 066 | 25 255 |
| Short-term | 2 363 | 2 937 |

4.2.15. Co-financing from public funds

The Company receives co-financing for research and development from European funds and national funds, as well as for its investments in fixed assets.

Co-financing of investment outlays

During the reporting period, the Company implemented the project POIR.03.02.02-00-1638/18-00 entitled: "Implementation of the detection chip manufacturing technology developed under the "Exposure" project" (the "Project") under the Operational Programme Intelligent Development 2014-2020 Sub-measure 3.2.2 - "Credit for technological innovation". The Management Board informed about the placement of the Company's Project on the List of projects selected for co-financing under the above-mentioned Programme financed by the European Union in the report No. 3/2019 dated 15.02.2019.

The total amount of eligible costs of the Project amounts to PLN 21,702,000.00, while the amount of co-financing is PLN 6,000,000.00, which constitutes 27.65% of total eligible costs.

Pursuant to the Grant Agreement and amendment No. 1 thereto, the duration of the Project and the co-financing at the same time is 41 months. The implementation of the Project started on 8 November 2018.

The provisions of the agreement provide for the following contractual penalties:

- repayment of the funding with interest in the event of termination of the agreement,
- repayment of funds or agreeing to a reduction of subsequent payments - in cases indicated in the agreement such as use of funds contrary to their purpose or in violation of procedures, taking the funding unduly or in excessive amount.

The project includes a technological investment, consisting in the implementation of our proprietary, innovative technology (production technology for detection chips developed under the "Exposure" project) through the expansion of the production hall, construction of a cleanroom installation and equipping it with the necessary production facilities.

The project is planned to be completed in the first quarter of 2022.

Financing of research and development works

In the reporting period, the Company implemented the following projects co-financed by the European Commission under the Horizon 2020 and Horizon Europe programmes:

| No. | Project | Project budget for the Company [EUR thousand] | Amount of co-financing for the Company [EUR thousand] | Project implementation period |
|-----|----------|--|--|-------------------------------|
| 1. | CAR2TERA | 24 | 24 | 01.01.2019 - 31.03.2022 |
| 2. | MIRPHAB | 703 | 492 | 01.01.2016 - 30.06.2021 |
| 3. | TRIAGE | 420 | 294 | 01.01.2021 - 29.02.2024 |

Agreements under the Horizon programmes are prepared according to a uniform template. Pursuant to the agreement, the European Commission may impose financial penalties which consist in withholding part of the funding if beneficiaries

- Committed substantial errors, irregularities or fraud or seriously breached their contractual obligations, or
- Made false declarations about information required under the agreement or when submitting the application (or failed to provide such information).

Financial penalties will range from 2% to 10% of the maximum EU contribution indicated for a given beneficiary. If the beneficiary commits another infringement within five years from the date of the first infringement, the Commission may increase the rate of financial penalties from 4% to 20%.

In the reporting period, the Company implemented the following projects subsidised by the National Centre for Research and Development and the Mazovian Unit for Implementation of EU Programmes from European funds under the Intelligent Development Operational Programme and the Regional Operational Programme of the Mazovian Voivodeship for 2014-2020:

| No. | Project | Agreement execution date | Project budget for the Company [EUR thousand] | Amount of co-financing for the Company | Project implementation period |
|-----|---|--------------------------|--|--|-------------------------------|
| 1. | Voucher for innovations - Technology of electrical contacts for semiconductor epitaxial layers A (III)B(V) used in infrared detectors | 18.12.2019 | 473 | 385 | 02.12.2019-16.04.2021 |
| 2. | Multielement infrared detectors for non-contact multifunctional diagnostics | 28.02.2020 | 4 726 | 3 073 | 01.03.2020-31.03.2022 |

The provisions of the agreement provide for the following contractual penalties:

- repayment of the funding with interest in the event of termination of the agreement,
- repayment of funds or agreeing to a reduction of subsequent payments - in cases indicated in the agreement such as using funds contrary to the purpose or with infringement of procedures, taking co-financing unduly or in excessive amount.

The Company carries out projects co-financed by the National Centre for Research and Development from European funds under the Strategic Programme for Scientific Research and Development Works "Modern Material Technologies" - TECHMATSTRATEG, under International Programmes - EUREKA, M-ERA.net programme, as well as under the "Path for Mazowsze" competition and Polish-Turkish international cooperation projects.

| No. | Project | Agreement execution date | Project budget for the Company [EUR thousand] | Amount of co-financing for the Company | Project implementation period |
|-----|--|--------------------------|---|--|-------------------------------|
| 1. | Sensors for Industry 4.0 and IoT | 03.12.2019 | 18 357 | 12 280 | 01.10.2019-30.09.2022 |
| 2. | Production technology of innovative epitaxial structures and VCSEL laser instruments critical for the development of photonics | 21.11.2019 | 13 014 | 9 110 | 01.01.2020-31.12.2022 |
| 3. | PEMIR - "development of mid-infrared detectors using plasmonic amplification" | 15.03.2021 | 1 115 | 836 | 01.03.2021-28.02.2023 |
| 4. | Travel - new transparent electrodes for VCSEL lasers | 22.02.2021 | 471 | 354 | 01.10.2020-30.09.2023 |
| 5. | WIKINET - "Long-wave VCSEL lasers for fibre optic transmission" | 23.02.2021 | 1166 | 999 | 01.01.2021-01.01.2023 |
| 6. | MIRPIC - "Integrated photonics circuit technologies for the mid-infrared range" | 25.05.2021 | 9 492 | 6 801 | 01.04.2021-31.03.2024 |
| 7. | INGAS WITH ASIC - "Fabrication of InGaAs sensors with integrated ASIC electronics for the 1.7-2.6 µm range" | 23.09.2021 | 12 650 | 8 520 | 1.01.2021-31.12.2023 |
| 8. | MATRIX - "Polish matrix active in infrared for space applications" | 24.05.2021 | 9 374 | 6218 | 1.01.2021-31.12.2023 |
| 9. | Widepower - Integrated photonics chip technologies for the mid-infrared range | 26.01.2021 | 459 | 306 | 01.12.2017-31.05.2021 |

The agreement provides for the following contractual penalties

- repayment of the funding plus bank interest in the event of termination of the contract.
- contractual penalties amounting to 0.1% of the amount of funding for each commenced day of delay, in the event of failure to meet the deadlines for submission of reports specified in the agreement.

Works in the projects whose completion date was scheduled for 2020 were completed in compliance with the deadlines, while in the case of the project Voucher for Innovations - "Adhesive technology", the project completion date is waiting for the decision on amending the project in PARP. Currently, the Company is awaiting the results of the substantive and financial assessment of final reports submitted to financing institutions.

4.2.16. Proposals concerning the method of profit distribution or loss coverage for the financial year:

The current dividend policy does not provide for payment in the form of a dividend from the net profit for 2021. However, the Management Board may recommend the payment of a dividend every year after analysing the current financial situation. The net profit for 2020 in the amount of PLN 32,547 thousand was fully allocated to increase the supplementary capital.

The Company did not present forecasts of results for the given year.

4.3. Statement of comprehensive income

4.3.1. Net revenues from sales of products, goods and materials by type and territory

| Specification (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|-------------------------|-------------------------|
| Continuing operations | 77 929 | 57 910 |
| Sale of goods and materials | 46 | 92 |
| Sales of products, including: | 69 428 | 46 823 |
| - Detection modules segment | 66 540 | 45 576 |
| - Semiconductor materials segment | 2 889 | 1 247 |
| Sales of services | 2 023 | 6 536 |
| - Detection modules segment | 627 | 5 874 |
| - Semiconductor materials segment | 1 396 | 661 |
| TOTAL of sales revenues | 71 497 | 53 451 |
| Other operating revenues | 5 902 | 4 417 |
| Financial revenues | 530 | 43 |
| TOTAL of revenues from continuing operations | 77 929 | 57 910 |
| Revenues from discontinued operations | n/a | n/a |
| TOTAL of revenues | 77 929 | 57 910 |

| Specification | 01.01.2021 - 31.12.2021 | | 01.01.2020 - 31.12.2020 | |
|---------------------------|-------------------------|---------------|-------------------------|---------------|
| | in PLN thousand | in % | in PLN thousand | in % |
| Domestic | 2 779 | 3,89 | 2 953 | 5,52 |
| Exports, of which: | 68 718 | 96,11 | 50 498 | 94,48 |
| European Union | 48 018 | 67,16 | 30 951 | 57,91 |
| Third countries | 20 699 | 28,95 | 19 547 | 36,57 |
| Total | 71 497 | 100,00 | 53 451 | 100,00 |

Percentage share of contractors in total sales in the period:

01.01.2021-31.12.2021

| No. | Contractor | Amount (in PLN thousand) | Share in total sales (%) |
|-----|---------------------|--------------------------|--------------------------|
| 1. | Safran Aerotechnics | 20 184 | 28,23 |

| No. | Contractor | Amount (in PLN thousand) | Share in total sales (%) |
|--------------|----------------------------------|--------------------------|--------------------------|
| 2. | Company of the Caterpillar group | 8 452 | 11,82 |
| 3. | German Company I | 7 080 | 9,90 |
| 4. | German Company II | 3 902 | 5,46 |
| Total | | 39 618 | 55,41 |

01.01.2020-31.12.2020

| No. | Contractor | Amount (in PLN thousand) | Share in total sales (%) |
|--------------|----------------------------------|--------------------------|--------------------------|
| 1. | Safran Aerotechnics | 9 418 | 18 |
| 2. | Company of the Caterpillar group | 6 084 | 11 |
| 3. | German company | 5 371 | 10 |
| 4. | US company, of which: | 4 680 | 9 |
| | detector modules segment | 4 062 | |
| | semiconductor materials segment | 618 | |
| Total | | 25 553 | 48 |

No work in progress has been accrued for long-term services in 2021.

4.3.2. Discontinued operations

No operations have been discontinued in 2021.

4.3.3. Other comprehensive income

| Specification (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|-------------------------|-------------------------|
| Actuarial gains (losses) on defined benefit plans: | -61 | -29 |
| Actuarial gains from defined benefit plans | | |
| Actuarial losses from defined benefit plans | -61 | -29 |
| Total comprehensive income | -61 | -29 |

As a result of operating in the TSEZ, the tax effect of other comprehensive income is nil.

| (in PLN thousand) | 01.01.2021- 31.12.2021 | | | 01.01.2020 - 31.12.2020 | | |
|--|------------------------|-----|------------------|-------------------------|-----|------------------|
| | Amount before tax | Tax | Amount after tax | Amount before tax | Tax | Amount after tax |
| Actuarial gains (losses) on defined benefit plans: | | | | | | |
| | -61 | | -61 | -29 | | -29 |
| Total comprehensive income | -61 | | -61 | -29 | | -29 |

4.3.4. Income tax

The tax expense on the financial result includes current and deferred income tax that has not been recognised in other comprehensive income or directly in capital.

Current income tax

Current tax expense is calculated based on the applicable tax laws. The application of these regulations differentiates tax profit (loss) from net book profit (loss), due to the exclusion of non-taxable income and non-deductible expenses and items of expense and income that will never be taxable. The tax expense is calculated based on the tax rates applicable in the relevant financial year. Since 2004 the rate in force, according to the amended regulations, has been 19%. The current regulations do not provide for differentiation of tax rates for future periods. Due to conducting business activity in the Special Economic Zone, as far as income tax is concerned, VIGO System S.A. enjoys an exemption with respect to income earned in accordance with the obtained zone permit. The tax and balance sheet year coincide with the calendar year.

Deferred income tax

Deferred tax is calculated using the balance sheet method as the tax payable or reimbursable in the future on the differences between the carrying amounts of assets and liabilities and the corresponding tax values used to calculate the tax base.

Deferred tax liability is recognised for all taxable temporary differences, while a deferred tax asset is recognised to the extent that it is probable for future taxable profits to be reduced by the identified deductible temporary differences. No asset or liability is recognised if the temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and that, at the time it occurs, affects neither taxable profit nor accounting profit. No deferred tax liability is recognised on goodwill that is not amortised under tax legislation.

Deferred tax is calculated using the tax rates that will apply when the asset item is realised or the liability is settled, based on legislation in force at the balance sheet date.

The value of a deferred tax asset is reviewed at each balance sheet date and if the expected future taxable profits are insufficient to realise the asset or a part thereof, it is written down.

In connection with temporary differences between the value of assets and liabilities reported in the books and their tax value, the entity establishes deferred tax assets or liabilities for which it is a taxpayer. As at 31 December 2021, the company recorded a deferred tax asset of PLN 22,395 thousand created in connection with the investment bonus in TSEZ and other temporary differences.

In 2020, the Company decided to recognise deferred income tax due to the significant probability of using the investment premium in TSEZ before the end of the Special Economic Zones in Poland, i.e. until 31.12.2026.

The Company's results are very good and future forecasts show further sales growth and therefore it is highly probable that temporary differences will be realised and the investment allowance will be offset against future taxable income. The asset recognition is based on the Company's current budgets and business strategy approved by the Management Board.

In 2021, the Company generated income on operations in the SEZ in the amount of PLN 26,874 thousand. The tax that the Company did not pay in connection with the zone exemption amounted to PLN 5,106 thousand. The remaining aid to be used at discounted value in subsequent tax years amounts to PLN 21,664 thousand as at 31 December 2021. This is an amount equal to 65% of discounted qualified expenditures on fixed assets less discounted aid to these fixed assets obtained from other sources, as well as discounted unpaid income tax from operations in the SEZ in previous years.

The amount of the investment tax allowance available as at 31 December 2021 in the amount of PLN 7,742 thousand was recognised by the Company as a deferred tax asset.

| Income tax disclosed in the statement of comprehensive income (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|----------------------------|----------------------------|
| Current income tax | | 9 |
| Pertaining to the financial year | | 9 |
| Deferred income tax | -7 935 | -14 460 |

| | | |
|--|---------------|----------------|
| Origination and reversal of temporary differences | -7 935 | -14 460 |
| Tax charge disclosed in the statement of comprehensive income | -7 935 | -14 551 |

Deferred tax assets and liabilities affect the financial statements as follows:

| In PLN thousand | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|----------------------------|----------------------------|
| Balance at the beginning of the period | | |
| Deferred income tax assets | +14 970 | |
| Deferred income tax provision | -511 | |
| Net deferred tax at the beginning of the period | +14 460 | |
| Change in the balance in the period affecting: | +7 935 | +14 460 |
| Result (+/-) | +7 935 | +14 460 |
| Net deferred tax at the end of the period, including | +23 395 | +14 460 |
| Deferred income tax assets | +22 840 | +14 970 |
| Deferred income tax provision | -555 | -511 |

Deferred income tax assets as at 31.12.2021

| Titles of temporary differences | Balance at the beginning of the period | Change in balance | Balance at the end of the period |
|----------------------------------|--|-------------------|-------------------------------------|
| | | Result/capital | |
| Assets | | | |
| Inventories | 111 | + 325 | 436 |
| Trade receivables | 111 | -72 | 40 |
| Investments in related parties | | +1 042 | 1 042 |
| Liabilities | | | |
| Provisions for employee benefits | 3 999 | +176 | 4 175 |
| Other provisions | 592 | +16 | 608 |
| Other liabilities | 696 | -231 | 465 |
| Total | 5 510 | +1 256 | 6 766 |

Deferred tax liabilities as at 31.12.2021

| | | | |
|--|---------------|---------------|---------------|
| Assets | | | |
| Tangible fixed assets | 2 267 | -652 | 2 918 |
| Trade receivables | 424 | +424 | |
| Total | 2 691 | -228 | 2 919 |
| Tax rate | | | |
| 19% | | | |
| Deferred income tax asset | 1 047 | +239 | 1 286 |
| Deferred income tax provision | -511 | -43 | -554 |
| Change in deferred income tax | +537 | -196 | 732 |
| Investment relief in TSEZ | 13 923 | +7 742 | 21 664 |
| Deferred tax in the statement of comprehensive income | 14 460 | +7 935 | 22 395 |

Deferred income tax assets as at 31.12.2020

| Titles of temporary differences | Balance at the beginning of the period | Change in balance | Balance at the end of the period |
|----------------------------------|--|-------------------|-------------------------------------|
| | | Result/capital | |
| Assets | | | |
| Inventories | | +111 | 111 |
| Trade receivables | | + 111 | 111 |
| Liabilities | | | |
| Provisions for employee benefits | | + 3 999 | 3 999 |
| Other provisions | | + 592 | 592 |
| Other liabilities | | + 696 | 696 |

| | | | |
|--|--|----------------|---------------|
| Total | | 5 510 | 5 510 |
| Deferred tax liabilities as at 31.12.2020 | | | |
| Assets | | | |
| Tangible fixed assets | | - 2 267 | 2 267 |
| Trade receivables | | - 424 | 424 |
| Total | | - 2 290 | 2 290 |
| Tax rate | | 19% | |
| Deferred income tax asset | | +1 047 | 1 047 |
| Deferred income tax provision | | -511 | -511 |
| Change in deferred income tax | | 95 | |
| Deferred income tax asset | | +537 | |
| Investment relief in TSEZ | | +13 923 | 13 923 |
| Deferred tax in the statement of comprehensive income | | 14 460 | 14 460 |

| Current income tax | 01.01.2021-31.01.2021 | 01.01.2020-31.01.2020 |
|---|-----------------------|-----------------------|
| Profit before tax | 24 413 | 18 096 |
| Revenues increasing the tax base | 14 107 | 10 495 |
| Revenues excluded from taxation | -7 044 | -4 284 |
| Costs of previous years decreasing the tax base | | 159 |
| Expenses increasing tax deductible expenses | 587 | |
| Non-deductible expenses | 9 531 | 6 602 |
| Taxable income | 41 594 | 31 068 |
| Deductions from income, of which | -41 839 | -31 019 |
| - TSEZ activities | -26 874 | -20 920 |
| - subsidies received | -14 965 | -10 099 |
| Tax base | -245 | 48 |
| Income tax at 19% rate | | 9 |
| Deferred income tax | -7 935 | -14 460 |
| Tax disclosed in the statement of comprehensive income | -7 935 | -14 451 |
| Effective tax rate (share of tax expense reported in the income statement in profit before tax) | | -0,80 |

| Specification (in PLN thousand) | 01.01.2021-31.12.2021 | 01.01.2020-31.12.2020 |
|--|-----------------------|-----------------------|
| Result before tax | 24 413 | 18 096 |
| Tax rate applied by the Company | 19% | 19% |
| Income tax at the rate | 4 638 | 3 438 |
| Reconciliation of income tax due to: | | |
| Items permanently non-deductible (+)/not constituting taxable income | 2 487 | 7 |
| Utilisation of investment tax credits not previously recognised | 5 106 | 3 974 |
| Recognition of investment tax credits | 7 742 | 13 923 |
| Income tax | 7 935 | 14 451 |

4.3.5. Costs by nature

| Specification (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|----------------------------|----------------------------|
| Depreciation | 6 725 | 6 229 |
| Consumption of materials and energy | 12 775 | 9 354 |
| External services | 6 107 | 4 072 |
| Taxes and charges | 300 | 245 |
| Wages and salaries | 20 003 | 15 631 |
| Social insurance and other benefits | 3 572 | 3 166 |
| Other costs by nature | 357 | 322 |
| Total costs by type, of which | 49 840 | 39 019 |
| Change in products | 914 | - 1 958 |
| Selling costs (negative value) | -4 348 | -3 373 |
| General administrative expenses (negative value) | -20 017 | -15 855 |
| Production cost of sold products and services | 26 389 | 17 833 |

Depreciation and write-down costs recognised in the Statement of Comprehensive Income.

| Specification (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|----------------------------|----------------------------|
| Items included in prime cost of sales: | 5 199 | 4 792 |
| Depreciation of fixed assets | 2 000 | 2 154 |
| Amortisation of intangible assets | 3 198 | 2 638 |
| Items included in cost of sales | 54 | 41 |
| Depreciation of fixed assets | 39 | 36 |
| Amortisation of intangible assets | 15 | 5 |
| Items included in general administrative expenses: | 1 473 | 1 396 |
| Depreciation of fixed assets | 1 443 | 1 358 |
| Amortisation of intangible assets | 30 | 37 |

The amount of depreciation forming part of the cost of development work in 2021 amounted to PLN 3,032 thousand, the amount of PLN 1,573 thousand represents depreciation costs which were capitalised and included in development expenditure in 2021 and will be settled in future periods (in 2020: PLN 1,100 thousand and PLN 752 thousand, respectively).

The gross value of used, fully depreciated fixed assets as at 31.12.2021 amounts to PLN 4,468 thousand.

Employee benefits costs

| Specification (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|----------------------------|----------------------------|
| Wages and salaries | 20 003 | 15 631 |
| Social insurance and other benefits | 2 684 | 2 427 |
| Other employee benefits | 889 | 739 |
| Total cost of employee benefits, of which: | 23 575 | 18 796 |
| Items included in prime cost of sales | 20 755 | 16 512 |
| Items recognised in selling costs | 2 820 | 2 284 |
| Items recognised in general administrative expenses | 12 621 | 9 846 |

4.4. Other operating income

| Other operating income (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|----------------------------|----------------------------|
| Profit from disposals of fixed assets | 2 | 1 |
| Grant subsidies - indirect costs - lump sum to direct costs | 535 | 1 620 |
| Clearance of grant subsidies and fixed assets | 4 774 | 1 987 |
| Inventory surpluses | 4 | 25 |
| Released write-down on inventory in stock | | 34 |
| Released write-down on receivables | 72 | 294 |
| Other sales (rent, re-invoices) | 142 | 75 |
| Compensation and awards | 177 | 379 |
| Other | 197 | 1 |
| Total | 5 902 | 4 417 |

4.5. Other operating expenses

| Other operating expenses (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|----------------------------|----------------------------|
| Donations | 11 | 23 |
| Nonculpable shortages of current assets | 6 | 45 |
| Established reserves for complaints costs | 153 | 90 |
| Allowance for inventory in stock | 352 | |
| Allowance for loans granted | 558 | |
| Allowance for share capital expenditures | 484 | |
| Liquidation of goods and materials | 254 | 260 |
| Liquidation of fixed assets | | 102 |
| Allocation of own expenditure to unsuccessful development work | 8 | 10 |
| Own cost to other sales (rent, re-invoicing) | 119 | 41 |
| Other | | 1 |
| Total | 1 920 | 573 |

Income and costs related to impairment of financial assets for 2021 and 2020 have been presented as other operating income and expenses in respect of receivables relating to operations. The Company does not present expected credit losses in the financial statements due to it being immaterial.

There was no impairment of financial assets recognised as finance income and expense in either period.

| Creation of revaluation write-downs (in PLN thousand) | 01.01.2021- 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|---------------------------|----------------------------|
| Receivables | 40 | |
| Inventories | 437 | |
| Loans granted | 558 | |
| Outlays on shares | 484 | |
| Total | 1 519 | |

4.6. Financial revenues

| Financial revenues (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|----------------------------|----------------------------|
| Excess of foreign exchange gains over losses | 530 | |

| | | |
|--------------|------------|-----------|
| Interest | | 6 |
| Other | | 36 |
| Total | 530 | 43 |

4.7. Financial costs

| Financial costs (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|----------------------------|----------------------------|
| Interest expense | 759 | 396 |
| Excess of exchange rate losses over gains | | 1 511 |
| Other | 83 | 270 |
| Total | 842 | 2 177 |

4.8. Cash flow statement

The table below explains the inconsistencies between the balance sheet movements and the movements for these items in the cash flow statement.

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| Cash in the balance sheet | 5 659 | 13 249 |
| Exchange differences on balance sheet valuation | 2 | 227 |
| Total cash and cash equivalents as shown in the cash flow statement | 5 657 | 13 022 |
| Amortisation and depreciation | 6 753 | 6 244 |
| amortisation of intangible assets | 3 510 | 3 563 |
| depreciation of property, plant and equipment | 3 243 | 2 681 |
| Profit (loss) on investing activities results from: | 98 | 101 |
| Profit on disposal of non-current assets | | 101 |
| Liquidation of non-current assets | 98 | |
| The change in provisions is due to the following items: | 354 | 2 244 |
| balance sheet change in provisions for liabilities | -189 | 1 637 |
| balance sheet movement in provisions for employee benefits | 482 | 635 |
| balance sheet movement in provisions for employee benefits recognised in capital | 61 | -29 |
| The change in inventories arises from the following items: | 2 325 | -2 306 |
| balance sheet change in inventories | 2 325 | -2 306 |
| The change in receivables is due to the following items: | -7 981 | -3 114 |
| change in short-term receivables arising from the balance sheet | -7 981 | -3 114 |
| The change in short-term liabilities, except for financial liabilities, results from the following items: | 2 469 | 300 |
| change in short-term liabilities as per the balance sheet | 6 368 | 10 |
| change in investment liabilities as per the balance sheet | -3 899 | 290 |
| Change in prepayments: | -435 | 744 |

| Specification (in PLN thousand) | 31.12.2021 | 31.12.2020 |
|--|---------------|---------------|
| change in prepayments arising from the balance sheet | -435 | 744 |
| Change in prepayments and accrued income, results from the following items: | -5 380 | -3 600 |
| change in prepayments and accrued income resulting from the balance sheet | 9 238 | 7 244 |
| adjustment for investment grants received | -15 053 | -10 099 |
| change in prepayments as per balance sheet | 435 | -744 |
| The value of the item "other adjustments" consists of: | -172 | -127 |
| change in other accruals | -96 | -127 |
| Incentive scheme | -76 | |

The amounts of interest income/expenses and foreign exchange gains/losses relating to financial instruments held by the Company are set out in Section 4.2.12.

4.9. Other supplementary information to the financial statements for 2021:

4.9.1. Average employment in the financial year, by professional group expressed in full-time equivalents

| Employment by department | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|-------------------------|-------------------------|
| Management Board | 2,00 | 2,00 |
| Administration | 32,13 | 21,49 |
| Sales Department | 16,16 | 14,85 |
| Purchasing & Logistics Department | 10,13 | 14,70 |
| IT Team | 5,5 | 6,00 |
| Production Department | 57,33 | 53,46 |
| Epitax Production Department | 4,68 | 4,16 |
| Research & Development Department | 52,93 | 39,38 |
| Matrix Technology Development Department | 3,45 | |
| Total | 184,31 | 156,04 |
| Employee turnover | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
| Number of employees hired | 59 | 34 |
| Number of employees dismissed | 20 | 13 |
| Total | 39 | 21 |

4.9.2. Remuneration and transactions with members of the management and supervisory bodies

Benefits paid to members of the Management Board

| Specification (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|-------------------------|-------------------------|
| For holding office in the bodies | 2 060 659.00 | 678 960.00 |
| Remuneration under employment contract | 420 900.00 | 479 991.91 |
| Total | 2 481 559.00 | 1 158 951.91 |

| Name | Position | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|----------|-------------------------|-------------------------|
| Remuneration of the Management Board Members (PLN) | | | |

| | | | |
|------------------|-----------------------------------|---------------------|---------------------|
| Adam Piotrowski | President of the Management Board | 1 329 936.00 | 635 321.91 |
| Łukasz Piekarski | Member of the Management Board | 1 151 623.00 | 523 627.00 |
| Total | | 2 481 559.00 | 1 158 951.91 |

Remuneration of Supervisory Board Members (PLN)

| Name | Position | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|-----------------------------------|-------------------------|-------------------------|
| Przemysław Danowski | Chairman of the Supervisory Board | 54 450.00 | 36 000.00 |
| Janusz Kubrak, of which: | Member of the Supervisory Board | 51 485.00 | 30 000.00 |
| for serving as Member of the Supervisory Board | | 46 605.00 | 30 000.00 |
| Marek Wiechno | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Zbigniew Więclaw | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Piotr Nadolski | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Krzysztof Kaczmarczyk | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Mirosław Grudzień | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Total | | 338 960.00 | 216 000.00 |

No loans or benefits of a similar nature have been granted to members of the Management Board or members of the Supervisory Board.

The Company has no liabilities arising from pensions or benefits of a similar nature for former managing or supervisory persons or former members of the administrative bodies, nor does it have any liabilities contracted in connection with such pensions.

4.9.3. Operating segments

| Type of assortment 01.01.2021 - 31.12.2021 | | Continuing operations | | Total |
|---|---|-----------------------|-------------------------|---------------|
| | | Detection modules | Semiconductor materials | |
| Segment income | of which: | 72 230 | 5 169 | 77 399 |
| | Sales revenues | 67 212 | 4 285 | 71 497 |
| | Other operating revenue | 5 017 | 884 | 5 902 |
| | Inter-segment sales | | | |
| Segment costs | of which: | 48 054 | 4 620 | 52 674 |
| | Cost of products, services and materials sold | 23 868 | 2 521 | 26 389 |
| | Selling costs | 4 226 | 122 | 4 348 |
| | General administration costs | 18 588 | 1 428 | 20 406 |
| | Other operating costs | 1 372 | 548 | 1 920 |
| Segment profit/(loss) | | 24 176 | 549 | 24 725 |
| Profit/(loss) from continuing operations before tax and finance income (expenses) | | 24 176 | 549 | 24 725 |
| Interest income | | 508 | 251 | 759 |
| Interest expense | | 201 | 329 | 530 |
| Significant items of income | | 83 | | 83 |
| Profit/(loss) before taxation | | 23 786 | 627 | 24 413 |

| Type of assortment 01.01.2021 - 31.12.2021 | Continuing operations | | Total |
|--|-----------------------|-------------------------|----------------|
| | Detection modules | Semiconductor materials | |
| Income tax | -7 935 | | -7 935 |
| Net profit/(loss) | 31 333 | 627 | 31 959 |
| Total assets | 183 109 | 35 889 | 218 997 |
| Segment assets | 183 109 | 35 889 | 218 997 |
| Total liabilities | 63 170 | 22 761 | 85 931 |
| Segment liabilities | 63 170 | 22 761 | 85 931 |
| Other segment information | | | |
| Capital expenditures | 86 961 | 25 851 | 112 812 |
| - property, plant and equipment | 75 094 | 24 125 | 99 219 |
| - intangible assets | 11 867 | 1 726 | 13 593 |
| Depreciation and amortisation | 6 510 | 216 | 6 725 |

| Type of assortment 01.01.2020 - 31.12.2020 | | Continuing operations | | Total Detection modules |
|---|---|-----------------------|-------------------------|-------------------------|
| | | Detection modules | Semiconductor materials | |
| Segment income | of which: | 55 338 | 2 530 | 57 868 |
| | Sales revenues | 51 542 | 1 909 | 53 451 |
| | Other operating revenue | 3 796 | 621 | 4 417 |
| | Inter-segment sales | | | |
| Segment costs | of which: | 35 788 | 1 849 | 37 637 |
| | Cost of products, services and materials sold | 16 707 | 1 130 | 17 836 |
| | Selling costs | 2 996 | 377 | 3 373 |
| | General administration costs | 15 512 | 342 | 15 855 |
| | Other operating costs | 573 | | 573 |
| Segment profit/(loss) | | 19 550 | 681 | 20 231 |
| Profit/(loss) from continuing operations before tax and finance income (expenses) | | 19 550 | 681 | 20 231 |
| Interest income | | 40 | 2 | 43 |
| Interest expense | | 261 | 135 | 396 |
| Significant items of income | | 477 | | 477 |
| Significant cost items disclosed | | 119 | 2 139 | 2 139 |
| Profit/(loss) before taxation | | 19 687 | -1 591 | 18 096 |
| Income tax | | -14 451 | | -14 451 |
| Net profit/(loss) | | 34 138 | - 1 591 | 32 547 |
| Total assets | | 144 195 | 22 867 | 167 062 |
| Segment assets | | 144 195 | 22 867 | 167 062 |
| Total liabilities | | 50 640 | 15 840 | 66 480 |
| Segment liabilities | | 50 640 | 15 840 | 66 480 |
| Other segment information | | | | |
| Capital expenditures | | 68 354 | 17 291 | 85 645 |
| - property, plant and equipment | | 55 184 | 15 565 | 70 749 |
| - intangible assets | | 13 170 | 1 726 | 14 896 |
| Depreciation and amortisation | | 5 950 | 294 | 6 244 |

4.9.4. Auditor's remuneration

| Remuneration due for the financial year (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|----------------------------|----------------------------|
| - for the audit of the annual financial statements | 27 | 27 |
| - review of the financial statements | 15 | 15 |
| Total | 42 | 42 |

4.9.5. Information about significant events relating to previous years and recognised in the financial statements for the financial year

No such incidents were reported in 2021.

4.9.6. Other disclosures

- The risks associated with the COVID-19 pandemic are described in Section 5.4.4 of the report.
- The Company has no branches.
- In 2021, the Company established VIGO Photonics USA (its own representative office in the United States) and granted it a loan for current operations in the amount of PLN 1.33 million. In 2021, VIGO System also granted a loan for current operations to VIGO Photonics Taiwan in the amount of PLN 0.6 million.
- The Company does not have any liabilities resulting from pensions and benefits of similar nature for former managing and supervising persons or former members of administrative bodies nor does it have any liabilities incurred in connection with those pensions, indicating the total amount for each category of the body.

4.9.7. Events after the balance sheet date

In connection with the war in Ukraine, the Company has assessed its impact on the Company's operations and financial results.

As a result of the sanctions, goods and technologies that could contribute to the strengthening of Russia's military and technological capabilities or to the development of the defence and security sector are banned from export to the Russian Federation. To date, the Company has not sold any dual-use items to the Russian market. However, due to restrictions on the transfer of funds, further sales of the Company's products to Russia may be discontinued. The suspension of sales to Russia will not have a material impact on the Company's financial results. In 2021, sales to Russia amounted to PLN 244 thousand and in previous years between PLN 100 and 150 thousand per year.

In connection with the sanctions, the Company has noted additional risks associated with the supply of components manufactured in the Russian Federation. If additional restrictions are introduced, there may arise problems with the timeliness of deliveries or restrictions on the ability to purchase these components. The value of components imported from Russia in 2021 amounted to PLN 7.3 million. The Company has taken steps to find alternative suppliers and is also working with suppliers to change the location of component production.

Adam Piotrowski
President of the Management Board

Łukasz Piekarski
Member of the Management Board

Sylwia Wiśniewska-Filipiak
Chief Accountant

Ożarów Mazowiecki, 2 March 2022

5. Report of the Management Board on the Company's operations in 2021.

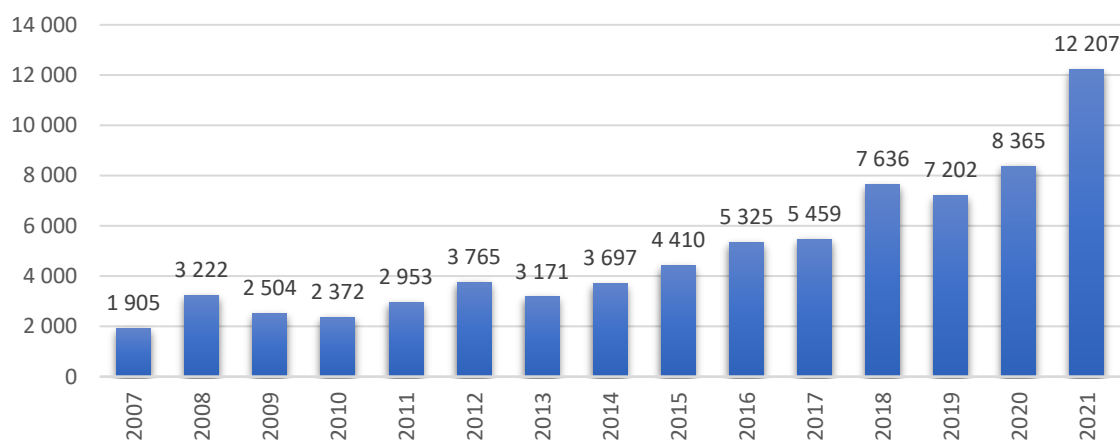
5.1. Summary of the Company's operations in 2021 together with a description of the factors and events that influenced the financial results

5.1.1. Sales revenue

Production volume

In 2021, the number of detectors sold by the Company amounted to 12,207 units, with an increase of 45.93% compared to the previous year.

Figure 1: Sales volume of detector modules [units].



Information on basic products

In 2021, the Company generated PLN 71.50 million in revenue from the sale of products, services, materials and goods, thereby recording a 33.76% increase (by PLN 18.05 million), compared to 2020.

Significant agreements

The amount of revenue achieved was significantly influenced by the implementation of projects with the following customers:

- the contract with the Caterpillar group company of 11 May 2020 with a value of EUR 3.02 million (information on the order was provided in current report No. 8/2020 of 11 May 2020) has been fulfilled in 77%,
- the contract with Safran (formerly Zodiac Aerotechnics SAS) of 18 June 2020, with a value of EUR 5.4 million (information on the order given in current report No. 17/2020 of 23 June 2020), has been realised in 100%.

Sales markets

In 2021, the largest share of sales of products and services was attributable to:

- industrial applications (43.46% of total sales revenue). In this group, the largest share is accounted for by detectors used for gas analysers, emission monitoring systems and gas

leakage detection systems, as well as systems intended for latest generation semiconductor manufacturers.

- Rail applications (12.19% of sales) - systems for detecting failures in high-speed railways and systems for detecting fires in trains. In railway applications, sales increased by 41% to PLN 8.7 million.
- military applications (32.44% of sales) - detectors used in intelligent munitions control systems and detectors in laser-targeting warning systems - an increase of PLN 9.75 million or 72.54% y/y was recorded.

Dynamic growth was also recorded in the semiconductor materials segment, up by 124.46% (PLN 2.38 million) year-on-year.

Other applications accounted for a total of 5.92% of sales.

Figure 2: Sales of products and services in 2021 by end use [%]

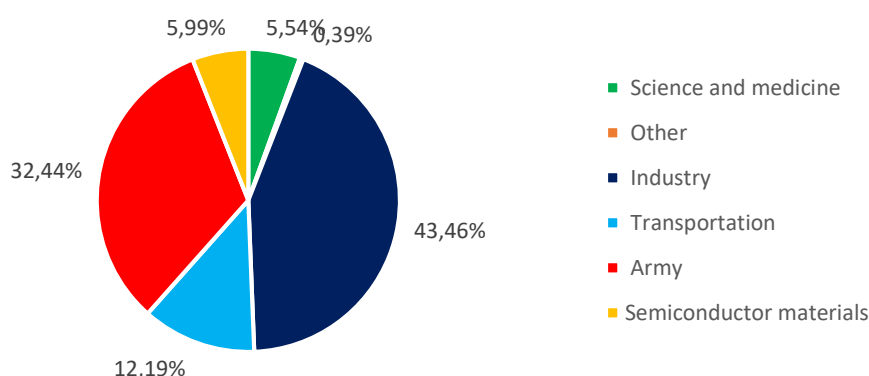
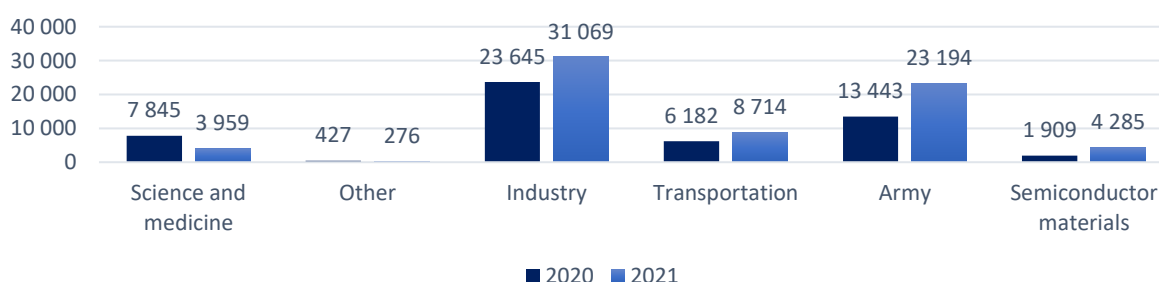


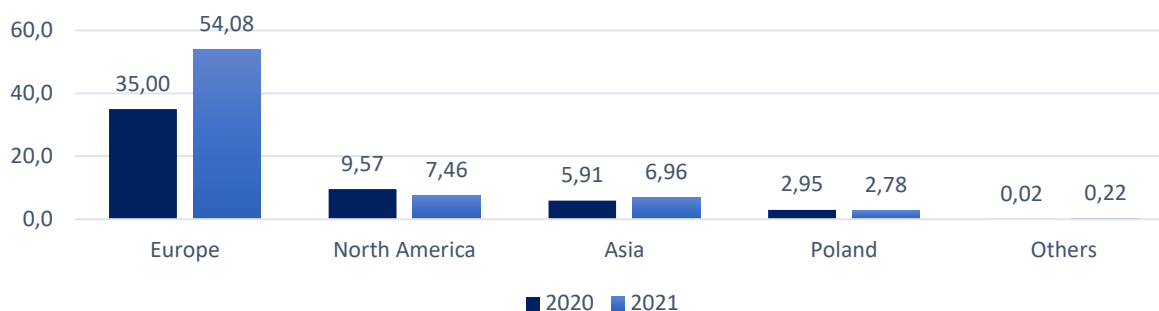
Figure 3. Company sales in 2020 and 2021 by target application [PLN million]



The Company generated a significant, that is a 54.53% (PLN 19.08 million) increase in sales in Europe compared to 2020. This was achieved primarily through sales of products for military and industrial applications.

The Company also achieved a 17.72% (PLN 1.05 million) increase in sales in the Asian market compared to 2020, mainly due to a 44.48% year-on-year increase in the number of customers (43 new customers).

Figure 4: Company sales in 2020 and 2021 by geographic market [PLN million]



5.1.2. Costs of operating activities

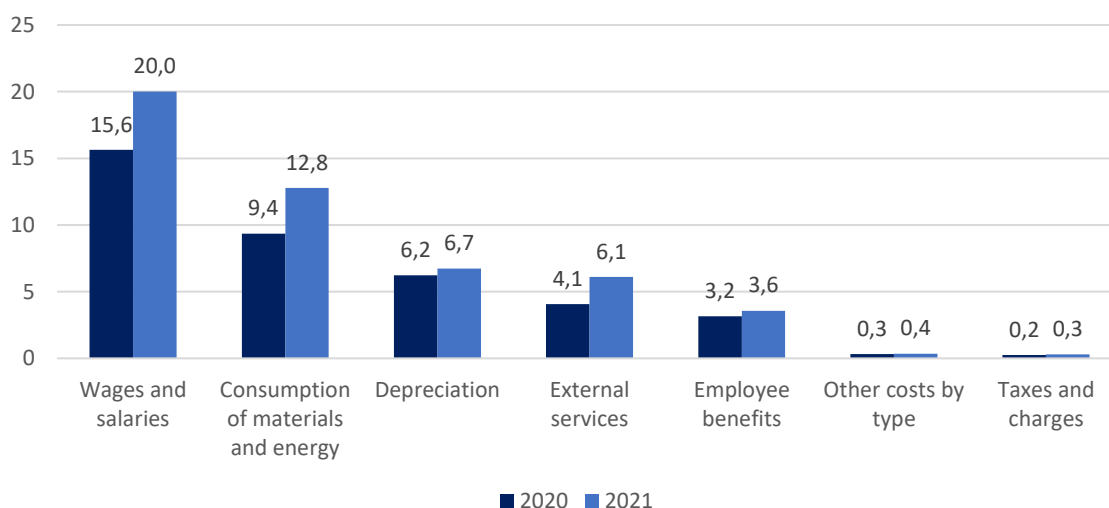
The costs of basic operating activities in 2021 grew by 27.73% compared to 2020. The key factor was the increase in production, which influenced the higher costs of consumption of materials and energy (increase by 36.57% i.e. PLN 3.42 million) and contributed to the increase in employment (increase by 23.21%) and salary costs (increase by 27.97% i.e. PLN 4.37 million). The rise in energy prices on the market had a significant impact on the increase in energy costs in the period in question.

In addition, the following changes are visible in the cost structure:

- increased depreciation by PLN 0.5 million (7.96%), which is related to the purchase of equipment as part of investments made in previous years as well as the completion of some R&D projects;
- increased costs of external services by PLN 2.04 million (50%), which is related to the opening of offices in the USA and Taiwan and to increased costs of repairs, maintenance, recruitment as well as advertising and marketing;

Differences in operating costs are presented in the chart below.

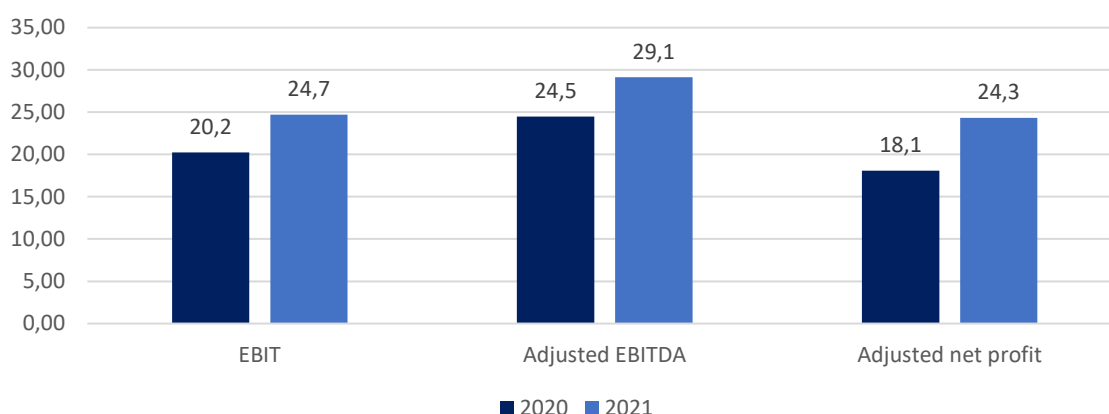
Figure 5: Operating expenses in 2020 and 2021 by type [PLN million]



5.1.3. Financial result

The operating profit (EBIT¹) amounted to PLN 24.72 million in 2021 and was higher compared to the previous year by PLN 4.49 million (22.21%). Adjusted EBITDA reached PLN 29.1 million and increased by PLN 4.52 million (18.5%) compared to 2020. Net profit in 2021 amounted to PLN 32.35 million. The level of net profit was significantly affected by the recognition of deferred tax assets. In order to ensure comparability of data with previous periods, the management board report also provides net profit adjusted for non-recurring events (excluding recognition of deferred tax asset). Net profit adjusted for non-recurring events amounted to PLN 24.41 million, which means that it increased by PLN 6.32 million (34.97%) compared with the previous year.

Figure 6: Financial results of the Company in 2020-2021 [PLN million]



| Specification (adjusted for non-recurring events) | | 2021 | 2020 |
|---|------------|---------------|---------------|
| EBIT | [tys. PLN] | 24 725 | 20 231 |
| Adjusted EBITDA | [tys. PLN] | 29 148 | 24 472 |
| Operating profit (loss) | [tys. PLN] | 24 725 | 20 231 |
| Depreciation and amortisation | [tys. PLN] | 6 725 | 6 229 |
| Settlement of subsidies for grants and fixed assets | [tys. PLN] | -2 378 | -1 988 |
| Incentive scheme | [tys. PLN] | 76 | |
| EBIT profitability | | 34,6% | 37,8% |
| Adjusted EBITDA profitability | | 40,8% | 45,8% |
| Adjusted net profitability | | 34,1% | 33,8% |

The Company's profitability remains at a very high level. In 2021, net profitability (from adjusted earnings) stood at 34.1%, EBITDA profitability at 40.6% and EBIT profitability at 34.6%. The observed decline in profitability is due to lower selling prices. ²

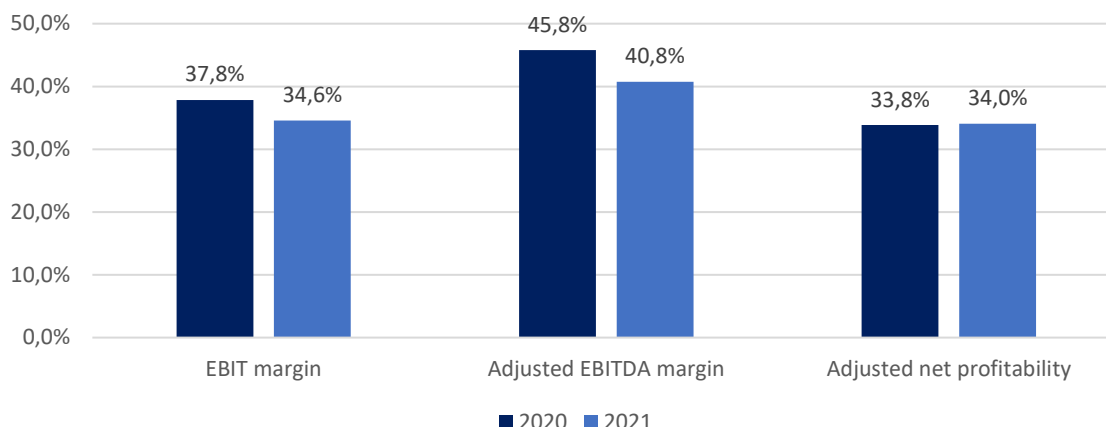
¹ EBIT is an economic quantity that is not reflected in the current IAS/IFRS accounting standards and is not applicable for financial reporting purposes. Therefore, in the Company's opinion, it represents the so-called alternative performance measurement (APM). The presented and calculated EBIT value is the same as operating profit/loss.

² EBITDA profitability = operating result + depreciation and amortisation - settlement of subsidies for grants and fixed assets + costs of incentive scheme/net sales revenues

EBIT profitability = operating result / net sales revenues

Net profitability = net financial result/net sales revenue

Figure 7: Profitability and margins generated by the Company in 2020-2021 (%)



5.1.4. Assessment of the Company's financial position

The level of revenues in 2021 amounted to PLN 71.5 million (increase by 33.76% y/y), and the net profit (adjusted for one-off events) reached PLN 24.4 million (increase by 34.97%).

In the opinion of the Management Board, the Company's current financial position is very stable and allows for effective implementation of the new Strategy for 2021-2026, adopted in June 2021.

Dividend policy

In accordance with the updated dividend policy announced in current report No. 12/2021 on 16 June 2021 the Company does not intend to pay dividends during the implementation period of the Strategy.

The final dividend recommendation will depend on a number of factors relating to the Company and its industry, including in particular the Company's future business prospects, the amount of future earnings, the Company's financial position, and taking into account any restrictions on the payment of dividends, the level of liquidity ratios, expansion plans and legal requirements in respect of the above elements. The amount of the dividend recommended by the Management Board will depend on the Company's need to retain the profits earned in order to use them for the Company's operations and its further dynamic development.

5.1.5. Key developments in the Company in 2021 and up to the date of approval of the financial statements

| | |
|----------------|---|
| 5 January | Acquisition of a new distributor for Scandinavia - Nanor AB. |
| 11 January | Publication of application note dedicated to infrared detectors in railway applications. |
| 25 January | Creation and launch of VIGO System profile on Twitter. |
| 10 February | Integration of epitaxy page into VIGO System website. |
| 17-18 February | Participation, lecture of a VIGO System representative and sponsorship of PHOTONICS+ conference. |
| 19 February | Receiving the "Forbs Diamond" title |
| 24 February | Organisation of a webinar presenting the product development roadmap for 2021-2022. |
| 4 March | Publication of an article on epitaxial layers for VCSEL lasers in Compound Semiconductors magazine. |
| 6-11 March | Participation in the Photonics West Digital Forum conference. |

| | |
|-----------------|--|
| 15 March | 9th place in the "Stock Exchange Company of the Year" ranking. |
| 22 March | Participation in the conference "EU Industry Week - Innovation and photonics technologies". |
| 7 April | Organisation of a webinar on InAs/InAsSb super grid detectors. |
| 9 April | Publication of an application note devoted to infrared detectors for medical applications. |
| 14 April | Premiere of the virtual stand of VIGO System. |
| 22 April | Publication of an article on the use of detectors in spectroscopy in Electro Optics magazine. |
| 6 May | Participation and lecture at Sensor+Test trade fair. |
| 12 May | Organisation of a webinar on antifringing technology and PbSe detector substitutes. |
| 16 May | Participation in EPIC conference on the occasion of International Day of Light. |
| 20 May | Participation and lecture in a webinar organised together with Fraunhofer - The miniaturization of optical spectrometers - from components to system integration" |
| 1 June | Joining the European Mid-IR Alliance consortium. |
| 7 June | Participation, lecture and sponsorship of the EPIC Online Technology Meeting on VCSEL Manufacturing and Applications. Adoption by the Board of VIGO System Development Strategy for 2021-2026 |
| 16 June | Participation in Photonics+ Virtual conference. |
| 29-30 June | Participation, together with our distributor, in Japanese OPIE - Optics & Photonics fair |
| 1 July | Organisation of a webinar on VIGO System products dedicated to Spectroscopy. |
| 7 July | Campaign promoting new line of quadrant products: 4EM-5, QM-5 |
| 10 August | Winning a new distributor for Australia and New Zealand - Lastek company. |
| 13 August | Participation in a discussion and interview with CEO Adam Piotrowski for the international IEEE Photonics Society. |
| 2 September | Participation in a career panel discussion: "Academia or Industry. Career paths in optics and photonics". |
| 7-10 September | Stand and participation in the International Defence Industry Exhibition (MSPO) |
| 8 September | Participation of Adam Piotrowski, President of the Management Board, in the Economic Forum in Karpacz in a panel discussion on raising capital from EU funds. |
| 16-18 September | Participation, together with our distributor, in CIOE fair - China International Optoelectronic Exposition. |
| 20 September | Participation of Łukasz Piekarski in the European Economic Congress in a panel on financing innovation in Poland. |
| 22 September | Sponsorship of the EPIC Online Technology Meeting - Mid-IR Technologies for Environmental Monitoring event and a lecture at the event. |
| 25 September | Participation in the Science Festival and conducting a panel of the Polish Academy of Science on Young Innovators. |
| 4-7 October | Participation and lecture at Photonics Days Berlin Brandenburg in Berlin. |
| 9 October | Partner of the Digital Festival event within the European Digital Days - lecture and "open company" for those interested in innovative technology. |
| 21 October | Opening of a new field office in the USA managed by Scott Riggi. |
| 9-10 November | Partner of CS International and SSI International conferences in Brussels. VIGO lectures and stand accompanying the conference. |
| 10 November | Election of Adam Piotrowski as a member of the Photonics21 stakeholder council. |

| | |
|----------------|--|
| 17-18 November | Participation in the Optoelectronic Conference - lectures given by VIGO employees and a stand accompanying the conference. |
| 24 November | Nomination of Adam Piotrowski to the finals of the Entrepreneur of the Year competition organized by EY. |
| 10 December | Start of renaming and re-branding process from VIGO System to VIGO Photonics. |
| 16 December | Conducting webinar dedicated to epitaxial layers for InGaAs detectors, VCSEL and QCL lasers in cooperation with the international industry medium Photonics Media. |

5.2. Development perspectives for the Company

5.2.1. Short-term perspectives

Management believes that, based on currently available information on expected orders for the existing and new products in 2022, the Company may expect growth of approximately 10% compared to the results achieved in 2021. On the other hand, it should be noted that the Company anticipates a y/y revenue decline in the first quarter of 2022 due to the cleanroom shutdown during the conversion period from November 2021 to mid-February 2022, which significantly limited the ability to take new orders with Q1 lead times. The Company expects sales volumes to be higher in subsequent quarters.

Infrared detectors

The following applications will be the key drivers of sales growth:

- **Industrial.** The Company's revenue from sales of detectors for various industrial applications has been growing at an annual rate of 20-30% in recent years. The Management believes that industrial applications will be the main driver of the Company's sales growth in the coming years. In 2022, further intensive growth of this application is expected with dynamics similar to 2021, also owing to the introduction of a whole family of new products based on III-V materials as well as increased activity and acquisition of numerous new projects carried out in cooperation with customers. The growth dynamics in this segment may be higher than in 2021 provided that the current collaborative projects with customers are positively completed and validated on the customer side.
- **Military.** The company will execute orders for Safran Aerotechnics in 2022, however it expects significantly smaller orders. The anticipated revenue of the military segment in 2021 is approximately PLN 10 million.
- **Medicine and science.** Revenues from the science segment are planned at a similar level as in 2021.
- **Rail transport safety.** The company is currently carrying out a contract for the supply of detectors for a company from the Caterpillar group, while it has also acquired new customers from the Chinese market. The Management estimates that revenue from the rail segment will be approximately 10% higher in 2022 than in 2021.

Materials for photonics

The Company is intensively expanding its sales network for epitaxial layers. In 2022, the Company targets revenues from the new segment at the level of EUR 1.5-2 million. Due to the high intensity of work on new products prepared at the request of customers, the Company has exhausted the production capacity of the epitaxial reactor. This does not yet translate into increased revenues as the majority of new projects are in the development or validation stage on the part of customers. If the validation processes are completed, the Company may achieve higher revenues in this segment. Nevertheless, a decision was taken in 2021 to invest in another epitaxial reactor in order to significantly increase the capacity to acquire new customers in this segment.

5.2.2. Long-term perspectives

Long-term perspective - VIGO 2026 Strategy

In June 2021, the Company's Management Board adopted a new strategy to be implemented in the period 2021-2026.

The strategy assumes that the Company's primary objective of multiplying its capital and increasing its value for Shareholders will be achieved through 2026 by continuing to grow in the global photonics market, including supporting the development of the market segments where the Company is active and expanding the scope of the Company's operations into new areas.

The Management Board identifies a number of potential business opportunities available to the Company within the photonics market, the exploitation of which may enable it to achieve its growth ambitions in the 2026 timeframe. The Management Board considers the following to be the most promising of the Company's potential growth initiatives:

- a. Exploration of the MCT (HgCdTe) detector market, including expansion (geographic, segmental) in market areas not covered by regulations exempting the use of mercury and cadmium in detectors,
- b. Development of technologies for infrared detectors and modules made of materials based on compounds from groups III and V of the periodic table of elements, compliant with the Community Restriction of Hazardous Substances (RoHS) Directive,
- c. Development of epitaxy of III-V semiconductor materials and production of near-infrared sources (VCSEL lasers),
- d. Development of infrared source technologies,
- e. Development of optoelectronic systems technology and photonic integrated circuits for the mid- and short-wave infrared,
- f. Development of infrared detector array technology.

Implementation of the VIGO 2026 Strategy is divided into two stages.

2021-2023 Perspective

In Phase I, covering the years 2021-2023, the Company intends to focus on:

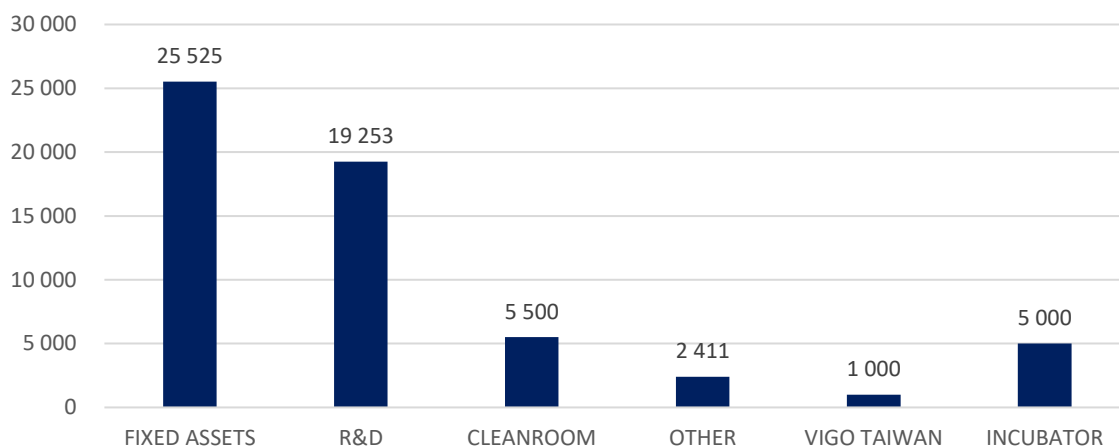
- 1) Continuation of initiated development projects, including photonic integrated circuit technology, III-V material detectors, semiconductor material epitaxy, infrared source technology,
- 2) Development of the technological and technical base common to key pro-growth initiatives through investment in R&D and universal infrastructure,
- 3) Selecting the most promising growth initiatives on the basis of, inter alia, the results of R&D projects and the analysis of the market situation, followed by the preparation of an investment plan necessary for their implementation.

The growth potential of the Company's sales revenue and EBITDA in the period 2021-2023 is estimated at, respectively:

- 1) PLN 67 million revenue and PLN 29.5 million EBITDA in 2021
- 2) PLN 80 million revenue and PLN 33.5 million EBITDA in 2022
- 3) PLN 100 million revenue and PLN 40 million EBITDA in 2023.

In order to achieve its strategic objectives, the Company plans to invest PLN 30-40 million a year in R&D and technical infrastructure in the period 2021-2023, using its own funds and public subsidies for R&D.

In 2022, the Company anticipates the following investments:



2024-2026 Perspective

In Phase II, the Company will focus on implementing and executing the most promising growth initiatives selected in Phase I of the Strategy.

In addition, the Company intends to continue its expansion into new geographical and product markets, including by investing in the development of its own sales structures in key markets.

The Company's ambition is to maintain the revenue growth rate at a level of 20-30% per annum and high profitability of its basic operating activities, including a gross margin on sales exceeding 60% and EBITDA profitability exceeding 40%.

Bearing in mind the investment needs resulting from the implementation of the adopted Strategy, the Management Board decided to change the dividend policy, which provides for recommending to the Company's General Shareholders' Meeting that no dividend be paid during the Strategy implementation period and that the profits earned be invested in accelerating the Company's development.

The final recommendation as to dividend payment will depend on a number of factors relating to the Company and its industry, including in particular the prospects for the Company's future operations, future earnings, the Company's financial position, and taking into account any restrictions on dividend payments, the level of liquidity ratios, expansion plans and legal requirements with respect to the above elements. The amount of the dividend recommended by the Management Board will depend on the Company's need to retain the profits generated in order to use them for the Company's operations and its further dynamic development. The dividend policy will be subject to periodic review by the Board.

5.3. Research and development

In 2021, the Company presented a new Strategy for the period 2021-2026. The strategy is divided into II Phases. In Phase I, covering 2021-2023, the Company intends to focus on:

- 1) Continuation of initiated development projects, including photonic integrated circuit technology, III-V material detectors, semiconductor material epitaxy, infrared source technology,
- 2) Development of the technological and technical base common to key pro-growth initiatives through investment in R&D and universal infrastructure,
- 3) Selecting, based on the results of R&D projects and analysis of the market situation, the most promising growth initiatives and preparing the investment plan necessary for their implementation.

The Company is currently implementing the following strategic growth initiatives:

MCT+ Initiative

The aim of the initiative is to improve the technologies and manufacturing processes of products based on mercury cadmium telluride (MCT). Particular attention is paid to the launch of new products for industrial, military and space applications, in geographical markets not covered by regulations exempting the use of mercury and cadmium in detectors.

In 2021, the foundation for the launch of the initiative was provided by the project entitled MIRPHAB, 'MidInfraRed PHotonics devices fABrication for chemical sensing and spectroscopic applications'. The aim of the MIRPHAB project was to establish a pilot production line to serve the growing needs of European industry in the field of micro-sensor analysers. Another project carried out in this area and completed in 2021 was the project with reference number POIR.02.03.02-14-0210/18-00 entitled "Development and implementation of an innovative infrared sensor bonding technology" subsidised under the SME Innovation Vouchers programme (work completed 30.06.2021). The aim of the project was to develop and implement a significantly improved, innovative technology for gluing infrared sensor elements: glass (window) to the casing and casing to the sensor base.

The shape of the newly-established growth initiative has been pivotally influenced by the project RPMA.01.02.00-14-b451/18-00 entitled "Multi-element infrared detectors for non-contact multifunctional diagnostics", acronym: DEMETER, the aim of which is to develop technology for the production of multi-element detectors and modules. Multi-element detectors enable the study of spatial temperature distribution, precise determination of the direction of the infrared source and the scanning of larger areas for the detection of substances, gases or temperature changes. Multi-element detectors can be used, among other applications, in sorters on production lines. The project is implemented in cooperation with the Jarosław Dąbrowski Military University of Technology. Total value of the Project amounts to PLN 5,448,222.72, including eligible expenditure of PLN 5,296,569.00, while the amount of the subsidy is PLN 3,644,130.75, which represents 63.82% of the total eligible costs. Eligible costs of VIGO System S.A. amount to PLN 4,726,399.00 and the grant for the company is PLN 3,073,960.75. The project will be completed by the end of March 2022.

Following completion of the DEMETER project, the Company intends to focus on optimising its existing product range with new processes and technologies implemented as a result of recent investments (i.e. construction of a new cleanroom as part of the Processing 2.0 project). Upon completion of this task, the Company plans to launch projects for new products only if customers interested in such products are acquired.

III-V Initiative

In connection with the introduction of RoHS Directive within the European Union, the possibility of marketing goods containing substances hazardous to the environment (such as mercury) will be limited in the civil market in a few years' time. In preparation for these changes, the Company has been developing detectors based on A3B5 materials, e.g.: Indu and arsenic antimonides, for several years now.

The objectives of the Initiative are currently realised by project MAZOWSZE/0090/19-00 entitled: "Sensors for Industry 4.0 and IoT" as part of the competition "Path for Mazovia". The project will develop and implement a new family of sensors - miniature infrared detection modules ensuring ease of use for the user, high availability owing to price minimisation, and having mass application in all sensor network systems. In addition, the aim of Stage 2 of this project is to develop diffractive lens technology for infrared detectors. Areas in which low-cost detector modules will be particularly used are the fields of environmental protection, technological process surveillance, medicine, robotics, military, property protection, surveillance of intelligent buildings and cities, transport networks, energy systems and home applications. Smart industrial automation components are equipped with their own data collection and processing systems and software. In industrial production, every downtime, every failure, is a tangible loss. Sensors make it possible to monitor its parameters at every stage. Therefore, in the long term, it is necessary to develop sensors equipped with digital electronics and with digital output for Industry 4.0 and the Internet of Things.

Within the framework of this initiative, the company is also implementing the POLTUR4/PEMIR/2/2021 project entitled "Development of high-temperature mid-infrared detectors using plasmonic enhancement", acronym: PEMIR. The aim of the project is to develop high temperature mid-infrared (3-16 μm) detectors using plasmonic absorption enhancement to increase signal-to-noise ratio and response rate at room temperature or at temperatures achievable with Peltier coolers. The detectors

proposed in the project could be very useful in many existing and new applications including industrial (automotive, manufacturing control), environmental (pollution control), medical and military. The total cost of the project is PLN 1,115,343.81, of which the subsidy amount is PLN 836,507.86. The project is co-financed by the National Centre for Research and Development under the competition POLTUR4.

One of the Company's current projects in this initiative is the TRIAGE project, "Ultra-broadband infrared gas sensor for pollution detection" (grant agreement identifier: 101015825), which will develop an intelligent and compact network of air quality sensors for hyperspectral detection of all relevant gases polluting the atmosphere. VIGO's role in the project is to develop and deliver dedicated infrared detector modules for TRIAGE sensors. Our role is also to optimise the detector modules to achieve the best possible compatibility with the project requirements and to enable integration with the FTIR spectrophotometer. The project is carried out in an international consortium of nine partners. Implementation period: 1.01.2021-29.02.2024. Total project costs: EUR 5,853,623.50, of which the EU funding is: EUR 4,994,300.96. The project is co-financed by Horizon 2020 programme.

Within the framework of the Initiative, solutions will be implemented that have been developed within the scope of work carried out so far in the "Low-cost detection module" area - which assumes placing on the market low-cost (below EUR 100) detection modules (detectors with signal amplification) for wide use in industrial and environmental protection applications. Two tasks are currently being carried out as part of the project:

- Development of a simple detection module consisting of a detection chip directly on a PCB board containing an integrated amplifier circuit with an analogue output. The new module will enable customers to automate assembly and reduce production costs of systems based on infrared detectors.
- Development of diffractive optics technology - i.e. lenses manufactured directly on epitaxial wafers. Diffractive lenses will allow to achieve similar parameters as using immersion lenses, but at much lower production cost.

InGaAs Initiative

The aim of the InGaAs initiative is to enter the existing market of detectors operating in the so-called Short Wavelength Infrared (SWIR) range, which have the potential to be used in consumer electronics (e.g. for measurement of various compounds in the human body - e.g. measurement of glucose, alcohol or lactate levels).

The programme covers the project "Production of InGaAs sensors with integrated ASIC electronics for the range of 1.7 - 2.6 μm ", the aim of which is to develop and market a new mass-market product being a miniaturised high-temperature InGaAs sensor for the range of 1.7-2.6 μm for modern consumer electronics, integrated with a dedicated ASIC chip, which will increase the competitiveness of VIGO.

PIC Initiative

The objective of the Initiative is to develop optoelectronic systems for infrared range photonics. These will ultimately take the form of hybrid photonic integrated circuits (PICs). PICs are photonic circuits consisting of multiple optical and electronic components with different functionalities integrated on a common, usually semiconductor, substrate. The first task in this area will be to develop a PIC operating in the 3-5.5 μm wavelength range, understood as a monolithically assembled: source (lasers), detector, optical components and electronics. Potential applications of such a PIC are the following:

- analyses of chemical composition of gases,
- analysis of impurities in liquids,
- FSO (free space optical communication),
- medical, telemedicine, related to gas detection.

The Initiative will build a technology platform to enable mass production of integrated photonic circuits for the mid-infrared range, as well as entry into the market of integrated photonics circuits manufacturers, by presenting technology demonstrators to a group of key customers (mobile applications, IoT, wearables) and subsequently manufacturing pilot series for customer testing. The initiative continues the work of the 'optoelectronic systems' programme - from the Company's previous strategy.

In April 2021, the company executed a contract for the project entitled "photronics integrated circuits technologies for MidIR", acronym: MIRPIC, contract no: TECHMATSTRATEG-III/0026/2019-00. The project will result in a product innovation in the form of specialised integrated photronics circuits (ASPICs) designed to operate in the mid-infrared, MidIR (3-5.5 μm) range. In particular, the individual building blocks necessary to define ASPICs will be designed, fabricated and tested, allowing the design, fabrication and performance testing of an ASPIC demonstrator. The demonstrator will reflect the typical characteristics of integrated photronics circuits, i.e. multi-channel performance, integration on a common substrate, electronic and optical interfaces and packaging.

The project is co-financed by the National Centre for Research and Development under the TECHMATSTRATEG programme. Implementation period: 1.04.2021-31.03.2024. Total cost of project implementation: PLN 29,255,381.61, of which the co-financing is: PLN 26,564,942.41.

At the current stage of development work, the Company's Management Board does not foresee any threats to the implementation of projects under the initiative.

Matrices Initiative

The aim of the initiative is to develop technology and build competence in the manufacture of matrix detectors both cooled (thermal) and uncooled (SWIR InGaAs), epitaxy, high density processing, ROIC, hybridisation, encapsulation.

The continuation of the Matrices programme under the new strategy is aimed at developing technologies for the production of cooled infrared detector matrices. Initially, cooled arrays will be developed with technical parameters compatible with equipment already in use in industry and existing on the market; this will enable a smooth transition from the research to the production phase. In the next step, following global trends, work will focus on competing technological solutions. The ubiquity of infrared radiation finds a number of applications for its detection. Industry bases its solutions in this field on components sourced from a small number of foreign suppliers.

In 2021 under the contract no. POIR.01.01.01-00-0185/20-00 the Company started the project: "Polish matrix for space applications active in infrared". The main objective of the project is to develop a matrix for the infrared range of 2-5 μm for space applications. An additional objective is to develop a measurement set for characterisation of typical matrices, modules and mid-resolution infrared cameras. The infrared array proposed in the project will be made of a technologically advanced material - type II InAs/InAsSb superlattice, which will be a new and entirely innovative product on the Polish market. The matrix will constitute an innovative product on a global scale as well replacing the existing indium antimonide InSb matrices.

The project is co-financed by the European Union from the European Regional Development Fund under the Intelligent Development Programme. The project is implemented under the competition of the National Centre for Research and Development: Fast Track for Mazovia. Project implementation period: 1.01.2021-31.12.2023, total project value amounts to: PLN 15,582,310.69 and the subsidy amount is: PLN 11,568,965.39.

MOCVD Epitaxy Initiative

The objective of the Initiative is to develop the epitaxy of III-V semiconductor materials and produce near-infrared sources (VCSEL lasers) along with the continuous improvement of the production of epitaxial heterostructures of semiconductor compounds based on GaAs and InP by the MOCVD method, leading to beyond state-of-the-art technologies for epitaxy of PD ext InGaAs, PD InGaAs 1.7, QCL, VCSEL, LD, TJSC structures.

On 21.11.2019 the Company concluded an agreement on co-financing of the research project MAZOWSZE/0032/19-00 entitled: "Production technology of novel epitaxial structures and VCSEL laser devices critical for the development of photronics" within the competition "Path for Mazovia".

VIGO System S.A. is the leader of the consortium that also includes Warsaw University of Technology and Łódź University of Technology.

The total amount of eligible costs of the Project is PLN 16 302 135.55, while the amount of the subsidy is PLN 7 730.75, which is 76.05% of the total eligible costs. Eligible costs of VIGO System S.A. amount to PLN 13,014,525.55 and the grant for the Company is PLN 9,110,755.18.

The aim of the project is to develop new solutions in MOCVD technology for the fabrication of advanced photonic heterostructures of III-V epitaxial semiconductor compounds based on GaAs and InP. Technological innovations resulting from the project will be used in the production of structures of vertical cavity resonance lasers (VCSEL) and quantum cascade lasers (QCL). The project will also include the design of VCSEL laser structure adapted to single-mode operation and the design of laser array optimised for maximum emitted power by means of simulation and optimisation of temperature distribution.

Research on improvement of spectral emission characteristics of lasers will be realised by application of subwavelength gratings placed on the emission surface of the laser. Independently, the research on the technology of epitaxy of GaAs-based structures and the design of VCSEL device will be used in the ground-breaking research on the national scale on the modified methods for producing single-mode lasers as discrete devices and their matrices.

As a result of the programme realisation, VIGO System will start the production of epitaxial wafers and their sale on the global market and for the first time in Poland, it will start the technological process of VCSEL devices production from own material and according to the project developed by the consortium.

Another ongoing activity in this area is the Car2TERA project, "Terahertz sensors and networks for next generation smart automotive electronic systems", (contract number 824962), implemented under Horizon 2020 by a European consortium comprising the following companies and R&D units: TECHNIKON FORSCHUNGS- UND PLANUNGSGESELLSCHAFT (AT), Kungliga Tekniska Högskolan (SE), Infineon Technologies Austria AG (AT) Chalmers Tekniska Högskola AB (SE), VIGO System S. A. (PL), Ericsson Telecomunicazioni (IT), Anteral SL (ES), Veoneer Sweden AB (SE). The aim of the project is to develop terahertz sensors and networks for a new generation of intelligent automotive electronic systems.

The company is also carrying out TRAVEL project entitled: "New transparent electrodes for VCSEL lasers", contract no: M-ERA.NET2/2019/9/2020. The project is implemented together with Łódź University of Technology and Laboratory for Analysis and Architecture of Systems CNRS. The project aims to create an industrially viable method of manufacturing VCSEL lasers with a transparent electrode as upper contact and irregular aperture, which enable more efficient conversion of electrical energy into optical energy. VIGO's task within the project is to produce structures characterised by high optical parameters and high repeatability required in the production of this type of lasers. The growth of the epitaxial structure will be completed by the fabrication of the device and its characterisation. VCSEL lasers are widely used in the photonics industry, mainly in short-range communication systems, LIDARs, time-of-flight (ToF) sensors, autonomous vehicles, robots and drones. The project is co-financed by the National Centre for Research and Development as part of the M-ERA.NET Call 2019. The eligible costs of the project are PLN 1,142,725.35 of which PLN 1,024,808.10 is the value of subsidy.

The initiative also includes work in the WikiNET project, "Vertical Cavity Surface Emitting Lasers", contract number: NCBR/VII/PL-IL/1/2020. The aim of the project is to produce long-wave, single-mode integrated VCSEL wafers that allow fast modulation while maintaining a low unit cost. VIGO's task is to develop high quality strained quantum wells for O and C bands. The project will lay the foundation for large-scale industrial production of long-wavelength VCSEL lasers. The project is co-financed by the National Centre for Research and Development under the 7th Polish-Israeli competition. Eligible costs: PLN 1 166 233.70, subsidy amount: PLN 999,675.28.

In 2021, the initiative also included the Widepower project - Integrated photonics circuit technologies for the mid-infrared range (TECHMATSTRATEG1/346922/NCBR/2017), which the company joined in the course of implementation by another partner. The project developed technologies and methods for characterising epitaxial structures for photonics.

At the current stage of development work, the Company's Management Board does not foresee any threats to the implementation of projects under this initiative.

Process initiative

The Company continuously invests in new production technologies. It is currently completing the project "Processing 2.0." - POIR.03.02.02-00-1638/18-00 entitled: "Implementation of the detection chip manufacturing technology developed under the "Exposures" project" within the Intelligent Development

Operational Programme 2014-2020, Sub-measure 3.2.2 - "Credit for technological innovations", the aim of which is to prepare the production facilities in the Epitaxy and Processing areas for the controlled production of 100,000 units/year of infrared detectors resistant to environmental exposures. This will be achieved by implementing technologies ensuring:

- increased repeatability of production,
- reduction of production costs,
- meeting the highest quality requirements (military, space, semiconductor industries).

Pursuant to the Grant Agreement, the duration of the Project and the grant at the same time is 32 months. The implementation of the Project started on 8 November 2018. The originally planned completion date was 30.06.2021, but the Company obtained an approval from the Bank Gospodarstwa Krajowego to extend the project to 31.03.2022.

5.4. Risk factors and threats to the Company's operation and development

The Company's business and its financial condition as well as results of its operations have been and may in the future be adversely affected by the occurrence of any of the risk factors described below. The occurrence of even some of the following risk factors could have a material adverse effect on the Company's business, financial condition and results of operations and could result in the loss of some or all of the invested capital. Risk factors and uncertainties other than those described below, including those of which the Company is not currently aware or which it considers immaterial, may also have a material adverse effect on the Company's business, financial condition and results of operations and may result in the loss of some or all of its invested capital.

5.4.1. Business and operational factors

Risk of product demand at a level lower than expected.

Market growth plans are based on various market reports and analyses, plans of customers and partners in R&D projects. Forecasts regarding the growth of the uncooled infrared detector market are subject to relatively high uncertainty. Forecasts presented by the Company's customers may not be fully realised both as a result of failures of currently realised implementation projects and the adoption of erroneous assumptions or expectations.

As a result, the demand for the Company's products may be lower than expected.

The markets in which the Company is present may be disrupted by various macroeconomic factors (GDP growth, unemployment levels, demand, consumption, etc.), which may reduce demand for technological equipment. The Company takes countermeasures, which consist in the process of making strategic and operational decisions based on a planning process that takes into account current market data and demand for the Company's products.

This risk will be neutralised by VIGO through its own research and participation in various international projects, including in cooperation with the Company's existing customers, aimed at developing new applications for infrared detectors.

Risk of losing distributors or customers

The main sales channels comprise selling products directly to customers and through distributors. The role of distributors is to conduct marketing campaigns and provide basic technical consulting.

The loss of any distributor may impair access to the market in which the distributor was active. Therefore, the loss of one or more key distributors could adversely affect financial performance and reduce the Company's shareholder value as well as financial results.

In addition, there is a risk of losing key customers to whom the Company sells its products directly. Quality, economic or customer service problems may lead to discouraging partners from further

cooperation. Therefore, the loss of key customers, may adversely affect financial results and reduce the Company's value for the shareholders.

In order to avoid the risk, the Company constantly searches the markets for potential new distributors, monitors the satisfaction level of its existing customers and continuously looks for new potential customers who may replace those lost.

Supplier-related risk

The production process of the infrared detectors uses raw materials that are difficult to obtain (such as cadmium mercury telluride, gallium arsenide and indium), therefore these raw materials may be supplied by a limited group of suppliers that guarantee their high quality.

In the event of delays in the supply or deterioration of the quality of raw materials, the production of detectors may be temporarily interrupted or delayed.

In the event of a prolonged supply interruption or inability to find an alternative supplier, detector production may be temporarily discontinued.

The occurrence of the above risks could adversely affect financial performance and reduce the Company's value to the shareholders.

In order to avoid the risk, the Company continuously controls the supply market.

Risks related to the war in Ukraine

Some of the components used by the Company are currently manufactured in the Russian Federation. If economic sanctions are imposed, the supply of components may be hampered or become more expensive due to the need to obtain alternative suppliers.

The occurrence of the above risk may adversely affect the financial results and reduce the value of the Company to its shareholders.

In order to avoid risks, the Company continuously monitors the supply market and tests alternatives. In addition, it works with its existing suppliers on possible relocation of component production.

Competition-related risk

The high technological barriers and the high capital intensity of the technologies used make the radiation detector market a highly concentrated market. Only a few entities can be distinguished in this market, which are direct competitors to the Company. There is a risk that in the event of the emergence of competitors, the Company may lose part of the market and customers with whom it currently cooperates. In addition, the emergence of new competitors may lead to the spread of technologies used in the production of infrared detectors, which in turn may lower the market entry barriers. The risk will increase as the market develops.

The occurrence of the above risk may adversely affect financial results and reduce the Company's value for its shareholders.

The risk is neutralised by the Company through continuous development of technology, ensuring technological superiority over competitors, as well as through planned investments that will reduce the price of offered products. In addition, the Company continuously monitors the market in order to prepare as early as possible for the emergence of new competition.

Risk of losing key employees

Due to the high technological advancement of the Company's products, their manufacturing requires highly qualified personnel with many years of experience. Competence, knowledge and experience of employees are one of the most important competitive advantages of VIGO, therefore losing a key employee may cause difficulties in the production process, delays in deliveries and deterioration of

product quality and thus negatively influence the financial results and reduce the value of the Company for the shareholders.

In order to minimise the above risk, the Company applies an attractive bonus system for employees and provides opportunities for further development and work involving unique technical issues.

The evaluation of employees and their competences is conducted on a continuous basis and the development of employees is carried out in a planned manner, as is the selection of persons promoted to managerial positions.

The company has been preparing for a generational change in the company for several years now. Older employees are gradually replaced by younger employees. Their training is conducted jointly with technical universities around the world. The process of generational change takes place on an ongoing basis without disturbing the continuity of the Company's operations.

5.4.2. Technological risks

Risks related to research and development

Constant technological progress and developing methods of manufacturing infrared detectors force continuous research and development. Advanced research into the development of detector production technology allows us to improve the parameters of manufactured products.

The Company has its own research and production laboratory, where it not only conducts development and scientific research on improving infrared detectors but also designs and manufactures detectors.

As the end result of the research and development work is likely to be less satisfactory than expected, the anticipated economic benefits may differ from those assumed in the plan. In the event of obtaining unsatisfactory results of research and development works, the Company may lose the invested funds and its competitive position.

The occurrence of the above risk may adversely affect financial results and reduce the Company's value for its shareholders.

The results of research and development work to date confirm the Company's effectiveness in improving and developing new infrared detector manufacturing technologies. Notwithstanding the above, there is a possibility that the results of current and future R&D work will not be as satisfactory as planned or in line with expectations and past experience.

Risks associated with the emergence of alternative technologies

The Company manufactures detectors based on MOCVD technology and is currently investing to start manufacturing detectors based on MBE technology. The MOCVD and MBE technologies are at an early stage of development and, in the opinion of the Management Board, the research and development work currently underway will significantly improve the parameters of infrared detectors manufactured using these technologies.

Nonetheless, there is a risk that a new alternative technology to the one used by the Company will emerge, which may adversely affect financial results and reduce the Company's value for its shareholders.

The risk will be neutralised by the Company through the development of its own products and the technology for their manufacture as well as through a gradual increase in production automation, which should also translate into lower prices of the products offered.

Risk of failure or damage to equipment

The Company uses a laboratory furnished with modern and unique equipment for research and detector manufacture. The apparatus used has been individually customised to the Company's needs and it is not possible to purchase it on the market.

Due to the above, in case of failure or damage to the apparatus, its replacement is impossible in a short period of time. The occurrence of the above risk may result in the interruption of production or delay in fulfilling orders, and thus may negatively affect the financial results and reduce the Company's value for shareholders.

In order to minimise the effects of the risk, the Company accumulates spare parts for the apparatus and stocks of semi-finished products securing possible interruptions in supply for the time of liquidation of the failure of the key apparatus. The Company limits the possibility of delays by concluding appropriate agreements with suppliers and monitoring the quality of supplies and services. The Company determines the required stock levels of particular components and plans production taking into account the aforementioned risk. The Company engages only proven carriers and transfers the transport risk to customers (basic terms of delivery on an EXW basis) or insures against transport damage.

5.4.3. Financial risks

Risk of losing EU subsidies for planned investments.

The implementation of investments with EU subsidies implies a number of additional obligations for the Company, especially in the area of procurement and selection of suppliers and contractors. Failure to meet the stringent requirements may mean the loss of some or all of the subsidy. Under the current terms of the grant agreement, the Company will receive a PLN 6 million technology bonus, which will be used to repay the technology loan. The loss of the technology bonus would mean that the technology loan would have to be repaid from the Company's resources.

The Company has extensive experience and is very successful in independently obtaining EU grants. The loss of the technology bonus would mean that the technology loan would have to be repaid from the Company's resources.

The Company has extensive experience and is very successful in independently obtaining EU grants, while the Company's management has experience in the implementation of EU projects. The technologies implemented by the Company are innovative on a global scale (which translates into the highest scores during application assessment), which is confirmed by the opinions of independent Polish scientists.

Other financial risks

Other financial risks and the objectives and principles of risk management are described in Section 2.13 of the Report.

5.4.4. Risks related to the COVID-19 pandemic

In 2021, in connection with the COVID-19 pandemic, the Company has conducted a risk analysis of the impact of the pandemic on the Company's operations:

- Supplier-related risks - the occurrence of a pandemic in countries, regions or directly at suppliers' production facilities could mean disruptions in the supply of components, which could result in disruption of production processes and financial losses due to lack of supply to customers. The Company has taken steps to diversify its supplier base geographically.
- Risk related to the occurrence of a coronavirus infection on the Company's premises - a coronavirus incident among the Company's employees may result in the necessity to introduce quarantine for the Company's employees and consequently, the closure of the plant for a certain period. In order to minimise the risk, the Company implemented a number of measures (shift

work was introduced, the frequency of cleaning and disinfecting workplaces was increased, the percentage of employees working remotely was increased, visits and meetings with suppliers were limited).

- Other risks - the development of the pandemic and the restrictions introduced create risks of disruption on the part of the Company's customers and introduce great uncertainty about trends in the economy and the photonics industry. It is currently impossible to estimate these risks. The Company continuously monitors the situation of its customers, including possible liquidity risks.

In the Management Board's view, the pandemic also presents a major opportunity for the sensor market. The pandemic accelerates the introduction of production automation, which in the long term should lead to increased demand for the Company's products.

5.4.5. Legal risks

Risk of restricting the sale of detectors based on mercury cadmium telluride (HgCdTe)

Under Directive 2011/65/EU of 8 June 2011 on the restriction of the use of certain hazardous substances in electrical and electronic equipment ("ROHS Directive"), certain chemicals must be phased out of electrical and electronic equipment placed on the EU market. Among the hazardous substances identified by the ROHS Directive are mercury and cadmium, which are contained in cadmium mercury telluride (HgCdTe), a basic semiconductor material for uncooled mid-infrared detectors.

Pursuant to Annex IV of the ROHS Directive, mercury and cadmium in infrared detectors are exempted from the restrictions of the Directive until the expiry of the relevant transitional periods:

- Until 21 July 2021 for medical devices,
- Until 21 July 2023 for in vitro diagnostic medical devices,
- Until 21 July 2024 in the case of control and measuring equipment for industrial use.

The Directive does not cover military or space applications.

The Directive provides for the possibility to apply to the European Commission for an extension of the above deadlines in the event that technical progress does not render it possible to find reliable substitutes for the above substances. The Company has applied to the EC for an extension of the transition period for medical devices.

In order to minimise the risk of limiting the market for HgCdTe detectors, the Company is currently conducting an extensive programme to develop III-V materials that are not subject to the restrictions of the ROHS Directive. If, by the end of the transition periods, it has not been possible to develop materials guaranteeing parameters similar to those of HgCdTe, the Company will apply to the EC for an extension of the above deadlines. It should be emphasised that the currently commercially available detectors made from III-V materials (including detectors sold by companies competing with the Company) are several times worse than detectors made from HgCdTe.

5.5. Human capital

The success of VIGO System is based on people who form a strong, committed and competent team. It is thanks to the employees, their knowledge and skills that the Company can realise ambitious development goals and achieve business results at a very high level. Employment of new employees is characterized by high dynamics - in 2021 the headcount increased by 39 persons.

| Number of women/men | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---------------------|----------------------------|----------------------------|
| Women | 67 | 54 |
| Men | 140 | 114 |
| Total | 207 | 168 |

| Type of agreement | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|------------------------------------|----------------------------|----------------------------|
| Agreement for a definite period | 62 | 43 |
| Agreement for an indefinite period | 145 | 125 |
| Total | 207 | 168 |

| Managerial/other positions | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|----------------------------|----------------------------|----------------------------|
| Management Board | 2 | 2 |
| Managers | 37 | 23 |
| Others | 168 | 143 |
| Total | 207 | 168 |

| Specialist positions | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|-----------------------------------|----------------------------|----------------------------|
| Research & Development Department | 68 | 44 |
| Sales Department | 16 | 16 |
| Epitaxy Production Department | 5 | 6 |
| Production Department | 63 | 55 |
| Support Departments | 55 | 47 |
| Total | 207 | 168 |

| Education | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---------------|----------------------------|----------------------------|
| Primary | 7 | 7 |
| Secondary | 41 | 40 |
| Higher | 136 | 104 |
| Post-tertiary | 23 | 17 |
| Total | 207 | 168 |

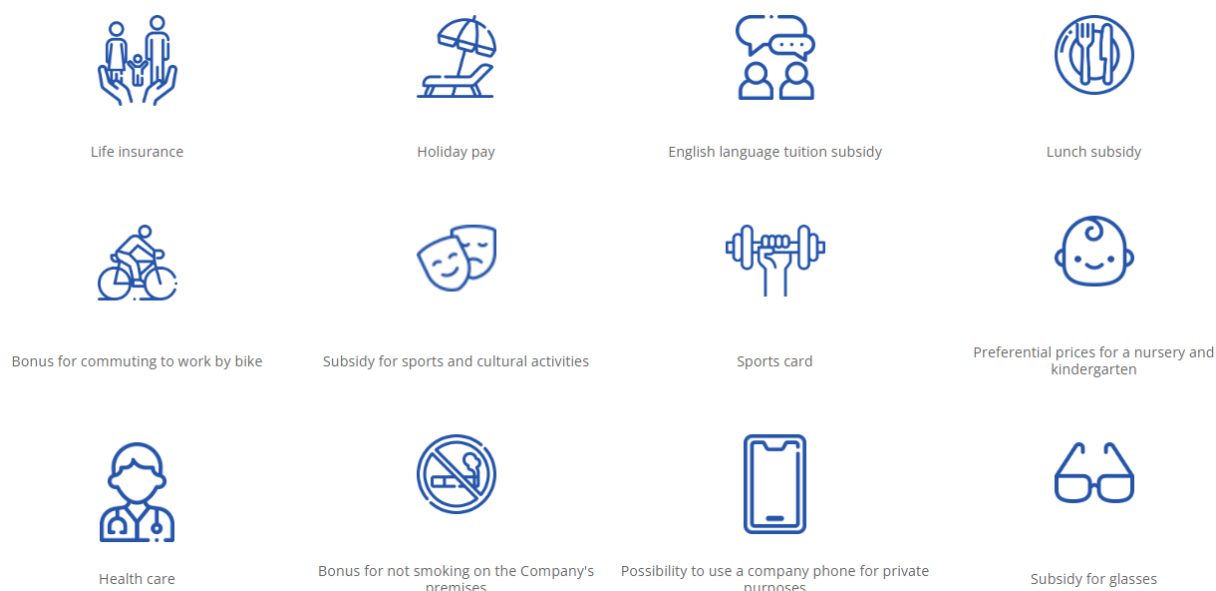
| Age | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|-----------------------|----------------------------|----------------------------|
| Up to 25 of age | 10 | 8 |
| 25 to 40 years of age | 132 | 105 |
| 40 to 55 years of age | 60 | 46 |
| Over 55 years of age | 5 | 9 |
| Total | 207 | 168 |

| Seniority | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---------------------|----------------------------|----------------------------|
| Up to 1 year | 54 | 33 |
| From 1 to 5 years | 100 | 79 |
| From 5 to 10 years | 30 | 31 |
| From 10 to 15 years | 15 | 16 |
| 15 to 20 years | 3 | 3 |
| Over 20 years | 5 | 6 |
| Total | 207 | 168 |

| WRO – turnover rate | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|----------------------------|----------------------------|
| Leavers | 20 | 10 |
| Number of employees at the end of the period | 207 | 168 |
| Result | 9,66% | 5,95% |

VIGO System's intensive development resulted in creation of a very attractive workplace, where employees' needs related to knowledge transfer, work comfort and possibility of self-realisation are secured on an ongoing basis. The Company offers its employees a decent salary and a bonus system dependent on their performance. In addition to remuneration, the Company offers a benefits package and a flexible working arrangement which enables employees to achieve a work-life balance.

Below you can find the whole range of benefits that VIGO provides to its employees:



A special distinctive feature of the Company is the synergy of professional qualifications with the values instilled by the Company's founders, i.e. care for development, responsibility for work and very good team relations based on respect. By employing professional staff representing several generations of specialists in many fields, team cooperation, sharing knowledge and skills, and effective implementation of planned tasks are promoted.

The result of this synergy is confirmed by the annual evaluation of the employees, which shows a very high level of their competencies and their performance of tasks.

In order to meet market expectations, standards of knowledge and skills have been created for key departments: research and development, sales, production, quality, on the basis of which training courses, workshops and individual consultations are conducted by internal and external experts - it is an integrated and systemic approach. The performance appraisal system is focused on the improvement of employees - as a result, competence development plans are created and internal and external trainings are implemented on an ongoing basis.

Figure 8: Results of staff annual appraisal (% of staff meeting or exceeding the expected level)

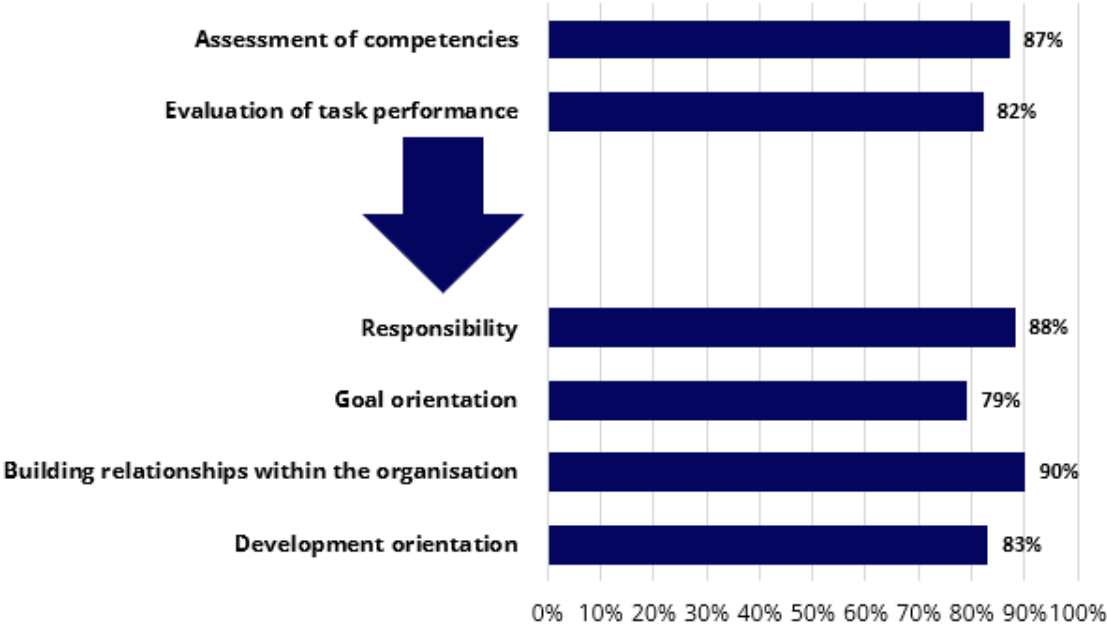


Figure 9: Employees' evaluation of development activities in Vigo (% of employees meeting or exceeding the expected level)

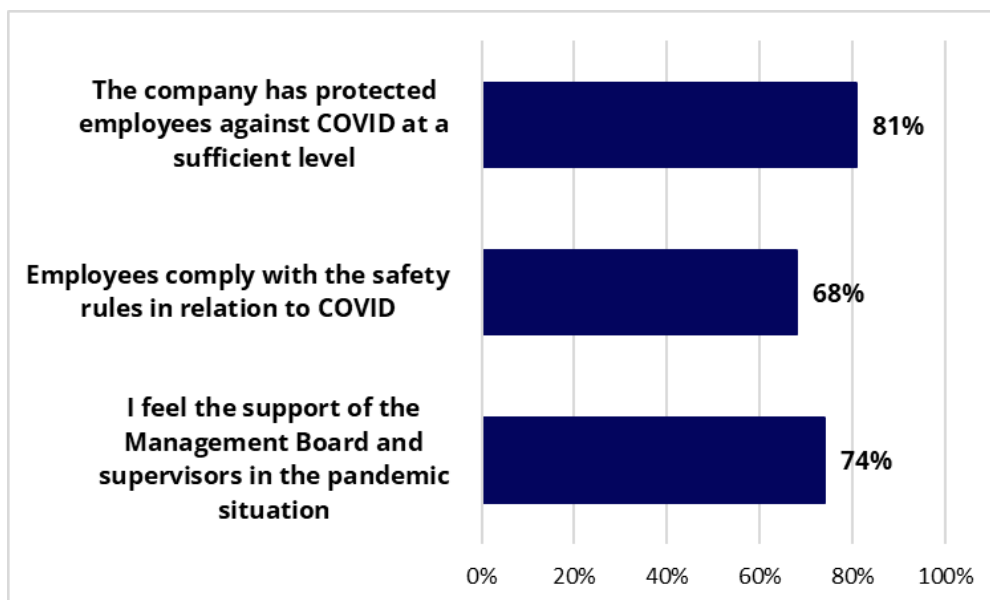


Another year of coronavirus epidemic in VIGO System's operations was mainly related to continuation of activities in the area of employees' safety care, hybrid work management and minimising the risk of production interruption related to human factor. In addition to standard solutions, such as ensuring hygienic safety infrastructure, enabling maintenance of "social distance" ensuring safety of direct contacts between employees and with customers, also full access to testing and vaccinations was ensured.

There was a very quick response to the day-to-day needs of employees, arising from hybrid working and access to all information on how to behave during illness, quarantine and isolation. The feedback

from employees in this area shows a high level of trust and security that Vigo guarantees to its employees.

Figure 10. Results of the employee satisfaction survey in relation to activities during Covid-19 pandemic (% of positive indications)



A clear and transparent presentation of the Company's situation during the pandemic as well as the access to health facts and the promotion of safe behaviour had a positive impact on the level of employee engagement.

5.6. Average employment during the financial year, broken down by professional groups in full-time equivalents

| Specification (average in FTEs) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|-------------------------|-------------------------|
| The Management Board | 2.00 | 2.00 |
| Administration | 32.13 | 21.49 |
| Sales Department | 16.16 | 14.85 |
| Purchasing & Logistics Department | 10.13 | 14.70 |
| IT Team | 5.5 | 6.00 |
| Production Department | 57.33 | 53.46 |
| Epitaxy Production Department | 4.68 | 4.16 |
| Research & Development Department | 52.93 | 39.38 |
| Matrix Technology Development Department | 3.45 | |
| Total | 184.31 | 156.04 |

| Specification (persons) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|-------------------------------|-------------------------|-------------------------|
| Number of employees hired | 59 | 34 |
| Number of employees dismissed | 20 | 13 |
| Total | 39 | 21 |

5.7. Environmental protection and occupational health and safety

The principles of the environmental policy of VIGO System S.A. include, in particular, conducting activities in accordance with the applicable laws and standards on environmental protection and permitted conditions for use of its resources, taking into account the requirements of sustainable development by balancing economic and environmental considerations.

Accordingly, the main environmental objectives identified in the Company include the rational management of raw materials, materials and energy as well as the prevention of pollution. Negative environmental impact is prevented by implementing technological and technical as well as organisational and procedural preventive measures. The implemented activities are periodically inspected and evaluated in order to confirm compliance with relevant legal regulations and norms as well as industry-specific regulations.

The Company is currently implementing a project involving the expansion and modernisation of its production plant. Environmental protection requirements were taken into account at the stage of project development, its execution and operation of the plant. The implemented measures include, in particular, reduction of energy and water consumption, reduction of the amount of industrial sewage generated, prevention and reduction of the amount of industrial waste produced, reduction of gas and dust emissions into the air from energy and technological sources as well as rational management of raw materials and materials, including chemical substances and mixtures.

In order to ensure compliance with environmental regulations and requirements, the Company cooperates with business partners, external specialists and industry organisations. The Management Board provides resources, training, equipment and other support to enable the implementation of the environmental policy by employees at all levels of the Company's organisation according to the tasks and responsibilities assigned.

| Consumption in 2021 | Q1 | Q2 | Q3 | Q4 | Razem |
|---------------------|---------|---------|---------|---------|-----------|
| water [m3] | 1 121 | 1 007 | 772 | 1 064 | 3 964 |
| thermal energy [GJ] | 90 | 23 | | 304 | 417 |
| electricity [kWh] | 483 709 | 599 453 | 606 698 | 673 794 | 2 364 654 |

| Consumption in 2020 | Q1 | Q2 | Q3 | Q4 | Razem |
|---------------------|---------|---------|---------|---------|-----------|
| water [m3] | 2 942 | 946 | 917 | 975 | 5 780 |
| thermal energy [GJ] | 81 | 13 | | 64 | 158 |
| electricity [kWh] | 607 781 | 575 354 | 586 629 | 680 563 | 2 450 327 |

5.7.1. Water

Water is very important in Vigo System manufacturing process. The water consumption for production is monitored daily. In case of overshoots, the building administrator receives a notification from the BMS system. The total water consumption for sanitary and technological purposes in 2021 was 3,964 m³ and decreased by 5,790 m³ compared to 2020.

As consumption increases, systems are being installed to reuse water in the most water-intensive production cell. With the implementation of new projects for water reuse, it is estimated that future consumption will be lower compared to current consumption.

The Company's operations do not affect the condition of surface or underground water. Water for all buildings is drawn from the municipal water supply system.

The Company undertakes actions aimed at limiting water consumption, such as taking care of the condition of the water and sewage infrastructure and immediate elimination of faults and leaks.

5.7.2. Energy

The energy consumed during production is primarily electricity. It powers both the production equipment and the infrastructure system of the Company's buildings.

The Company does not use any fossil fuels for heating. It does not have its own heating furnaces. One of the Company's buildings is heated by the municipal central heating network. The other two are heated by ground source heat pumps. This consists of 60 deep boreholes of approximately 100 m each.

5.7.3. Thermal energy

Thermal energy from the municipal grid is used to heat one of the buildings owned by the Company. Heating is available during the cold months. Once the temperature outside rises, the heating system is switched off.

5.7.4. Electricity

The Company uses electricity supplied by five low-voltage lines from a leased MV substation. The energy supplied to the company powers both the production machinery and buildings equipment. Currently, the Company is in the process of expansion and modernisation. It is successively replacing lighting sources with LED versions with much lower energy consumption. The machine park is also being modernised.

5.7.5. Sewage

The Company holds a water permit to discharge a mixture of domestic and industrial sewage into the municipal sewer system. The permit obligations are continuously monitored. For this purpose, physical and chemical analyses of sewage quality are carried out once a quarter. No exceedances have been recorded so far.

Rainwater and snowmelt, after being pre-treated in a separator of oil-derivative substances, are discharged from the Company's premises to an underground tank with a capacity of 200 m³, and then to the municipal rainwater drainage system. This solution prevents infiltration of pollutants into the ground.

5.7.6. Waste

The Company generates municipal waste, hazardous waste that is generated in connection with the operation of the installation and outside the installation, and other waste related to operations. In 2021, 627.7 kg of hazardous waste was generated in connection with the operation of the installation and a decrease of 279.5 kg was recorded in comparison with the previous year. The Company conducts selective collection of packaging waste from paper and cardboard, glass and plastics.

All waste is transferred to authorised recipients for recovery or disposal. Waste recipients are only entities holding the required waste management licences. Waste is transported by companies authorised for its collection and transportation.

For the waste for which this is required, records are kept in accordance with the requirements of the Waste Act.

In connection with the ongoing investment, the Company is in the process of constructing a collective waste storage facility, including hazardous waste. In addition, upon completion of the redevelopment, the Company will commence the procedure for obtaining a waste generation permit.

5.7.7. Noise

The Company's operations do not generate noise above the permissible values set out in the Ordinance of the Minister of the Environment of 14 June 2007 on permissible noise levels in the environment (Journal of Laws of 2014, item 112).

5.7.8. Biodiversity

According to the local spatial development plan, the Company is located in the area of production facilities and warehouses - Tarnobrzeg Special Economic Zone EURO-PARK WISŁOSAN. These are urbanised areas, not covered by any form of nature conservation nor adjacent to protected areas. Therefore, the Company's activities do not affect the biodiversity of the neighbouring areas.

5.7.9. Occupational health and safety (OHS)

The Company does not have a formal health and safety policy in place, but is compliant with all requirements relating to employee protection. Employee safety is one of the foundations of the Company. It is the employees who make up the Company. By taking care of their safety, we ensure the stable development of the Company. This is evidenced by the fact that there have been no accidents involving employees in the company for over 25 years. The Company's grounds and premises intended for people's work are safe. All standards of occupational health and safety are maintained in accordance with legal regulations. Employees are provided with appropriate personal protective equipment and the premises are equipped with top class safety devices. The main tasks of persons responsible for occupational safety include:

- identification of hazards resulting from the technology of production of detectors, structures and lenses,
- development and updating of Occupational Risk Assessments at workstations,
- monitoring changes in OHS and fire protection law to ensure that the Company is fully compliant with the law in this area,
- carrying out periodic audits in the field of OHS and fire protection and responding to any irregularities,
- being open to discussions with employees in the field of OHS and fire protection so that everyone can express their opinion,
- issuing Personal Protective Equipment to employees,
- keeping records of workers exposed to carcinogens,
- making improvements in terms of OHS and fire safety,
- processing of changes occurring in the Company with regard to OHS and fire protection requirements,
- responding to potential accident incidents.

In addition to basic training required by law, the Company refers its employees to additional courses and training courses where upon completion certificates or qualifications are issued. The benefits of such approach are very significant. Employees receive relevant knowledge which they can use in practice. While the Company gains certainty that all work processes are carried out in a safe manner and under supervision of qualified staff. Another positive aspect of training is the possibility to develop new technologies without the risk of accidents. The awareness of employees regarding potential risks allows to minimise the risks to a large extent. In addition, the fact of discussing potential dangerous situations with employees responsible for OHS and fire protection only strengthens the feeling of safety. All employees are also sent for preliminary and periodic examinations as required by law.

5.8. Corporate governance statement

Since the date of admission of the Company's shares to trading on the regulated market, i.e. since 21 November 2014, the Management Board of VIGO System S.A, appreciating the importance of corporate governance principles to ensure transparency of internal relations and the Company's relations with its external environment, in particular with current and future shareholders, performing the obligation imposed by §29 (3) of the Stock Exchange Rules, applies the principles of corporate governance defined by the Stock Exchange S.A., adopted in Resolution No. 13/1834/2021 of 29 March 2021 by the Stock Exchange Board - "Good Practices of Companies Listed on the WSE 2021" (Best Practices 2021, DPSN2021). The consolidated texts of the aforementioned documents are publicly available at: www.corp-gov.gpw.pl under the 'Regulations' tab.

The Company published a list of applicable Best Practices on 30 July 2021, which is available on the Company's website. From the published list of good practices, the Company does not apply the following principles:

INFORMATION POLICY AND COMMUNICATION WITH INVESTORS

1.3 In its business strategy, the company also considers ESG topics, in particular covering:

1.3.1. environmental issues, including metrics and risks related to climate change and sustainability issues;

The Company does not apply the above principle.

The current strategy of the company does not include the ESG issues. At the same time, it is the intention of the Company's Management Board to take ESG issues, including environmental issues, into account when working on the detailing of the Company's current strategy.

1.3.2. social and labour matters, concerning, inter alia, actions taken and planned to ensure gender equality, proper working conditions, respect for employees' rights, dialogue with local communities, customer relations.

The Company does not apply the above principle.

The existing strategy of the Company does not take into account the ESG issues. In its activities, the Company places great emphasis on employee issues, respect for their rights, care about working conditions, equal opportunities for employee development. At the same time, it is the intention of the Company's Management Board to take ESG issues into account while working on the specification of the Company's current strategy.

1.4 In order to ensure proper communication with stakeholders on the business strategy adopted, the company shall publish on its website information about the assumptions of its strategy, measurable objectives, including in particular long-term objectives, planned activities and progress in its implementation, defined by financial and non-financial indicators. Information on the strategy in the ESG area should, among other things:

The Company does not apply the above principle.

Information on the Company's strategy is published on the Company's website. The company plans to publish information on the progress of its strategy on its website. The above principle is not applied because the current strategy of the Company does not include the ESG issues.

1.4.1. explain how climate change issues are taken into account in the decision-making processes of the company and its group entities, indicating the resulting risks;

The Company does not apply the above principle.

The Company's strategy does not include references to climate change issues, although the Company publishes in its periodic reports basic indicators concerning the environmental impact of its operations.

It is the intention of the Company's Management Board to take ESG issues into account when working on the detailing of the Company's current strategy.

1.4.2. present the value of the equal pay ratio, calculated as a percentage difference between the average monthly remuneration (including bonuses, prizes and other allowances) of women and men for the last year, and present information on actions taken to eliminate possible inequalities in this respect, together with a presentation of related risks and the time horizon in which it is planned to achieve equality.

The Company does not apply the above principle.

So far, the Company has not included areas related to ESG in its strategy, including those related to equal pay for women and men. The Company intends, within the next 12 months, to start publishing on the Company's website the value of the equal pay index and other information indicated in the above principle.

MANAGEMENT BOARD AND SUPERVISORY BOARD

2.1 The company shall have a diversity policy for the management board and the supervisory board, adopted by the supervisory board or the general meeting, respectively. The diversity policy shall define the objectives and criteria for diversity in areas such as gender, field of study, specialist knowledge, age, and professional experience, among other factors, and shall indicate when and how the achievement of these objectives will be monitored. In terms of gender diversity, a condition for ensuring the diversity of the company's governing bodies is that the minority representation on a given body should not be less than 30%.

The Company does not apply the above principle.

The Company does not have a diversity policy and does not ensure a 30% diversity in respect of women and men on the Management Board and Supervisory Board. The Company places great emphasis on equal treatment irrespective of gender, worldview or background and the basic criteria for selection of candidates for particular positions are professional competence and experience relevant to the current needs of the Company. The current composition of the Supervisory Board and Management Board is diverse in terms of education, expertise, age and professional experience.

2.2 The persons deciding on the election of the members of the company's management or supervisory board should ensure the comprehensiveness of these bodies by selecting persons to ensure diversity in the composition of these bodies, making it possible, inter alia, to achieve the target ratio of a minimum minority participation set at not less than 30%, in accordance with the objectives specified in the adopted diversity policy referred to in principle 2.1.

The Company does not apply the above principle.

The General Meeting elects the members of the Supervisory Board, whereas the Supervisory Board elects the members of the Management Board. The main factors taken into account by these bodies in electing the members of the Management and Supervisory Boards are the current needs of the Company and its long-term interest. The current composition of the Supervisory Board and Management Board is diverse in terms of education, expertise, age and professional experience.

2.7 Members of the company's management board must obtain the approval of the supervisory board to hold positions in the bodies of entities outside the company's group.

The Company does not apply the above principle.

The current internal regulations of the Company do not provide for the obligation to obtain the consent of the Supervisory Board of the Company for a member of the Management Board to perform functions in bodies of unrelated entities. The Company's intention is to introduce relevant provisions to the Company's corporate documents within the next 12 months.

2.11.6. information on the extent to which the diversity policy has been implemented with respect to the management board and the supervisory board, including the achievement of the objectives referred to in principle 2.1.

The Company does not apply the above principle.

The Company does not have a diversity policy and does not ensure a 30% diversity in respect of women and men on the Management Board and Supervisory Board. The Company places great emphasis on equal treatment irrespective of gender, worldview or background and the basic criteria for selection of candidates for particular positions are professional competence and experience relevant to the current needs of the Company. The current composition of the Supervisory Board and Management Board is diverse in terms of education, expertise, age and professional experience.

INTERNAL SYSTEMS AND FUNCTIONS

3.6 The head of internal audit reports organisationally to the president of the management board and functionally to the chairman of the audit committee or to the chairman of the supervisory board if the board acts as the audit committee.

The Company does not apply the above principle.

The head of the company's internal audit reports organisationally to a member of the management board.

3.7 Principles 3.4 to 3.6 also apply to entities within the company's group that are significant to the company's business if they have designated persons to perform these tasks.

Not applicable.

The entities in the company's group do not have separate internal audit, risk management and compliance functions. As the activities of these entities develop, the principles analogous to those for the company will be applied.

GENERAL MEETING AND RELATIONS WITH SHAREHOLDERS

4.13 A resolution on a new share issue excluding pre-emptive rights, which at the same time grants the right of first refusal to take up shares of the new issue to selected shareholders or other entities, may be adopted if at least the following conditions are met:

- a) the company has a rational and economically justifiable need to raise capital urgently, or the issue of shares is connected with rational and economically justifiable transactions, such as, for instance, a merger with or acquisition of another company, or the shares are to be subscribed under an incentive scheme adopted by the company;
- b) the persons to whom the right of pre-emption is to be granted will be identified in accordance with objective general criteria;
- c) the share subscription price is reasonably related to the current quotation of the shares of that company or is determined as a result of a market-based book-building process.

In July 2021, the Company reported a derogation from the application of the above principle.

Nevertheless, on 18 October 2021, the General Meeting of Shareholders of the Company adopted VIGO SYSTEM S.A. Regulations of the incentive programme for key employees and the Management Board, which complies with the above principle, and the price for taking up shares remains in a reasonable relation to the quotations of the Company's shares from the period preceding the adoption of the programme.

REMUNERATION

6.3 If one of the company's incentive programmes is a managerial options programme, then the implementation of the options programme should be conditional on the fulfilment by the eligible persons, within a period of at least 3 years, of pre-determined, realistic and appropriate financial and non-financial as well as sustainable development objectives for the company, and the price set for the acquisition of shares by the eligible persons or settlement of the options may not deviate from the value of the shares at the time the programme is adopted.

In July 2021, the Company reported a derogation from the application of the above principle.

Nevertheless, on 18 October 2021, the General Meeting of Shareholders of the Company adopted VIGO SYSTEM S.A. Regulations of the incentive programme for key employees and the Management Board, which complies with the above principle, and the price for taking up shares does not deviate from the value of shares from the period before the adoption of the programme.

6.4 The supervisory board performs its tasks on a continuous basis, therefore remuneration of board members cannot depend on the number of meetings held. Remuneration of committee members, in particular the audit committee, should take into account the additional workload related to the work in these committees.

The Company does not apply the above principle.

The Company's remuneration policy and the adopted resolutions of the General Meeting of the Company do not differentiate the remuneration of the members of the Supervisory Board in terms of their work in the Supervisory Board committees, including the audit committee.

5.8.1. Charity and sponsorship activities

Given the scale of its operations and the nature of its market and customers, the Company does not engage in intensive charity or sponsorship activities. The Company engages only in sponsorship of events related to the Company's business, i.e. events related to the photonics, optics or optoelectronics industry.

5.8.2. Internal control and risk management system

The Company's Management Board is responsible for the Company's internal control system and its effectiveness in the process of preparing financial statements.

The Chief Accountant exercises substantive supervision over the process of preparing the Company's financial statements and periodic reports. At the same time, she is responsible for the organisation of the work related to the preparation of financial statements and keeps abreast with changes required by external laws and regulations relating to stock exchange reporting requirements.

The financial services have access to information on the current situation of the Company on the basis of individual access codes to specific modules of the IT and accounting and financial system. The data for the financial statements and the financial statements themselves are prepared by the Company's Accounting Department. The preparation of financial statements is supervised by the Company's Financial Director.

Every month, after the books have been closed, the Members of the Management Board of the Company receive management information reports presenting key financial data, which are then analysed by them.

The financial data underlying the financial statements and periodic reports come from the accounting and financial system, in which transactions are recorded in accordance with the Company's accounting policy based on International Accounting Standards and International Financial Reporting Standards. The prepared financial statements are submitted to the Management Board for final verification. The annual and half-yearly financial statements are subject to an independent audit and review by the

statutory auditor. The results of the audit are submitted to the Management Board and the Supervisory Board, and the auditor's report on the examination of the financial statements is also submitted to the General Meeting.

5.8.3. Shareholders holding, directly or indirectly, significant shareholdings

Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting of Shareholders as at the balance sheet date and as at the date of publication of the annual report:

| Shareholder | Number of shares | % share in share capital | Number of votes | % share in votes at GSM |
|-----------------------|------------------|--------------------------|-----------------|-------------------------|
| Piotrowski Józef | 86 650 | 11.89 | 86 650 | 11.89 |
| Xarus Holding Limited | 72 150 | 9.90 | 72 150 | 9.90 |
| Investors TFI S.A. | 70 192 | 9.63 | 70 192 | 9.63 |
| Janusz Kubrak | 48 100 | 6.60 | 48 100 | 6.60 |
| Mirosław Grudzień | 37 200 | 5.10 | 37 200 | 5.10 |
| Others | 414 708 | 56.89 | 414 708 | 56.89 |
| Total | 729 000 | 100.00 | 729 000 | 100.00 |

The Company's shares are ordinary bearer shares. Each share carries the right to one vote at the General Meeting of Shareholders of the Company. Shareholders of A, C and D series shares have rights resulting from the fact of holding these shares and provided for by generally applicable law, including the right to dividends, pre-emptive rights and the right to participate in surpluses in the event of liquidation of the Company.

There are no special rights, privileges or limitations attached to the Company's shares that are not immanently linked to the nature of the rights, privileges or limitations incorporated in ordinary bearer shares. No special rights, privileges or restrictions are provided for in the Articles of Association.

The Articles of Association provide for personal entitlements for shareholders:

- S Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych has a personal entitlement in the form of the right to appoint and recall 1 (one) member of the Supervisory Board of the Company as long as it holds shares in the Company representing not less than 14% of the Company's share capital. Appointment and recalling of a given member of the Supervisory Board shall be made by submitting a written statement to the Company, which shall be effective upon its delivery to the Company.
- Józef Piotrowski has a personal entitlement in the form of the right to appoint and recall 1 (one) member of the Supervisory Board of the Company for as long as he holds shares in the Company representing not less than 10% of the share capital of the Company. This personal entitlement vested in Józef Piotrowski by virtue of the Articles of Association shall be vested in Adam Piotrowski (son of Józef Piotrowski) in the event that Józef Piotrowski transfers to Adam Piotrowski shares in the Company representing not less than 10% of the share capital of the Company. Appointment and recalling of a given Supervisory Board member shall be made by submitting a written statement to the Company which shall be effective upon its delivery to the Company.

If the share of S Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the Company's share capital is less than 14% or the share of Józef Piotrowski or Adam Piotrowski in the Company's share capital is less than 10%, respectively, then the members of the Supervisory Board hitherto appointed by those entitled in person shall be appointed and recalled by the General Meeting.

If the above-mentioned persons with personal entitlement do not exercise their right to appoint a member of the Supervisory Board by means of a written statement within 30 (thirty) days from the date of expiry of the mandate of the member of the Supervisory Board appointed by each of them, respectively, the relevant member of the Supervisory Board shall be appointed by the General Meeting, subject to the right of the persons with personal entitlement to recall the members of the Supervisory Board so appointed in the specified manner or to convene the General Meeting in order to appoint a member of the Supervisory Board.

The Articles of Association of the Company do not provide for any limitations as to the exercise of voting rights nor do they provide that, with the cooperation of the Company, capital rights attached to securities are separate from the holding of securities. With respect to the Company, limitations on the exercise of voting rights can only result from generally applicable legal regulations.

To the Management Board's knowledge, no restrictions on the transfer of ownership of the Company's shares have been approved.

5.8.4. Rules for appointment and revoking the appointment of supervisory and management personnel and their powers

The Supervisory Board comprises from 5 (five) to 7 (seven) members appointed by the General Meeting for a joint term of three years. The term of office of the first Supervisory Board members shall expire after a period of 2 (two) full financial years counting from the Company registration date.

The number of Supervisory Board members for a given term of office shall be determined by the General Meeting; this shall also apply if the Supervisory Board is elected by voting in separate groups pursuant to Article 385 of the Commercial Companies Code.

The Supervisory Board members shall elect from among themselves the Chairman of the Supervisory Board and may elect from among themselves a Deputy Chairman or persons performing other functions.

If the number of Supervisory Board members for a given term of office falls below 5 (five) members as a result of the expiry of mandates of certain Supervisory Board members (for a reason other than recalling) and the General Meeting has the right to appoint new Supervisory Board members to replace them, the remaining members of the Supervisory Board may, for the purpose of supplementing the Supervisory Board to a five-member composition, appoint new Supervisory Board members by way of co-option. Members of the Supervisory Board shall be co-opted by delivery to the Company of a written statement by all members of the Supervisory Board on the appointment of a member of the Supervisory Board.

Should the mandate of a Supervisory Board member with the Statute of an independent member of the audit committee expire, the co-opted member of the Supervisory Board should meet the independence criteria referred to in Article 129 Section 3 of the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 and have qualifications in accounting or auditing.

Members of the Supervisory Board appointed by co-optation shall hold office until their appointment is approved by the next General Meeting or their successors are elected.

Following the co-option of members of the Supervisory Board, the Supervisory Board shall convene a General Meeting to approve the member appointed by co-option or to elect their successor.

Supervisory Board members may be co-opted if the number of Supervisory Board members is at least two.

The Supervisory Board shall exercise constant supervision over the Company's activities in all areas of its operations.

The duties of the Supervisory Board include in particular:

1. examining and delivering an opinion on the financial statements and the Management Board's report on the Company's operations in terms of their compliance with the books and documents and with the actual state of affairs;
2. submitting to the General Meeting an annual written report on the activities referred to in item 1), together with a brief assessment of the Company's operations, including an evaluation of the internal control system and the system for managing risks significant the Company;
3. examining proposals of the Management Board concerning distribution of profits and losses;
4. appointing an auditor to audit and review the Company's financial statements, as well as approving the terms of the agreement with the auditor and approving termination of such agreement by the Company;
5. appointing and dismissing members of the Management Board and determining the terms and conditions of their remuneration and employment;
6. considering and issuing opinions on matters to be the subject-matter of resolutions of the General Meeting
7. granting consent to acquisition and disposal of real estate, perpetual usufruct or share in real estate;
8. granting consent for the Company to perform any acts of disposal of the right (in particular, transfer, encumbering a limited right in rem or any other right in favour of a third party, donation, or performing legal acts resulting in the expiry of the right) and any acts of obligation of the value exceeding PLN 3.000.000,00 (three million) per entity, which are not provided for in the budget approved by the Supervisory Board. The obligation to obtain consent also applies to contracting liabilities with one entity relating to recurring or continuous services if the total value of the resulting services exceeds PLN 3,000,000.00 (three million) in the financial year;
9. approval of the Company's annual budgets and any amendments thereto;
10. granting consent for the Company to conclude a material agreement with a related entity, i.e. an agreement the value of which is not less than PLN 1,000,000.00 (PLN one million). The above obligation shall not apply to typical transactions concluded on market terms within the operating activity conducted by the Company with a subsidiary in which the Company holds a majority capital share as well as activities provided for in the Company's budget approved by the Supervisory Board;
11. appointing committees;
12. considering other matters entrusted to the competence of the Supervisory Board by resolution of the General Meeting, by law or by the Articles of Association, or brought forward by the Management Board.

From the date of admission of the Company's shares to trading on the regulated market operated by the Warsaw Stock Exchange S.A., if the Supervisory Board comprises more than five persons, the Supervisory Board shall appoint an audit committee composed of at least three of its members, of which at least one member should meet the conditions of independence within the meaning of Article 129 Section 3 of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Supervision and have qualifications in accounting or auditing.

The Company complies with the regulations on the appointment, composition and operation of the audit committee, including on the fulfilment by its members of the independence criteria and the requirements to have knowledge and skills in the industry in which the issuer operates and in accounting or auditing.

The tasks of the Audit Committee include in particular:

- monitoring:
 - a) the financial reporting process,

- b) effectiveness of internal control systems and risk management systems in the area of financial reporting,
- c) performance of financial audit activities, in particular the conduct of audit by an audit firm, taking into consideration all conclusions and findings of the Audit Oversight Committee arising from the audit conducted at the audit firm;
- controlling and monitoring the independence of the statutory auditor and audit firm, in particular, if services other than audit are provided to the Company by the audit firm;
- informing the Supervisory Board of the results of the audit and explaining how the audit contributed to the integrity of financial reporting in the Company, and what the Committee's role was in the audit process
- assessing the auditor's independence and approving the provision of permitted non-audit services by the auditor;
- developing a policy on the selection of the audit firm to carry out the audit
- developing a policy on the provision of permitted non-audit services by the audit firm performing the audit, by affiliates of the audit firm and by a member of the audit firm's network;
- defining the procedure for the selection of the audit firm by the Company;
- making a recommendation to the Supervisory Board on the appointment of an audit firm, in accordance with the policies referred to in Sections 5 and 6 above.
- The recommendation shall include a justification and at least two options for the audit engagement, and the Audit Committee shall express a duly justified preference for one of them. In its recommendation, the Audit Committee shall state that its recommendation is:
 - a) free from third party influence,
 - b) and that no clause of any kind has been imposed upon it that would limit the ability of the appointing authority to select an audit firm for the purpose of carrying out the statutory audit of the financial statements of the Company to specific categories or lists of audit firms.
- making recommendations to ensure the integrity of the Company's financial reporting process.

In 2021, the Audit Committee performed the tasks of the audit committee provided for in the applicable regulations.

The Supervisory Board may appoint from among the members of the Board commissions, problem teams or committees, both permanent and to investigate specific issues - defining their organisation, method of operation and detailed competences - provided that the subject matter of the work of a given commission, team or committee falls within the powers of the Supervisory Board.

During the period from 1 January 2021 to 31 December 2021, the Audit Committee was composed of the following persons:

- Marek Wiechno - Chairman of the Audit Committee,
- Zbigniew Więclaw - Member of the Audit Committee,
- Krzysztof Kaczmarczyk - Member of the Audit Committee.

All of the Audit Committee Members listed above met the statutory criteria for independence during the period in which they served on the Audit Committee.

The following is an indication of the Audit Committee Members' fulfilment of the criterion of possessing knowledge and skills in the area of accounting or auditing and the manner in which these were acquired:

- Marek Wiechno: between 1998 and 2003 graduated from the Warsaw School of Economics, followed by numerous courses and trainings in Management, HR, Corporate Finance, Accounting including IFRS/IAS and Taxes. He runs his own business under the name MAWAR Marek Wiechno. He is a Board Member of the following companies: DEM Sp. z o.o., PROMO Sp z o.o., POL T and T Sp. z o.o. He has many years of practical experience in company management.
- Zbigniew Więclaw: In 1997 he received a Master's degree at the Faculty of Management, the University of Warsaw. In 2010, he completed MBA studies at the University of Illinois. He started his professional career in 1997-1999 in Westdeutsche Landesbank Polska S.A. as Risk Manager.

Then, from 2000 to 2003, he was Financial Controller of Transaction Banking and Treasury Department at Citibank S.A. For over a decade he has continued his career at Bank Handlowy S.A.: Head of the Transaction Banking Strategy and Planning Office (2003 - 2009), Chief Financial Officer of Transaction Banking for Citigroup's Central and Eastern Europe Region (2010 - 2013), Head of Liquidity Management and Business Analysis in the Corporate Banking Sector (2013 - present).

- Krzysztof Kaczmarczyk: graduated from the Warsaw School of Economics with a major in Finance and Accounting. He is also a former student of Warsaw University, faculty of International Relations. In 1999-2008, Mr Kaczmarczyk worked at Deutsche Bank in Poland, where he held the position of Deputy Head of Stock Market Analysis Department and Stock Market Analyst - Central and Eastern Europe. From 2008 to 2010, he held various management positions at TP S.A. Group, including Director of Strategy and Development Division. In 2010-2011, he worked for the Swiss investment bank Credit Suisse in Poland. In 2012-2015, he held the position of Vice President of the Management Board for Strategy and Development at Emitel, the leading terrestrial radio and television network operator in Poland. Currently, an independent member of Supervisory Boards of companies listed on the Warsaw Stock Exchange and Advisor to the Management Board of KGHM Polska Miedź S.A. He gained over 10 years of supervisory experience serving on Supervisory Boards of companies listed on the Warsaw Stock Exchange - LC Corp, GPW, KGHM, Arteria, Braster, BSC Drukarnia Opakowań, Action, Work Service, TIM, Best, Integer, SARE, Magellan, Robygy, InPost, Polimex-Mostostal, Duon, Polish Energy Partners, Graal, Wirtualna Polska, 4fun Media.

The description regarding the fulfillment by the members of the Audit Committee of the criterion of possessing knowledge and skills in the field of business in which the Company operates, with the indication of the manner of acquiring the same, is as follows:

1. Marek Wiechno: has knowledge and skills in the industry in which the Company operates acquired through many years of service on the Company's Supervisory Board.
2. Zbigniew Więclaw: has knowledge and skills in the industry in which the Company operates gained through many years' presence in the Supervisory Board of the Company.
3. Krzysztof Kaczmarczyk: has knowledge and skills in the industry in which the Company operates, acquired as a result of 11 years' work at Deutsche Bank and Credit Suisse, where he held managerial positions, during which he was responsible for market analyses in a number of market sectors, including the market segment in which the Company operates.

Two Audit Committee meetings were held in 2021:

- 2 March,
- 9 June.

5.8.5. Policy on the selection of the audit firm for the audit of the financial statements

The policy for the selection of the audit firm to carry out the audit of the financial statements of the Company VIGO System S.A. was adopted by a resolution of the Audit Committee dated 6 October 2017. The audit firm selection policy regulates the rules for the selection of the audit firm. According to the Company's Articles of Association, it is the responsibility of the Supervisory Board to select an auditor to audit and review the Company's financial statements as well as to approve the terms of the agreement with the auditor and to approve the Company's termination of such agreement. In turn, the Audit Committee recommends to the Supervisory Board the selection of an auditing firm to audit the financial statements and review the interim financial statements of the Company. The Company's Management Board is required to inform the Financial Supervision Authority of the fact that the audit firm is selected by a body other than the body approving the financial statements.

The Audit Committee makes a recommendation to the Supervisory Board in which it:

- a. indicates the audit firm to which it proposes to entrust the statutory audit;

- b. represents that the recommendation is free from influence by third parties;
- c. states that the Company has not entered into agreements containing clauses that would limit the choice of audit firm to certain categories or lists of audit firms pursuant to Article 66 Section 5a of the AA [Accounting Act].

When the selection referred to above does not concern the extension of the audit contract, the recommendation of the Audit Committee shall include:

- a. at least two options for the selection of the audit firm together with a justification and
- b. an indication of the Audit Committee's reasonable preference for one of them.

In selecting an audit firm, the Company is not required to follow the procedure referred to in Article 130 Section 3 Point 2 of the Act on Statutory Auditors. If the decision of the Supervisory Board concerning the selection of the audit firm deviates from the recommendation of the Audit Committee, the Supervisory Board shall justify the reasons for not following the recommendation of the Audit Committee and communicate such justification to the General Meeting of Shareholders. The audit firm is selected in the fourth quarter of the year preceding the year for which the audit and review of the Company's half-yearly financial statements will be conducted. The Company's Management Board concludes an agreement on the audit and review of the financial statements with the audit firm for a minimum period of 2 years. Performing statutory audits and reviews of half-yearly financial statements by subcontractors of the audit firm is excluded. The Management Board announces the selection of the auditing firm in the Company's current report.

All offers of audit firms concerning:

- carrying out audits and reviews, and
- other services provided by these audit firms which were received by the Company

are forwarded to the Audit Committee.

The Audit Firm Selection Policy governs the following procedure for the selection of an audit firm.

The Company's Management Board, on the basis of the Audit Committee's guidelines, sends a letter of enquiry to the selected entities, provided that these entities meet the statutory requirements concerning the rotation of the entity authorised to conduct the audit and other requirements resulting from generally applicable laws and the Company's internal regulations.

The Management Board of the Company, responding to the queries of the entities authorised to audit participating in the selection procedure, prepares documentation which will enable them to learn about the Company's operations and conducts direct negotiations with the interested offerors.

Following negotiations, the Management Board forwards the collected offers to the Audit Committee.

The Audit Committee evaluates and analyses the offers presented and consequently presents a Recommendation to the Supervisory Board, in accordance with the principles defined in Point I of this Policy. The audit firm is selected by the Supervisory Board.

In the event that the Supervisory Board selects an entity other than the one preferred by the Audit Committee, the Supervisory Board is required to justify its selection in accordance with the principles set out in this policy.

The main points of the Audit Firm Selection Policy are:

- ensuring high quality statutory audits
- experience of the audit firm
- prevention of conflicts of interest
- rotation of the audit firm
- audit fees

The Policy elaborates on the aforementioned assumptions for the selection of the audit firm:

Ensuring high quality statutory audits

The Audit Oversight Committee provides quality assurance of statutory audit by audit firms that audit public interest entities and audit firms are required to have an internal quality control system for assessing whether the auditor or key audit partner could reasonably have reached the opinions and conclusions expressed in drafts of those reports.

The Audit Committee uses the following sources of knowledge about the firm making the offer:

- information contained in the offer,
- annual transparency report (Article 13 of Regulation 537/2014) posted on the audit firm's website, in particular:
 - a. a description of the internal quality control system,
 - b. a statement by the management board on the effective functioning of the internal quality control,
 - c. the date of the last quality assurance system inspection by the Audit Oversight Committee,
 - d. a list of public interest entities for which the auditor performed statutory audits in the previous financial year,
 - e. a statement on the policy applied to ensure independence, including confirmation that an internal control of compliance with independence rules has been carried out,
 - f. a statement of its policy on continuing professional development,
 - g. information on the income achieved,
 - h. a description of the policy of the statutory auditor or audit firm concerning the rotation of key audit partners and employees.
- the findings or conclusions arising from the inspection of the audit firm contained in the annual report of the Audit Oversight Committee referred to in Article 90 Section 5 of the Act on Statutory Auditors which may influence the choice of the audit firm.

Experience

The Audit Committee shall review:

- a list of the public-interest entities for which the audit firm has carried out statutory audits during the completed financial year;
- a statement on the audit firm's policy on continuing education of statutory auditors contained in the offer and the annual transparency report.

Prevention of conflicts of interest

The audit firm shall make a statement on its independence assurance practices, which shall also include a confirmation of the internal review of independence compliance accompanying the transparency report;

The audit firm shall:

- a. provide the Audit Committee, annually, with a written confirmation that the audit firm and the statutory auditors conducting the statutory audit are independent of the audited entity;
- b. discuss with the Audit Committee the threats to its independence and the safeguards applied to mitigate those threats.

Audit firm rotation

In order to address the risks arising from familiarity with the entity (so-called "excessive familiarity") and thus to reinforce the independence of auditors and audit firms, there is a policy on auditor rotation.

The transparency report describes the audit firm's policy on rotation of key auditors and employees.

When selecting the audit firm, the Audit Committee ensures that the following principles are not violated:

- a. the first audit contract shall be concluded with the audit firm for a period of not less than two years with the possibility of renewal for further periods of at least two years; (Article 66 Section 5 of the AA [Accounting Act])
- b. the maximum duration of uninterrupted engagements for statutory audits carried out by the same audit firm or an audit firm affiliated with such an audit firm, or any member of the network operating in the countries of the European Union to which such audit firms belong, must not exceed 5 years; (Article 134 Section 1 of the Act on Statutory Auditors)
- c. the key statutory auditor may not conduct the statutory audit in the Company for more than 5 years; (Article 134 Section 2 of the Act on Statutory Auditors)
- d. the key statutory auditor may again conduct a statutory audit in the Company after a period of at least 3 years from the completion of the last statutory audit; (Section 134 Section 3 of the Auditors Act)
- e. neither the audit firm nor, where applicable, any member of its network operating within the Union shall undertake a statutory audit of the same public interest entity within a consecutive period of four years. (Article 17 Section 3 of Regulation 537/2014).

Remuneration for the audit

Remuneration for carrying out statutory audits for the Company must not be contingent.

Contingent remuneration means remuneration for audit engagements calculated on a predetermined basis linked to the outcome or effect of a transaction or the result of work performed. Remuneration shall not be considered contingent if it has been determined by a court or a competent authority.

The level of fees received from one audited entity and the structure of the fees could compromise the independence of an audit firm.

Where audit fees from a single client, including its subsidiaries, are significant, a specific procedure involving the Audit Committee should be established to ensure audit quality.

If an audit firm becomes overly dependent on a single client, the Audit Committee should decide, with proper justification, whether the audit firm can continue to conduct the statutory audit.

Prohibition of the provision of non-audit services

Neither the audit firm that carries out the statutory audit of the Company nor any member of the network to which the statutory auditor or audit firm belongs shall provide to the audited Company, its parent undertaking or its controlled undertakings within the European Union, directly or indirectly, any prohibited non-audit services during the following periods:

- a. from the beginning of the audited period to the issuance of the audit report; and
- b. in the financial year immediately preceding the period referred to above

in respect of the services listed in point (g) of the second paragraph of Regulation 537/2014 (legal services including giving general legal advice, negotiating on behalf of the audited entity and acting as an advocate in dispute resolution).

Prohibited services are those listed in Article 5, paragraph 3 of Regulation 537/2014 in conjunction with the audit of the Financial Statements.

The Policy on provision of permitted non-audit services by the audit firm performing the performing the audit in the Company VIGO System S.A. was adopted by a resolution of the Audit Committee dated 6 October 2017.

The key issues regulated by the Policy for the provision of permitted non-audit services by the audit firm performing the performing the audit in the Company VIGO System S.A. are:

- a. catalogue of conditionally permitted services,
- b. conditions for performing the services.

The catalogue of conditionally permitted services included in the above Policy coincides with the catalogue of services listed in Article 136 Section 2 of the Act on Statutory Auditors, Audit Firms and Public Supervision of 11 May 2017 (Journal of Laws of 2017, item 1089).

According to the Policy for the provision of permitted non-audit services by the audit firm performing the audit in the Company VIGO System S.A., the conditions for the performance of permitted services are:

- a. approval of services after analysis of threats to the audit firm's independence. Provision of conditionally permitted services is possible only to the extent not related to the Company's tax policy, after an assessment of threats and safeguards of independence (statement of the audit firm) referred to in Articles 69-73 of the Act on Statutory Auditors is performed by the Audit Committee and the provision of such services is approved by the Audit Committee.
- b. limits on remuneration for permitted services. Pursuant to Article 4 Section 2 of Regulation 537/2014, where an audit firm provides non-audit services other than those referred to in Article 5 Section 1 of Regulation 537/2014 (prohibited) to the Company for a period of at least three consecutive financial years, the total remuneration for such services is limited to a maximum of 70% of the average remuneration paid in the last three consecutive financial years for the statutory audit of the audited entity.

Management Board

The powers and method of operation of the Management Board are defined by the Commercial Companies Code and the Company's Articles of Association.

The Management Board comprises 2 (two) to 3 (three) members, including the President of the Management Board, who are appointed and recalled by the Supervisory Board. The number of members of the Management Board for a given term of office is determined by the Supervisory Board. The term of office of the Management Board members shall be joint and last 3 (three) years.

The Management Board shall manage the Company's affairs and represent it before third parties.

The Management Board shall be responsible for all matters related to the management of the Company's affairs not reserved for other governing bodies of the Company by the provisions of law or the Articles of Association.

Each member of the Management Board individually shall be entitled to make declarations of will on behalf of the Company and to sign on behalf of the Company.

Disposing of a right or incurring of an obligation with the value exceeding PLN 3,000,000.00 (three million) requires the consent of the Supervisory Board expressed in the form of a resolution. This obligation applies also to liabilities relating to recurring or continuous services if the value of the resulting services exceeds PLN 3,000,000.00 (three million) in the financial year. This obligation does not apply to the performance of activities provided for in the Company's budget approved by the Supervisory Board.

Resolutions of the Management Board are adopted by a simple majority of votes cast. In the case of an equal number of votes, the President of the Management Board has the casting vote.

Resolutions of the Management Board may be adopted if all members of the Management Board have been duly notified of the meeting.

Members of the Management Board may participate in the adoption of resolutions of the Management Board by casting their vote in writing through another member of the Management Board. The casting

of a vote in writing may not apply to matters placed on the agenda at the meeting of the Management Board.

Resolutions of the Management Board may be adopted in writing or using means of direct remote communication. A resolution shall be valid if all members of the Management Board have been notified of the contents of the draft resolution.

The President of the Management Board shall convene and chair meetings of the Management Board. The President of the Management Board may authorise other members of the Management Board to convene and chair meetings of the Management Board.

Without the consent of the Supervisory Board, members of the Management Board may not engage in competitive business or participate in a competitive company as a partner in a civil law partnership, a partnership or as a member of a body of a company, or participate in another competitive legal person as a member of its body. This prohibition also includes participation in a competitive company, in the event that a member of the Management Board holds at least 10% (ten per cent) shares in it or has the right to appoint at least one member of the Management Board.

The Management Board has no individual right to decide on the issue or redemption of the Company's shares.

5.8.6. Operation of the General Meeting and its powers

The General Meeting operates on the basis of the Commercial Companies Code and the Company's Articles of Association.

The General Meeting may be Ordinary or Extraordinary.

General Meetings shall be held either at the Company's registered office or in Warsaw.

The Ordinary General Meeting should take place within six months after the end of each financial year.

An Extraordinary General Meeting of Shareholders shall be convened in cases specified in the provisions of the Commercial Companies Code or the Articles of Association as well as when the entities or bodies authorised to convene General Meetings deem it advisable.

A General Meeting may be cancelled. A change of the date of the General Meeting shall also be permissible. Cancellation or change of the date of the General Meeting shall be effected in the manner prescribed for its convening.

If the notice convening the General Meeting includes information on the possibility for shareholders to participate in the General Meeting using electronic communication means, the Company is obliged to ensure that the shareholders can participate in the General Meeting using electronic communication means.

Detailed rules for holding the General Meeting using electronic means of communication shall be defined by the Management Board. The Management Board shall publish the rules on the Company's website. Such rules should enable:

1. real-time transmission of the General Meeting;
2. two-way communication in real time within which shareholders will be able to speak during the General Meeting from a location other than the venue of the meeting;
3. exercise of the voting right by a shareholder in person or by proxy during a General Meeting, outside the venue of the General Meeting, using means of electronic communication.

The General Meeting is valid irrespective of the number of shares represented at it unless the Commercial Companies Code provides otherwise.

Each share carries one vote at the General Meeting.

A pledgee or usufructuary shall not have the right to vote under a share or a provisional certificate.

A resolution of the General Meeting shall be required for matters reserved by the Commercial Companies Code, other provisions of law or the provisions of these Articles of Association.

The powers of the General Meeting include in particular:

1. consideration and approval of the Management Board's report on the Company's operations and the financial statements for the previous financial year and granting a vote of acceptance to members of the Company's bodies for the performance of their duties;
2. deciding on claims for repairing damage inflicted at the time of establishing the Company or exercising management or supervision;
3. adoption of resolutions on the distribution of profit or coverage of losses;
4. determining the date and time of dividend payment;
5. appointing and recalling members of the Supervisory Board;
6. disposal and lease of the enterprise or its organised part and establishment of limited property right thereon;
7. issue of convertible or priority bonds and issue of subscription warrants as referred to in Article 453 § 2 of the Commercial Companies Code;
8. purchase of own shares in the case referred to in Article 362 § 1 Section 2 of the Commercial Companies Code and authorising their purchase in the case referred to in Article 362 § 1 Section 8 of the Commercial Companies Code;
9. merger or division of the Company unless a resolution of the Company is not required by the provisions of the Commercial Companies Code;
10. dissolution and liquidation of the Company;
11. transformation of the Company;
12. establishment of rules of remuneration of members of the Supervisory Board, including separate remuneration for those members who were delegated to permanent individual supervision;
13. amending the Company's Articles of Association;
14. approval of the Regulations of the Supervisory Board of the Company and amendments to the Regulations of the Supervisory Board of the Company;
15. increasing or decreasing the share capital, subject to the rights vested in other governing bodies of the Company in this respect;
16. adopting resolutions on redemption of the Company's shares;
17. creation of reserve capitals and other special purpose funds;
18. examining matters submitted by the Supervisory Board, the Management Board or shareholders;
19. other matters reserved for the General Meeting by law or the provisions of the present Articles of Association.

Acquisition and disposal of real estate, perpetual usufruct or share in real estate do not require a resolution of the General Meeting.

The General Meeting may adopt its by-laws detailing the procedure for organising and conducting its meetings. Adoption, amendment or repeal of the by-laws shall be valid only if an absolute majority of votes is cast in favour of the resolution.

5.8.7. Personal and organisational changes in the Company

The composition of the Company's Supervisory Board and Management Board has not changed in 2021.

The composition of the governing bodies is described in Section 2.2 of this report.

5.8.8. Remuneration and transactions with members of the management and supervisory bodies

Benefits paid to Management Board members

| Specification (in PLN thousand) | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|----------------------------|----------------------------|
| For holding office in the bodies | 2 060 659.00 | 678 960.00 |
| Remuneration under employment contract | 420 900.00 | 479 991.91 |
| Total | 2 481 559.00 | 1 158 951.91 |

| Name (in PLN) | Position | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|---|-----------------------------------|----------------------------|----------------------------|
| Remuneration of the Management Board Members (PLN) | | | |
| Adam Piotrowski | President of the Management Board | 1 329 936.00 | 635 324.91 |
| Łukasz Piekarski | Member of the Management Board | 1 151 623.00 | 523 627.00 |
| Total | | 2 481 559.00 | 1 158 951.91 |

Remuneration of Supervisory Board Members (PLN)

| Name | Position | 01.01.2021 - 31.12.2021 | 01.01.2020 - 31.12.2020 |
|--|-----------------------------------|----------------------------|----------------------------|
| Przemysław Danowski | Chairman of the Supervisory Board | 54 450.00 | 36 000.00 |
| Janusz Kubrak | Member of the Supervisory Board | 51 485.00 | 30 000.00 |
| for serving as Member of the Supervisory Board | | 46 605.00 | 30 000.00 |
| Marek Wiechno | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Zbigniew Więclaw | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Piotr Nadolski | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Krzysztof Kaczmarczyk | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Mirosław Grudzień | Member of the Supervisory Board | 46 605.00 | 30 000.00 |
| Total | | 338 960.00 | 216 000.00 |

No loans or benefits of a similar nature have been granted to members of the Management Board or members of the Supervisory Board.

The members of the Management Board and Supervisory Board do not receive any remuneration, rewards or other benefits resulting from the Company's equity-based incentive or bonus programmes.

5.8.9. Any agreements with managers providing for compensation in the event of their resignation or dismissal

In case of termination of employment contracts concluded with the Management Board as a result of the Company's notice, the Management Board is entitled to a severance pay in the amount of remuneration for 6 months. The severance pay is not due if the contract is terminated due to the employee's breach of duties, committing a crime or due to other reasons constituting grounds for termination of the contract without notice.

5.8.10. Shares held by managing and supervising persons

As at 31 December 2021, the share capital of the Company amounted to PLN 729,000.00 and was divided into 729,000 shares with a nominal value of PLN 1.00 each. All shares forming the Company's share capital were fully paid up.

As at 31 December 2021, members of the Company's Management Board held the following shares in the Company:

- Adam Piotrowski - President of the Management Board held 660 shares (nominal value of shares PLN 660)
- Łukasz Piekarski - Member of the Management Board held 485 shares (nominal value of shares PLN 485)

As at 31 December 2021, the members of the Company's Supervisory Board held the following shares in the Company:

- Janusz Kubrak held 48,100 shares (nominal value of shares PLN 48,100),
- Zbigniew Więclaw held 12,000 shares (nominal value of shares PLN 12,000),
- Przemysław Danowski held 476 shares (nominal value of a share PLN 476),
- Mirosław Grudzień held 37,200 shares (nominal value of shares PLN 37,200).

None of the Company's managing and supervising persons holds any shares in VIGO WE Innovation Sp. z o.o.

The Company is not aware of any agreements between shareholders (insurance, cooperation, collaboration agreements).

5.8.11. Rules for amending the Company's Articles of Association

The rules for amending the Company's Articles of Association are regulated by the Commercial Companies Code. An amendment to the Articles of Association requires a resolution of the General Meeting and an entry in the register.

5.8.12. Court or arbitration proceedings

The Company is not party to any court or arbitration proceedings.

5.8.13. Changes in the fundamental principles of Company management

There were no significant changes in the Company management principles in 2020.

5.9. Share capital and ownership structure

5.9.1. Shareholders of the Company

To the knowledge of the Management Board, the Company's shareholding structure as at the balance sheet date and as at the date of approval of the Statement was as follows:

| Shareholder | As at 31.12.2021 | | As at 03.03.2022 | |
|-----------------------|------------------|------------------|------------------|------------------|
| | Number of shares | Percentage share | Number of shares | Percentage share |
| Piotrowski Józef | 86 650 | 11.89% | 86 650 | 11.89% |
| Xarus Holding Limited | 72 150 | 9.90% | 72 150 | 9.90% |
| Investors TFI S.A. | 70 192 | 9.63% | 70 192 | 9.63% |
| Janusz Kubrak | 48 100 | 6.60% | 48 100 | 6.60% |

| Shareholder | As at 31.12.2021 | | As at 03.03.2022 | |
|-------------------|------------------|------------------|------------------|------------------|
| | Number of shares | Percentage share | Number of shares | Percentage share |
| Mirosław Grudzień | 37 200 | 5.10% | 37 200 | 5.10% |
| Others | 414 708 | 56.89% | 414 708 | 56.89% |
| Total | 729 000 | 100.00 | 729 000 | 100.00 |

The total number and value of all the Company's shares is shown in Section 4.2.1 of this report.

As at the date of approval of these financial statements for publication, the Management Board is not aware of any agreements that may result in future changes in the proportion of shares held by existing shareholders.

In the financial year in question, the Company did not issue new securities and did not acquire treasury shares.

5.10. Other supplementary information to the Management Board's Report 2021:

5.10.1. Audit contract and audit firm fees

On 17 September 2020, the Company's Supervisory Board selected the firm authorised to audit and review the financial statements for the years 2021, 2022 and 2023. The selection was effected in accordance with the applicable regulations and professional standards.

The company selected to perform this function was Mazars Audyt Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw, address: 00-549 Warsaw, ul. Piękna 18, entered in the list of audit firms under number 186.

The Supervisory Board made this choice having regard to guaranteeing full independence and objectivity of the selection itself as well as fulfilment of tasks by the certified auditor.

The audit firm and the members of the team performing the audit meet the conditions for the preparation of an impartial and independent report on the audit of the annual financial statements in accordance with applicable regulations, professional standards and principles of professional ethics.

The Company complies with applicable regulations related to the rotation of the audit firm and the key auditor and mandatory grace periods.

VIGO applies a policy on the selection of the audit firm and a policy on the provision of additional non-audit services by the audit firm, an affiliate of the audit firm or a member of its network, including services conditionally exempted from the prohibition on the audit firm.

On 17 September 2020, the Audit Committee adopted a resolution on recommending to the Company's Supervisory Board an audit firm to audit the annual financial statements and review the interim financial statements of the Company.

Pursuant to § 4 Section 1 Point 8 of the Regulations of the Audit Committee, the recommendation included a justification and two options for the audit engagement, and the Audit Committee expressed a preference for one of them. In its recommendation, the Audit Committee stated that its recommendation was free from any third party influence and that no clause of any kind was imposed on it that would restrict the body selecting the audit firm for the purpose of carrying out the statutory audit of the Company's financial statements to certain categories or lists of audit firms.

To audit the annual financial statements and review the interim financial statements of the Company for the years 2021-2023, the Audit Committee recommended the auditing firm Mazars Audyt Spółka z

ograniczoną odpowiedzialnością with its registered office in Warsaw, address: 00-549 Warsaw, ul. Piękna 18.

The recommendation was preceded by a detailed analysis of the offers and transparency reports of the audit firms with particular attention paid to the system of control and monitoring of the auditor's and the firm's independence introduced at this audit firm, in particular whether any services other than the audit are provided to the Company by the audit firm.

On 17 September 2020, the Company's Supervisory Board, taking into account the recommendation of the Audit Committee, selected the auditing firm Mazars Audyty Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw to audit the Company's financial statements for the years 2021, 2022 and 2023 and to review the Company's interim financial statements for the first half of the years 2021, 2022 and 2023.

Consequently, the audit firm was selected in accordance with the applicable regulations and the recommendation concerning the selection of the audit firm to carry out the audit met the applicable conditions and was prepared following a selection procedure organised by the Company which met the applicable criteria.

On 15 March 2021, the Company entered into an agreement with Mazars Audyty Spółka z ograniczoną odpowiedzialnością to audit and review its separate financial statements. The agreement was concluded for a period of three years.

The remuneration of Mazars Audyty Spółka z ograniczoną odpowiedzialnością will be paid separately for:

- audit of the annual financial statements for 2021 - PLN 27,000.00, for 2022 - PLN 28,000.00 and for 2023 - PLN 28,000.00;
- review of financial statements as at 30.06.2021 - PLN 15 000,00, as at 30.06.2022 - PLN 16 000,00 and as at 30.06.2023 - PLN 16 000,00.

In the year 2021, no other permitted services were provided by the audit firm auditing the Company's financial statements that were not an audit or review.

5.10.2. Organisational or capital ties and main investments of the Company

VIGO System S.A. owns 50% shares in company VIGO WE INNOVATION Sp. z o.o. The aim of this investment was to create an investment vehicle whose task will be to develop innovative enterprises (start-ups and spin-offs) in the field of production of advanced technical devices and components. VWI's investment strategy will particularly include ventures in the field of photonics.

Pursuant to the Amendment to the Investment Agreement executed on 9 February 2017, extending the period of operation of the Incubator until 31 December 2022, the Company is obliged to incur capital expenditure in the amount of PLN 12.5 million in 2018-2022 for the operation of the Incubator. The Management Board plans to cover this obligation from the current business activities of the entity.

In 2021, the Company incurred expenditures on the acquisition of shares in VWI in the amount of PLN 2,431 thousand.

In financial year 2021, the Company incurred capital expenditure on the purchase of tangible and intangible assets in the amount of PLN 29.8 million (in 2020 - PLN 8.4 million).

The Company's investments were related both to the construction of a new production plant and the purchase of machinery for the manufacture of products as well as the replacement of the old infrastructure with a modern one. A detailed description of the progress of the investment programme is provided in Section 5.2 of the Report. In 2022, the Company will continue to invest in the expansion of the old production hall.

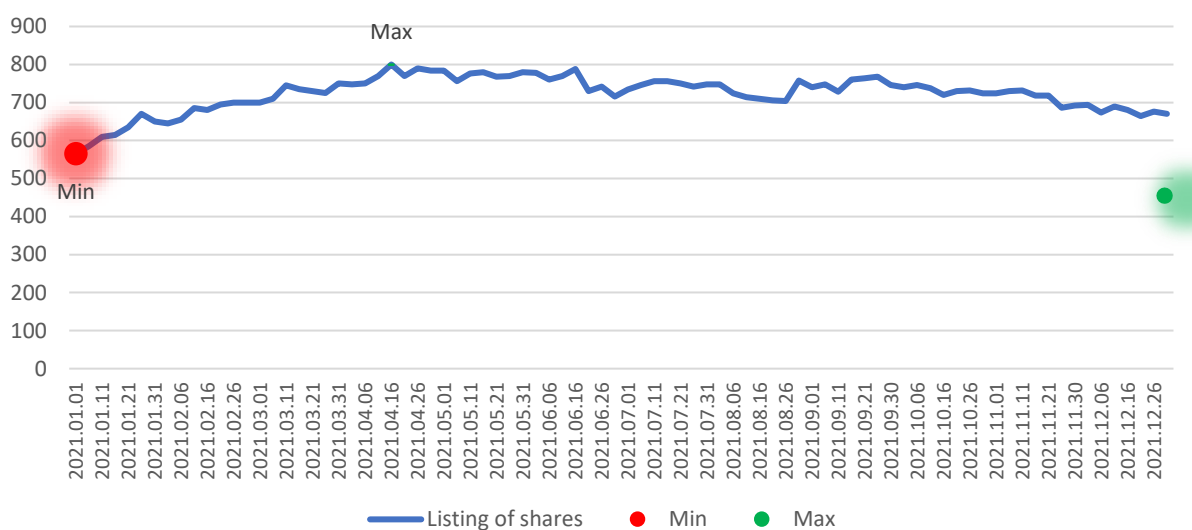
The Company has taken out bank loans to finance 80% of the net investment, which are described in detail in Section 4.2.9 of this Report.

5.10.3. Other disclosures

Other disclosures required by the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities (i.e. Journal of Laws 2018, item 757, as amended) and by the Accounting Act of 29 September 1994 (Journal of Laws 2019, item 351, as amended) are presented in Section 4.9.6 of this report.

5.10.4. Listing of shares on the Warsaw Stock Exchange

Figure 11: The Company's share price on the WSE in 2021.



According to the statistics prepared by the Warsaw Stock Exchange, the Company's stock return in 2021 amounted to 18.58% placing VIGO System on 224th position among 430 issuers listed at the end of 2021 on the regulated market of WSE. During the indicated period the maximum trading price of the Company's shares amounted to PLN 818.00 and the minimum PLN 565.00.

VIGO System's capitalisation at the end of 2021 amounted to PLN 488.43 million, ranking 122nd.

Łukasz Piekarski
Member of the Management Board

Adam Piotrowski
President of the Management Board

Ożarów Mazowiecki, 2 March 2022

6. Representations by the Management Board

REPRESENTATION

of the Management Board on compliance of the annual financial statements
and the report of the Management Board on VIGO System S.A. operations

Pursuant to the Regulation of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities (i.e. Journal of Laws of 2018, item 757, as amended), the Management Board of the Company hereby represents that, to the best of its knowledge, these separate financial statements and comparative data have been prepared in accordance with the accounting principles applicable to VIGO System S.A. and that they give a true, fair and clear view of the financial position of the Company as well as its financial result.

The Management Board of the Company also represents that the report on the activities of the issuer presents a true picture of the development, achievements and situation of the issuer, including a description of the main threats and risks.

These separate financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS), comprising International Accounting Standards (IAS) and Interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been endorsed by the European Union (EU) and applicable to reporting periods beginning on 1 January 2017, and with respect to matters not regulated therein in accordance with the requirements of the Accounting Act of 29 September 1994 (i.e. Journal of Laws of 2021, item 217, as amended) and secondary legislation issued on the basis thereof, and to the extent required by the Ordinance of the Minister of Finance of 29 March 2018 on current and periodic information provided by issuers of securities (i.e. Journal of Laws of 2018, item 757, as amended).

The Management Board of the Company hereby represents that the entity authorised to audit the annual financial statements, auditing the annual financial statements of the Company, was selected in accordance with the provisions of law and that the entity and auditors performing the audit met the conditions to issue an impartial and independent opinion on the audited annual financial statements, in compliance with the applicable regulations and professional standards.

Management Board of VIGO System S.A:

Łukasz Piekarski
Member of the Management Board

Adam Piotrowski
President of the Management Board

Ożarów Mazowiecki, 2 March 2022