VIGO Photonics Group

CONSOLIDATED ANNUAL REPORT

for the period from 1 January 2023 to 31 December 2023

containing the consolidated financial statements of the VIGO Photonics Group prepared in accordance with IFRSs

Ożarów Mazowiecki, 23 April 2024.

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CEO's Letter to Shareholders

Ladies and Gentlemen,

I am pleased to share with you the VIGO annual report for 2023.

The past year was a period marked by important events related to the development of our company. In June 2023, we received information from the European Commission about the approval of public aid of up to EUR 102.9 million under the European IPCEI ME/CT mechanism for the implementation of the HyperPIC project, whose main goal is to create a complete generic technology platform integrating key elements of the value chain of photonic integrated circuits (PICs) for the mid-infrared range.

In turn, in November last year, we successfully issued series F shares, raising almost PLN 63 million to accelerate development in key segments - sales growth in the traditional segment of detectors and detection modules, with particular emphasis on sales growth in the United States, matrix design, as well as the above-mentioned HyperPIC project.

In 2024, we intend to significantly strengthen our sales team in the USA on account of the very large potential of the military and industrial markets there. Currently, we have a 4-person operational team in the USA catering to the requirements regarding cybersecurity and access to classified information. This team will be gradually expanded. VIGO already has ready-made product prototypes in place that meet the requirements of American defense companies, and we expect that already this year we will be able to inform the market about the first contracts obtained in this area. We also plan to strengthen cooperation with the American scientific community and launch joint development projects, which in turn should accelerate the pace of developing new products for American customers.

In the area of matrices, the R&D phase is currently underway and we are preparing an investment program that will allow us to launch test production of matrices in the second half of this year, and serial production in 2025. Last year, we also signed a letter of intent with PCO regarding the implementation of the infrared matrices we are developing for mass production and use in combat vehicles of the Polish army.

In turn, the implementation of the HyperPIC project will accelerate the development of photonic sensing technologies and, as a result, will enable the delivery of a new class of integrated photonics systems for sensor applications to the market. As a result, it will be possible to use single chips with advanced sensory functionalities in everyday objects (smartphones, wearables, household appliances, vehicles) - this is a huge market in which we want to play an important role.

In our "traditional" business - MCT, InGaAs and InAsSb detectors and detection modules, we develop cooperation both with our existing partners and acquire new customers, which is testament to the reliability and quality of our products and confirms our ability to scale production and adapt our products to specific customer needs.

We also regularly take part in many scientific events, conferences and industry fairs, which are very valuable sources of contacts with customers from all over the world. Last year we were present at Photonic West 2023, Laser World of Photonics in Munich, MSPO, to name a few.

Moving on to the financial part - in 2023, sales revenues reached PLN 75.4 million, compared to PLN 67.9 million in 2022. EBITDA adjusted for grants grew to PLN 20.1 million from PLN 14.9 million in 2022. EBIT was PLN 11.4 million (PLN 8.8 million in 2022). Net profit adjusted for deferred tax came in at PLN 11.3 million in 2023 compared to PLN 7.6 million in the previous year.

Summing up, in 2024 we are focused on accelerating sales growth under our core business development initiatives, including in the promising United States market. In addition, we will continue the project related to the development of matrix technology, first aiming to launch test and then serial production. The third element is the implementation of the project related to the development of photonic integrated circuit technologies (HyperPIC project) and then their implementation into mass production. As you can see, VIGO has an interesting and intense year ahead.

Last but not least, on behalf of the VIGO Management Board, I would like to thank all our employees for their daily engagement. I would also like to thank the Members of the Supervisory Board for their professional support, and our clients and partners for the opportunity to cooperate and constantly develop.

My thanks also go to the Company's Shareholders and Investors for the trust you place in us.

I hope you will enjoy reading this Annual Report.

Yours faithfully,

Adam Piotrowski

CEO of VIGO Photonics S.A.

1 Consolidated financial statements

Consolidated statement of financial position as at 31.12.2023

Item	Note	As at 31.12.2023 (PLN thousand)	As at 31.12.2022, restated* (PLN thousand)	As at 01.01.2022 (PLN thousand)
Assets				
Non-current assets		**225,396**	**218,892**	**183,719**
Property, plant and equipment	4.1.2	111,908	113,502	99,219
Intangible assets	4.1.1	29,918	19,432	10,524
Right of use	3.14.3	3,797	3,836	3,888
Expenditure on development projects – assets under construction	4.1.4	59,225	53,444	43,351
Assets on account of long-term deferred tax	4.3.4	7,846	22,012	22,395
Investments in jointly controlled entities	4.1.3	12,648	6,666	4,320
Prepayments	4.1.4	54		22
Current assets		**96,874**	**35,105**	**34,324**
Inventories	4.1.5	12,033	15,281	6,899
Trade receivables	4.1.6	15,934	14,256	14,370
Other receivables	4.1.6	1,905	2,226	5,667
Called up share capital		62,694		
Other financial receivables	4.1.6	294	16	35
Prepayments	4.1.4	1,208	1,068	858
Cash and cash equivalents	4.1.8	2,806	2,258	6,495
TOTAL ASSETS		**322,270**	**253,997**	**218,043**
Equity and liabilities				
Equity		**198,180**	**138,442**	**131,143**
Share capital	4.2.1	729	729	729
Share premium account	4.2.2	71,075	8,865	8,865
Revaluation reserve	4.2.3	108	99	-24
Other capitals	4.2.5	128,827	121,526	91,064
Differences from revaluation		423		
Profit (loss) of the current period	4.2.4	-2,982	7,223	30,509
Long-term liabilities	4.2.9	**80,168**	**81,959**	**57,563**
Bank and other loans	4.2.9	18,803	28,057	21,368
Lease obligations	4.2.10	864	864	903
Deferred income	4.2.14	60,297	52,854	35,066
Provision for pensions and similar benefits	4.2.8	204	184	226
Short-term liabilities		**43,922**	**33,596**	**29,337**
Bank and other loans	4.2.9	32,530	21,328	12,441
Trade and other liabilities	4.2.10	2,794	4,408	8,103
Lease obligations				46
Other liabilities	4.2.10	1,300	1,296	1,707
Other financial liabilities				18
Deferred income	4.2.14	3,172	2,611	2,363
Provision for pensions and similar benefits	4.2.8	2,021	1,953	1,717
Other provisions	4.2.8	2,105	2,000	2,942
TOTAL EQUITY AND LIABILITIES		**322,270**	**253,997**	**218,043**

* data for 2022 have been restated in relation to the information presented in the financial statements for 2022. For more details, see Note 4.11.

Consolidated statement of comprehensive income for the period 1.01.2023–31.12.2023

Specification	NOTE	1.01.2023-31.12.2023 (PLN thousand)	1.01.2022-31.12.2022 (PLN thousand)
Revenue from sales	4.3.1	**75,395**	**67,874**
Revenue from the sale of products	4.3.1	72,490	63,513
Revenue from the sale of services	4.3.1	2,581	3,980
Revenue from the sale of goods and materials	4.3.1	324	381
Cost of products, goods and materials sold	4.3.5	**38,483**	**32,795**
Cost of production of products and services sold	4.3.5	38,426	32,795
Value of goods and materials sold	4.3.5	57	
Gross profit (loss) on sale		**36,912**	**35,079**
Other operating income	4.4	8,262	8,270
Selling costs	4.3.5	9,378	10,395
General and administrative expenses	4.3.5	18,467	20,648
Other operating costs	4.5	5,906	3,489
Profit (loss) on operating activities		**11,423**	**8,817**
Financial income	4.6	1,986	424
Financial costs	4.7	2,115	1,554
Profit/ loss before tax	4.3.4	**11,294**	**7,687**
Income tax	4.3.4	**14,276**	**464**
Current income tax	4.3.4	110	81
Deferred income tax	4.3.4	14,166	383
Profit (loss) after tax		**-2,982**	**7,223**
Components of other comprehensive income:		**9**	123
Items that will not be reclassified to the income statement in subsequent periods		**9**	**123**
Actuarial gains (losses) on defined benefit plans	4.3.3	9	123
Total comprehensive income		**-2,973**	**7,346**
Basic for the financial period		-4.09	9.91
Diluted for the financial period		-4.09	9.91

* data for 2022 have been restated in relation to the information presented in the financial statements for 2022. For more details, see Note 4.11.

Consolidated statement of changes in equity for the period from 01.01.2023 to 31.12.2023

(PLN thousand)	Share capital	Supplementary capital – share premium	Revaluation reserve	Other capitals	Differences from revaluation	Profit (loss) of the current period	Total equity
Twelve months ended 31 December 2023							
Equity as at 01.01.2023	**729**	**8,865**	**99**	**121,611**	**0**	**7,219**	**138,523**
Correction of errors from previous years				**-85**	**0**	**4**	**-81**
Equity as at 01.01.2023 after corrections	**729**	**8,865**	**99**	**121,526**	**0**	**7,223**	**138,442**
Total changes in equity	**0**	**62,209**	**9**	**7,301**	**423**	**-10,205**	**59,737**
Profit (loss) of the period					0	-2,982	-2,982
Distribution of profit (loss) for 2022				7,223	0	-7,223	
Supplementary capital from the issue of series F shares		62,209			0		62,209
Differences from revaluation				0	423		423
Correction of errors from previous years				78	0		78
Other comprehensive income: actuarial gains/losses			9		0		9
Equity as at 31.12.2023	**729**	**71,075**	**108**	**128,827**	**423**	**-2,982**	**198,180**
Twelve months ended 31 December 2022							
Equity as at 1 January 2022	**729**	**8,865**	**-24**	**91,148**	**0**	**30,509**	**131,227**
Correction of errors from previous years				**-84**	0		**-84**
Equity as at 01.01.2022 after corrections	**729**	**8,865**	**-24**	**91,064**	**0**	**30,509**	**131,143**
Total changes in equity	**0**	**0**	**123**	**30,462**	**0**	**-23,286**	**7,299**
Profit (loss) of the period					0	7,223	7,223
Distribution of profit (loss) for 2021				30,509	0	-30,509	
Conditional increase in capital				-47	0		-47

Other comprehensive income: actuarial gains/losses			123		0		123
Equity as at 31.12.2022	**729**	**8,865**	**99**	**121,526**	**0**	**7,223**	**138,442**

* data for 2022 have been restated in relation to the information presented in the financial statements for 2022. For more details, see Note 4.11.

Consolidated statement of cash flows (Note 4.8)

(PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022, restated*
OPERATING ACTIVITIES		
Profit/ loss before tax	**11,294**	**7,687**
Income tax	**14,276**	**464**
Net profit/ loss	**-2,982**	**7,223**
Total adjustments:	**4,152**	**-4,110**
Depreciation/ amortisation	12,381	9,362
FX gains (losses)	-2,480	293
Interest and profit distributions (dividends)	2,075	1,726
Profit (loss) on investing activities	-101	-240
Change in the balance of provisions	206	-625
Change in the balance of inventories	3,248	-8,382
Change in the balance of receivables	-1,552	3,555
Change in liabilities, except for bank and non-bank loans	-1,629	542
Change in prepayments	-185	-284
Change in accrued income	-6,728	-7,463
Profit (loss) of entities accounted for using the equity method	-613	541
Other adjustments	-470	-3,135
Cash from operating activities	**15,446**	**3,577**
Income tax (paid)/ received	-110	-81
A. Net cash flows from operating activities	**15,336**	**3,496**
INVESTING ACTIVITIES		
Inflows	**14,788**	**26,052**
Grants received	14,724	25,782
Proceeds from the sale of tangible assets	64	270
Outflows	**-32,154**	**-47,905**
Acquisition of intangible and tangible assets	-22,548	-23,664
Expenditure on acquisition of shares	-5,306	-2,887
Expenditure on in-process development	-4,220	-21,354
Loans granted	-80	0
B. Net cash flows from investing activities	**-17,366**	**-21,853**
FINANCING ACTIVITIES		
Inflows	**15,311**	**27,726**
Bank and other loans	15,311	27,726
Outflows	**-12,713**	**-13,598**
Repayment of bank and other loans	-10,448	-12,598
Interest	-2,265	-983
Lease payments	0	-17
C. Net cash flows from financing activities	**2,598**	**14,128**
D. Total net cash flows	**568**	**-4,229**
E. Balance sheet change in cash, including	**548**	**-4,237**
– change in cash due to FX differences	-20	-8
F. Cash at the beginning of the period	**2,258**	**6,495**
G. Cash at the end of the period	**2,806**	**2,258**

* data for 2022 have been restated in relation to the information presented in the financial statements for 2022. For more details, see Note 4.11.

2 Selected consolidated figures

Financial highlights (PLN thousand)	01.01.2023-31.12.2023		01.01.2023-31.12.2022	
	PLN	EUR	PLN	EUR
Statement of comprehensive income				
Net revenue from the sale of products, goods and materials	75,395	16,650	67,874	14,470
Cost of sales	38,483	8,498	32,795	6,992
Operating profit	11,423	2,523	8,704	1,856
Profit before tax	11,294	2,494	7,684	1,628
Net profit	-2,981	-658	7,219	1,539
Number of shares	729,000	729,000	729,000	729,000
Net profit per ordinary share (PLN/EUR)	-4.09	-0.90	9.90	2.11
Statement of financial position				
Non-current assets	225,396	51,839	218,891	46,673
Current assets	96,874	22,280	35,106	7,486
Equity	198,180	45,580	138,442	29,519
Long-term liabilities	80,168	18,438	81,959	17,476
Short-term liabilities	43,922	10,102	33,596	7,163
Book value per share (PLN/EUR)	271.85	62.52	189.91	40.49
Statement of cash flows				
Net cash flows from operating activities	15,336	3,386	3,496	745
Net cash flows from investing activities	-17,366	-3,835	-21,853	-4,659
Net cash flows from financing activities	2,598	574	14,128	3,012

EUR/PLN exchange rate	2023	2022
Statement of financial position	4.3480	4.6899
Statement of comprehensive income and statement of cash flows	4.5283	4.6907

3 Introduction to the consolidated financial statements

3.1 Key information about the Group

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

The Group 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), to the production of detector chips and lasers, to their microassembly and integration into electronics. The Group 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 Group 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 Photonics has added epitaxial semiconductor layers to its offer. Developed by VIGO Photonics, 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 Group 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 Photonics 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 Group'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 Photonics detectors, attempted a landing on Mars.

The Group is a going concern.

The Group's core business is the manufacture of electronic components (PKD 2611Z).

Due to the change of brand in 2022, the Group was renamed from VIGO System S.A. to VIGO Photonics S.A.

3.2 Contact details

Business name, name of the ultimate parent of the Group: VIGO Photonics S.A.

Primary place of business:	Ożarów Mazowiecki
Registered office:	Poland
Address:	ul. Poznańska 129/133, 05 - 850 Ożarów Mazowiecki
NIP:	527-020-73-40
REGON:	010265179
Telecommunication numbers: tel.	(+48 22) 733 54 00
	fax (+48 22) 733 54 26
Email address:	info@vigo.com.pl
Website address:	www.vigo.com.pl

3.3 Description of VIGO Photonics Group

The Group includes the following entities:

- VIGO Photonics Taiwan – a company established in 2020 as a sales office in the East Asia region. The group has a 100% stake VIGO Photonics Taiwan worth PLN 76 thousand. Currently, the company is being liquidated and the value of the shares has been taken to other operating costs. – the company is not consolidated
- VIGO Photonics Corp.– a company established in 2021 as a sales office in the North American region. The Group has a 100% stake VIGO Photonics Inc. worth PLN 464 thousand. The company is fully consolidated.
- VIGO Ventures ASI Sp. z o. o. – a company established in 2021 to take over the activities of VIGO WE Innovation Sp. z o. o. As at the balance sheet date, the value of shares held in that company 14,631 thousand.

Decisions on material activities of VIGO WE Innovation Sp. z o.o. and VIGO Ventures ASI Sp. z o.o. require the unanimous consent of the parties sharing control. All investors jointly exercise control over the investees. They act collectively to manage significant activities. Therefore, no single investor controls the investee. In the opinion of the Group's Management Board, as at 21 April 2024, there was no change in one or more elements of the joint control over VIGO WE Innovation Sp. z o. o. and VIGO Ventures ASI Sp. z o.o.

3.4 Membership of the Group's Management Board and Supervisory Board

Members of the Management Board as at the balance sheet date and as the date of preparation of the financial statements:

- Adam Piotrowski – President of the Management Board (CEO), General Director
- Łukasz Piekarski – Member of the Management Board, Financial Director (CFO)
- Marcin Szrom – Member of the Management Board, Chief Operating Officer

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

- Marek Wiechno – Chairman of the Supervisory Board
- Krzysztof Dziewicki – Member of the Supervisory Board
- Zbigniew Piotr Więcław – Member of the Supervisory Board
- Marcin Kubrak – Member of the Supervisory Board
- Waldemar Maj – Member of the Supervisory Board
- Krzysztof Kaczmarczyk – Member of the Supervisory Board
- Mirosław Grudzień – Member of the Supervisory Board.

During the financial year, the following changes occurred in the composition of the Supervisory Board:

- Przemysław Danowski (Chairman of the Supervisory Board) resigned with immediate effect as Supervisory Board member (Current Report 11/2023 of 28 April 2023) without giving reasons;
- Marek Wiechno was appointed Chairman of the Supervisory Board (Current Report 15/2023 of 12 April 2023);
- Due to the election of Marek Wiechno as Chairman of the Supervisory Board and his resignation from the position of Chairman of the Audit Committee, on 19 May 2023, the Issuer's Supervisory Board adopted a resolution on the appointment of Zbigniew Więcław as Chairman of the Audit Committee (Current Report 19/2023 of 19 May 2023);
- Janusz Kubrak resigned with immediate effect as Supervisory Board member (Current Report 20/2023 of 31 May 2023) for personal reasons;
- On 29 June 2023, in accordance with the provisions of §17 point 4 of the Company's Articles of Association, Krzysztof Dziewicki was appointed a member of the Issuer's Supervisory Board (Current Report 27/2023 of 29 June 2023). Krzysztof Dziewicki does not conduct any activities in competition against the Company or its affiliates. He does act in any competitive company as a partner in a civil partnership, a limited partnership or as a member of a governing body of a corporation, or in any other competitive legal person as a member of its body. He is not recorded in the Register of Insolvent Debtors kept under the National Court Register Act.
- Piotr Nadolski resigned with as Supervisory Board member as of the date of the next General Meeting of the Company (Current Report 28/2023 of 7 July 2023) for personal reasons;
- On 20 November 2023, the Extraordinary General Meeting of the Issuer appointed Marcin Kubrak and Waldemar Maj as members of the Supervisory Board for a three-year joint term of office running from June 28, 2021 alongside the previously elected members of the Issuer's Supervisory Board.

Marcin Kubrak has secondary education (studied at the Warsaw University of Technology, Faculty of MEIL 1989-1996). He started his career in 1991 as a tour guide for foreign trips to Far Eastern countries (Thailand, Korea, Singapore) in the INT EXPRESS travel agency; from 1992 he served as the Head of the Inbound Tourism Department, where he was responsible for organising the arrival of tourist groups to Poland from countries of Western Europe. In 1994, he set up Fair Cargo, was one of the first companies in Poland to launch air forwarding and air freight services. Until 2005, he was the owner and managing director of that company. In 2005-2015, he served as a member of the Management Board and Managing Director of Expeditors Polska (Expeditors International Group), a company listed on NASDAQ in the USA. Since 1999, he has been a shareholder and CEO of AIRNET, which owns and operates a forwarding terminal at the Okęcie airport in Warsaw. Since 2004, he has been a shareholder and member of the Management Board of Airnet Service, which conducts air freight holding activities. Marcin Andrzej Kubrak started his aviation career in 1996. In 1997, he obtained an airplane pilot's license. Currently, he is an airline pilot with an ATPL license. He is an instructor and state examiner (TRE) of the Boeing 737 type. Additionally, he serves as the head of pilots at Enter Air. In 2003-2005, he worked for Air Polonia. In 2005-2009, he worked for Centralwings as Pilot Captain. Currently, Marcin Kubrak is a member of the Management Board of EnterAir S.A., Director of Aviation Operations at EnterAir S.A. – a company listed on the Warsaw Stock Exchange since 2015. Marcin Kubrak agreed to run for the position of and serve as a member of the Issuer's Supervisory Board and submitted a declaration that he does not participate in a company in competition against the Issuer as a partner in a civil partnership, a limited partnership or as a member of a governing body of a corporation, or in any other competitive legal person as a member of its body. Moreover, in accordance with his statement, he is not recorded in the Register of Insolvent Debtors kept under the National Court Register Act. According to the statement, Marcin Kubrak has knowledge and skills of accounting or auditing financial statements as well as knowledge and skills in the industry in which the Issuer operates, specifically "enterprise management and corporate finances".

Waldemar Maj graduated from the Warsaw University of Technology, Faculty of Technical Physics and Applied Mathematics, in 1980, obtaining a master's degree in engineering. In 1989, he earned a PhD from the Polish Academy of Sciences, Institute of Physics, Polish Academy of Sciences. In 1996, he obtained a Master in Business Administration (MBA) from Harvard University in Boston, USA with a major in finance. In the summer of 1995 he served as Corporate Finance Associate at Union Bank of Switzerland in Zurich, Switzerland. In 1981-1991, he was an assistant professor (from 4/1991), an assistant at the Institute of Physics of the Polish Academy of Sciences. He authored numerous publications, including Rapid Communication in Physical Review B. Postdoctoral Fellow at the Kamerlingh Onnes Laboratory at the University of Leiden, Holland (1990-3/1991). In 1991-1994, he was an advisor to the Minister of Finance, responsible for aid programs; president of the Foundation for the Development of the Financial System and Chairman of the Supervisory Board of Bank Gdański. He implemented the European Union's Phare programme of ECU 32 million. In 1996 - 2000, he held the position of Senior Investment Officer, Oil, Gas and Mining at the International Finance Corporation (The World Bank Group) in Washington, USA, where he organised financing in the form of loans and capital investments for mining projects, mainly gold and silver mines in emerging markets and supervised investments in portfolio companies in Central Asia and South America. In 2000-2002, as a Senior Associate at McKinsey & Company in Warsaw, he provided strategic consulting in the banking, insurance and telecommunications sectors. In 2002-2005, Waldemar Maj served as a member of the Management Board of DZ Bank Polska S.A. in Warsaw, and from June 2003 as the CEO (from 6/2003). He managed the restructuring of AmerBank S.A., implemented a central IT system within 7 months and optimised costs, developed and implemented the bank's development strategy, which helped restore its profitability with subsequent renaming as DZ Bank Polska. In 2005–2007, Waldemar Maj was Vice-President of the Management Board of Bank BGŻ S.A. in Warsaw. He supervised institutional and treasury banking and implemented a new strategy that resulted in a successful growth of loans and deposits at a level approximately twice as high as the market average. In 2007-2007 he was Vice-President of the Management Board and CFO at PKN ORLEN S.A., where he supervised the financial department and investor relations. He was a member of the Management Board of AB Mazeikiu Nafta and the Supervisory Board of Unipetrol a.s. He mobilised financing for over PLN 4 billion, improved the company's liquidity and maintained its investment rating. Since April 2009 to date, Waldemar Maj has been a partner and founder of METROPOLITAN CAPITAL SOLUTIONS in Warsaw, a provider of strategic and M&A consulting for companies and private equity funds. He is also an investor and CEO of technology startups Neutrino Geology and Algorytmik, Chairman of the Supervisory Board of Hycom and member of the Supervisory Board of Creotech Instruments. He was Chairman of the Supervisory Board of PZU and a member of Supervisory Boards of GPW, Ciech, Bank BGZ, TFI Origin, TMS Brokers and Stock Spirits in Luxembourg. Waldemar Maj was involved in the democratic movement in 1976-1989, which earned him Officer's Cross of the Order of Polonia Restituta.
Waldemar Maj agreed to run for the position of and serve as a member of the Issuer's Supervisory Board and submitted a declaration that he does not participate in a company in competition against the Issuer as a partner in a civil partnership, a limited partnership or as a member of a governing body of a corporation, or in any other competitive legal person as a member of its body. Moreover, in accordance with his statement, Waldemar Maj is not recorded in the Register of Insolvent Debtors kept under the National Court Register Act.

According to his statement, Waldemar Maj meets the criteria of independence of a member of the Supervisory Board specified by the European Commission in Annex No. II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (OJ L.05.52.51), Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (consolidated text: Journal of Laws of 2022, item 1302 as amended) and additional requirements specified in Best Practice for GPW Listed Companies, an annex to Resolution 13/1834/2021 of the Stock Exchange Council.

3.5 Periods presented

The standalone financial statements include data for the period from 1 January to 31 December 2023. Comparative data are presented as at 31 December 2022 for the standalone statement of financial position and for the period from 1 January to 31 December 2022 for the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity.

3.6 Functional and presentation currency

Items included in the consolidated financial statements are measured in the currency of the primary economic environment in which the Group operates (functional currency).

The consolidated financial statements are presented in Polish zloty (PLN), which is the Group's functional and presentation currency. Unless otherwise indicated, all amounts presented in the consolidated financial statements are stated in thousands of PLN.

Transactions denominated in foreign currencies are translated into the functional currency at the exchange rate current 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 consolidated 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 consolidated financial statements rounded to the nearest thousand, differences of +/-1 may appear in the report.

3.7 Going concern assumption

The Group's consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for at least 12 months after the balance sheet date, i.e. until 31 December 2024.

As at the date of signing the report, the Group'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.

The Management Board of VIGO Photonics estimated that the Group would not be able to use the entire deferred tax asset resulting from the investment relief in the Special Economic Zone until the end of the operation of the Special Economic Zone in Poland (31 December 2026).

The expected amount of aid to be used over those three tax years is approximately PLN 8 million. Due to the above, in 2023 the deferred tax asset of PLN 12,763 thousand was reversed. As a result, the net profit for 01.01.2023-31.12.2023 was reduced by the reversed asset.

Up to the date of preparation of the consolidated financial statements for the period from 1 January to 31 December 2023, 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.

3.8 Audit firm authorised to audit the financial statements

On 17 September 2020, the Group's Supervisory Board selected the firm authorised to audit and perform an interim review of the financial statements for the years 2021, 2022 and 2023. The firm selected to perform this function was Mazars Audyt Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw, address: 00-549 Warszawa, 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 statutory auditor. On 15 March 2021, the Company entered into an agreement with Mazars Audyt sp. z o.o. to carry out an audit and an interim review of the consolidated financial statements. The agreement was signed for three years. It was amended by Annex 1 of 28 February 2022 by expanding its subject to include the audit and interim review of consolidated financial statements.

The remuneration of Mazars Audyt sp. z o.o. will be paid separately for:

- Audit of the standalone annual financial statements for 2021 – PLN 37,000.00, for 2022 – PLN 28,000.00 and for 2023 – PLN 28,000.00
- Audit of the consolidated annual financial statements for 2022 – PLN 10,000.00 and for 2023 – PLN 10,000.00.
- Interim review of the consolidated 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
- Interim review of the consolidated financial statements as at 30.06.2022 – PLN 6,000.00, as at 30.06.2023 – PLN 8,000.00
- Assurance service whereby the statutory auditor will assess the Group's Supervisory Board report on remuneration prepared for 2021 – PLN 5,000.00, for 2022 – PLN 5,000.00, for 2023 – PLN 5,000.00.

3.9 Organisational or capital connections of the Group

The Group includes the following entities:

- VIGO Photonics Taiwan – a company established in 2020 as a sales office in the East Asia region. The Group has a 100% stake VIGO Photonics Taiwan worth PLN 76 thousand. Currently, the company is being liquidated and the value of the shares has been taken to other operating costs.
- VIGO Photonics Corp.– a company established in 2021 as a sales office in the North American region. The Group has a 100% stake VIGO Photonics Corp. worth PLN 464 thousand.

  Commercial transactions with VIGO Photonics Corp. were concluded on an arm’s length basis.
- VIGO Ventures ASI Sp. z o. o. – a company established in 2021 to take over the activities of VIGO WE Innovation Sp. z o. o. As at the balance sheet date, the value of shares held in that company 14,631 thousand.

The Group has a 50% stake in VIGO Ventures ASI Sp. z o. o. (“VVASI”). The purpose of the 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 particularly includes ventures related to photonics.

Decisions on significant activities of VIGO Ventures require a unanimous consent of the parties sharing control. In accordance with the provisions of the Articles of Association of Vigo Ventures, 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. All investors jointly exercise control over the investee. They act collectively to manage 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 2023, in its opinion, there is no change in one or more elements of joint control over Vigo Ventures. Major shareholders do not have voting rights other than those carried by their shares.

3.10 Approval of the financial statements for publication

These consolidated financial statements were approved for publication by the Management Board on 23 April 2024 and will be published on 23 April 2024.

3.11 Merger of commercial companies

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

3.12 Reference to published estimates

The Group did not publish any estimates for the period presented.

3.13 Adopted accounting principles significant for the Group

3.13.1 Compliance with International Financial Reporting Standards

The consolidated financial statements were prepared for a group of entities that are related by capital. They are prepared at the level of the parent company (VIGO Photonics S.A.), the entity that exercises control over other entities from the Group. The consolidated financial statements include data of the parent company and its subsidiaries at all levels.

Consolidation of financial statements means combining the financial statements of entities belonging to the corporate group by summing up the relevant items in the financial statements of the parent company and subsidiaries/jointly controlled entities, taking into account appropriate exclusions (e.g. resulting from intragroup transactions) and consolidation adjustments.

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 2023 consolidated annual financial statements as it did in preparing the 2022 annual financial statements and interim 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 2023.

In 2023, the Group adopted all new and endorsed 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 2023.

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 compared to those described in the Group's annual report for 2022.

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

These consolidated financial statements have been prepared in accordance with IAS 27 Consolidated and Separate Financial Statements.

3.13.2 Changes to standards or interpretations

1. **Standards and interpretations and amendments to standards and interpretations that were applied in the financial year of 2023**

The following amendments to existing standards issued by the International Accounting Standards Board (IASB) and endorsed for use in the European Union (EU) were applied for the first time in the Group's financial statements for 2023:

- **IFRS 17 "Insurance Contracts"** with subsequent amendments to IFRS 17 – published by the IASB on 25 June 2020 – endorsed by the EU on 19 November 2021 (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IFRS 17 "Insurance Contracts"** – initial application of IFRS 17 and IFRS 9 – comparative information, endorsed in the EU on 8 September 2022 (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 1 "Presentation of Financial Statements**" – Disclosure of Accounting Policies, endorsed by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors"** – Definition of Accounting Estimates endorsed by the EU on 2 March 2022 (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 12 "Income Taxes"** – deferred tax related to assets and liabilities arising from a single transaction, endorsed by the EU on 11 August 2022 (effective for annual periods beginning on or after 1 January 2023).
- **Amendments to IAS 12 Income Tax:** International Tax Reform – Pillar Two Model Rules endorsed by the EU on 8 November 2023 (effective for annual periods beginning on or after 1 January 2023).

The above amendments to the standards did not have a significant impact on the Group's financial statements for 2023.

2. **Standards and interpretations and amendments to standards and interpretations that were issued by the IASB and endorsed by the EU, but have not become effective yet and have not been adopted by the Group for early application**

New standards and amendments to existing standards that have already been issued by the IASB and endorsed by the EU, but have not become effective yet and the Group has not decided to adopt them early:

- **Amendments to IAS 1 "Presentation of Financial Statements"** – Classification of Liabilities as Current or Non-current, ratified by the EU on 19 December 2023 (effective for annual periods beginning on or after 1 January 2024).
- **Amendments to IAS 1 "Presentation of Financial Statements":** Non-current Liabilities with Covenants, ratified by the EU on 19 December 2023 (effective for annual periods beginning on or after 1 January 2024).
- **Amendments to IFRS 16 "Leases"** – lease liability in a sale and leaseback, ratified by the EU on 20 November 2023 (effective for annual periods beginning on or after 1 January 2024).

3. Standards and interpretations and amendments to standards and interpretations that issued by the IASB but not yet endorsed by the EU

IFRSs as endorsed by the EU currently do not differ significantly from the regulations issued by the International Accounting Standards Board (IASB), with the exception of the following new standards and amendments to standards that have not yet been endorsed for use by the EU:

- **Amendments to IAS 21 "The Effects of Changes in Foreign Exchange Rates":** lack of exchangeability (effective for annual periods beginning on or after 1 January 2025).
- **Amendments to IAS 7 "Statement of Cash Flows"** and **IFRS 7 "Financial Instruments: Disclosures":** Supplier finance arrangements (effective for annual periods beginning on or after 1 January 2024).

According to the estimates of the Group, the foregoing new standards, interpretations and amendments to the existing standards would not have any material impact on the financial statements if they had been applied by the Group.

3.13.3 Intangible assets and development expenditure

Intangible assets and development expenditure are recognised at cost. After initial recognition, intangible assets are measured at cost less accumulated amortisation and impairment losses. The Group 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 Group divides intangible assets into the following categories:

- Capitalised development work
- Right of 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 Group has the intention to complete the intangible asset and use or sell it
- Ability to use or sell the intangible asset
- The Group 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 attributable to the intangible asset during its development.

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

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 profit or loss 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 Group does not recognise amortisation charges, but only regularly tests those assets for impairment.
For intangible assets with finite useful lives, the Group applies the following depreciation periods:

Group	Amortisation 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 amortisation period of capitalised development work may be extended beyond 5 years.

Amortisation costs are charged to "Cost of goods sold", "Administrative expenses" or "Selling costs" in the statement of income, while those resulting from impairment losses are charged to "Other operating costs".

The Group recognises the right to use of land in accordance with IFRS 16 as a lease.

3.13.4 Tangible assets

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

Property, plant and equipment comprise tangible assets and tangible assets under construction. Property, plant and equipment include tangible assets with an expected useful economic life in excess of 12 months.

The Group distinguishes the following groups of tangible assets:

- buildings
- technical equipment and machinery
- vehicles
- furniture and equipment.

All groups of tangible assets are measured at cost and after initial recognition they are reduced by depreciation and impairment losses. The Company does not remeasure any group of tangible assets.

The Group applies straight-line depreciation for all groups of tangible assets.

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

Group	Amortisation period
Buildings	40 years
Plant and machinery, including:	
laboratory equipment	20 years
other technical equipment	10 years
computer equipment	5 years
vehicles	5 years
furniture and equipment.	10 years

In accordance with the provisions of IAS 16, the Group periodically, at least as at the balance sheet date, verifies the adopted depreciation rates, analysing whether they correspond with the economic useful lives of its tangible assets.

In the statement of comprehensive income, depreciation costs are charged to "Cost of goods sold", "Administrative expenses" or "Selling costs", while impairment losses are charged to "Other operating costs".
Borrowing costs directly related to the acquisition or production of assets requiring a longer period of time to be suitable for use or resale are added to the costs of production of such tangible assets until those tangible assets are put into use. Other borrowing costs are recognised as costs in the period in which they are incurred.

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.

3.13.5 Leases

A lease is classified as such when, under the concluded agreement, substantially all potential rewards and risks arising from ownership of the leased asset are transferred to the lessee.

Assets used under a lease are treated as the Company's assets and measured at their fair value at the time of their acquisition, but not higher than the current value of the minimum lease payments.

The resulting liability towards the lessor is presented in the statement of financial position as leasing liabilities.

Lease payments are divided into the interest part and the reduction of the lease liability, so that the rate of interest on the remaining liability was a fixed amount. Financial costs are taken directly to profit or loss.

3.13.6 Investments in subsidiaries, joint ventures and associates

Associates are entities over which the parent group has no control, but over which it exercises significant influence by participating in the financial and operating policy decisions.

Investments in associates are initially recognised at cost and then measured using the equity method. At the moment of occurrence of significant influence, goodwill is determined as the difference between the purchase price of the investment and the fair value of net assets attributable to the investor. Goodwill is recognised in the carrying amount of the investment in associates.

The carrying amount of the investment in associates is increased or decreased by:

- the share of the parent group in the profit/loss of the associate;
- the share of the parent group in the other comprehensive income of the associate, resulting from such factors as revaluation of property, plant and equipment and from exchange rate differences on the translation of foreign entities. These amounts are disclosed in correspondence with the appropriate item of the "Consolidated statement of profit or loss and other comprehensive income";
- profits and losses resulting from transactions between the Group and the associate, which are excluded in proportion to the share held;
- payments received from the profit earned by the associate, which reduce the carrying value of the investment.

The financial statements of the parent Group and associates included in the consolidated financial statements using the equity method are prepared as at the same balance sheet date, i.e. 31 December.

Subsidiaries controlled by VIGO Photonics S.A. exercises control directly, are subject to consolidation. Control is considered to exist when VIGO Photonics S.A. or its subsidiary is exposed to the variable financial results of the investee, or when it has rights to the variable financial results of this entity, and has the ability to influence the amount of these financial results by exercising power over this entity.

Control over the investee is exercised only if all of the following criteria are met:

- The Group exercises control over the entity in which the investment was made;
- The Group is exposed to variable financial results or has rights to variable financial results due to its involvement in the entity in which the investment was made;
- The Group has the ability to use its power over the entity in which the investment was made to influence its financial results.

Subsidiaries are consolidated from the date the Group obtains control, but cease to be consolidated when the Group loses control over them. Balances and transactions between Group entities are eliminated for consolidation purposes.

In accordance with IAS 27, the Group recognises investments in subsidiaries, joint ventures and associates at cost when preparing consolidated financial statements. The Group does not have any investments other than those accounted for using the equity method.

3.13.7 Non-controlling interests

Non-controlling interests constitute that part of the capital in a subsidiary that cannot be directly or indirectly assigned to the parent company. As at the date of acquiring control, non-controlling interests are measured at the value of the proportional share in the fair value of the identifiable net assets of the subsidiary. On subsequent dates, the carrying amount of non-controlling interests is updated by the value of total income attributable to non-controlling shareholders. As at the balance sheet date, there were no non-controlling interests in the Group.

3.13.8 Inventories

Inventories are recognised 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 Group 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 Group recognises goods and materials in its books at cost not higher than the net realisable sales price. The cost of inventories (cost of purchase or manufacture) comprises all costs of purchase, costs of processing and other costs incurred in bringing the inventories to their present location and condition.

The Group 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 Group posts impairment allowances. In addition, the Group periodically tests inventories for their continued usefulness and makes allowances based on the period in which they remain in stock. Impairment allowances are charged to costs of the period and recognised in other operating costs.

Each time the Group assesses impairment and posts allowances on the items that it knows to be impaired and will be unusable in the continuing operations.

3.13.9 Loan and other receivables

The Group measures loans and receivables at amortised cost using the expected credit loss model.

The Group posts impairment allowances based on the default ratio. The amount of the allowance on receivables is charged to other operating costs, while the reversal of the allowance increases other operating income in the statement of comprehensive income.

The Group applies the following methodology for calculating the default ratio:

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

For that group, the analysis is performed in the following steps:

- Step 1: defining the historical periods for which the analysis of the amount of allowances for bad debts and the age ranges is performed. The Group has decided that the bad debt analysis will be conducted for the last 3 years in order to determine the overall default ratio. It was agreed that the default ratio would be determined for the following age ranges: (1) up to date (2) up to 30 days (3) 31-90 days (4) 91-180 days (5) 181-365 days and (6) over 365 days.
- Step 2: The profit of repayments from corporate customers in the last three financial years is determined. A comparison is then made between the balance of written off receivables and the balance of up-to-date receivables to determine the default ratio in the stated range.
- Step 3: An analysis is performed of the likely impact of future factors on the value of credit losses.
- Step 4: An impairment allowance is calculated using the ratio determined in Step 3.

3.13.10 Other financial assets

As at the balance sheet date, the Group holds other financial assets classified as financial assets measured at fair value through profit or loss.

3.13.11 Impairment of non-financial assets

The following assets are subject to an annual impairment test:

- goodwill, with the first impairment test being carried out until the end of the period in which the combination took place;
- intangible assets with an indefinite useful life and
- intangible assets that are not yet in use.

With respect to other intangible assets and tangible assets, shares in related parties and right of use assets, an assessment is made whether there are any indications that their value is impaired. If it is established that any events or circumstances may indicate difficulty in recovering the carrying value of a given asset, an impairment test is performed.

Goodwill is allocated to those cash-generating units from which synergy benefits are expected to result from the business combination, and the cash-generating units are at least the operating segments.

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.

An impairment loss on a cash-generating unit is first assigned to goodwill. The remaining amount of the impairment loss proportionally reduces the carrying value of assets included in the cash-generating unit.

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

Goodwill impairment losses are not reversed in subsequent periods. In the case of other assets, at subsequent balance sheet dates, indications of the possibility of reversing impairment losses are assessed. The reversal of write-downs is recognised in profit or loss under other operating income.

3.13.12 Cash and cash equivalents

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

Cash presented in the consolidated statement of cash flows consists of funds in bank accounts.

At each balance sheet date, the financial position of the financial institutions the Group uses is analysed based on external ratings. If the analysis of external ratings of the banks where the cash is held always is each time positive, the cash is considered to have a low credit risk as at the reporting date. In such a case, it is assumed that the value of funds held in bank accounts as at the balance sheet date at amortised cost equals their nominal value.

Transactions denominated in foreign currencies are translated by the Group into the functional currency at the exchange rate applicable on the transaction date. Monetary assets and liabilities denominated in foreign currencies are remeasured as at the end of the reporting period using the exchange rate announced by the National Bank of Poland at the end of the reporting period, and any gains or losses arising as a result of revaluation are recognized in the profit and loss account in the item:

- other operating income and costs – in the case of commercial operations,
- financial income or costs – in the case of financial transactions and leases.

Restricted cash means cash received by the Group under agreements on development co-financing signed with the National Centre for Research and Development, the EU Commission and the Minister of Finance, as well as funds held in the VAT account (as part of split payment), and security deposits and performance bonds. In the course of its operations, the Group makes payments in respect of the above on an ongoing basis.

3.13.13 Equity

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

Share premium account. Under this heading, the Group presents amount of the share premium.

Revaluation reserve. Under this heading the Group presents, e.g. the value of capitals resulting from valuations, as shown in other comprehensive income, as well as actuarial gains and losses, presented in accordance with IAS 19.

Other capitals. Under this heading, the Group presents retained earnings from previous years, including undistributed profits. The Group discloses here the capital created in accordance with the provisions of Article 396 of the Commercial Companies Code.

Profit (loss) of the current period. Under this heading, the Group presents the result (profit or loss) of the current financial year.

Own shares. In the case of purchase of own equity instruments, the amount paid, alongside costs directly related to the purchase, reduces the equity allocated to the Company's shareholders and is presented separately in the statement of financial position as "Own shares" until the shares are canceled or sold.

3.13.14 Provisions

Provisions are liabilities whose amount or timing is uncertain. The Group recognises 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 Group 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 provision amount. The Group 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 consolidated financial statements, including the risks and uncertainties.

A detailed description is provided in Section 4.2.8.

3.13.15 Financial assets and liabilities

Financial assets

As at the acquisition date, the Group measures financial assets at fair value, i.e. most often at the fair value of the consideration given. The Group includes transaction costs in the initial valuation of all financial assets, except for the category of assets measured at fair value through profit or loss. This is with the exception of trade receivables, which the Group measures at their transaction price within the meaning of IFRS 15, but this does not apply to those trade receivables whose payment terms are longer than one year and which contain a significant component financing as defined in IFRS 15.

For the purposes of valuation after initial recognition, the Group classifies financial assets other than hedging derivatives into:

- financial assets measured at amortised cost;
- financial assets measured at fair value through other comprehensive income;
- financial assets measured at fair value through profit or loss and
- equity instruments measured at fair value through other comprehensive income.

These categories define the principles of valuation as at the balance sheet date and the recognition of valuation gains or losses in profit or loss or other comprehensive income. The Group classifies financial assets into categories based on the Group's business model for the management of financial assets and contractual cash flows specific to the financial asset.

A financial asset is measured at amortised cost if both of the following conditions are met (and at initial recognition the asset was not designated for measurement at fair value through profit or loss):

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows;
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The category of financial assets measured at amortised cost includes:

- loans;

- trade receivables and other receivables (except for those to which IFRS 9 does not apply);
- debt securities.

The above classes of financial assets are presented in the consolidated statement of financial position divided into long-term and short-term assets under the headings "Loans and receivables", "Trade and other receivables" and "Other financial assets". Short-term receivables are measured at the value of due payment (as the discount effects are immaterial).

Due to the immaterial amounts, the Group does not identify interest income as a separate item, but recognises it in financial income.

Impairment losses on financial assets measured at amortised cost less gains on the reversal of impairment losses are recognised by the Group in profit or loss under "Expected credit losses". Gains and losses arising from the derecognition of assets belonging to this category from the statement of financial position are recognised in profit or loss under "Profit (loss) from derecognition of financial assets measured at amortised cost". Other gains and losses relating to financial assets recognised in profit or loss, including exchange rate differences, are presented as financial income or costs.

Interest income, impairment gains and losses and exchange differences related to those assets are calculated and recognised in profit or loss in the same way as in the case of financial assets measured at amortised cost. Other changes in the fair value of those assets are recognised in other comprehensive income. When a financial asset measured at fair value through other comprehensive income is derecognised, the accumulated gains or losses previously recognised in other comprehensive income are reclassified from equity to profit or loss.

In the reporting period, the Group did not have financial assets qualifying for this valuation category.

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. Furthermore, in this category the Group 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.

This category includes:

- all derivative instruments disclosed in the statement of financial position in a separate item "Derivative financial instruments", except for derivative hedging instruments recognised in accordance with hedge accounting;
- shares of companies other than subsidiary and associated groups;
- participation units and investment certificates of investment funds.

Instruments in this category are measured at fair value and the effects of the measurement are recognised in profit or loss under "Financial income" or "Financial costs", as appropriate. Gains and losses on the valuation of financial assets are determined by the change in fair value established on the basis of current prices from an active market at the balance sheet date or based on valuation techniques, if no active market exists.

Equity instruments measured at fair value through other comprehensive income include investments in equity instruments that are neither financial assets held for trading nor contingent consideration in a business combination for which, at the time of initial recognition, the Group made an irrevocable election to present subsequent changes in fair value of those instruments in other comprehensive income. The Group makes this election individually and separately in relation to individual equity instruments.

In this category, the Group recognises shares of companies other than subsidiary or associated groups, disclosed in the statement of financial position under "Other financial assets".

Cumulative gains or losses from fair value measurement previously recognised in other comprehensive income are not reclassified to profit or loss under any circumstances, including in the event of derecognition of those assets. Dividends from equity instruments included in this category are recognised in profit or loss under "Financial income: after meeting the conditions for recognising dividend income specified in IFRS 9, unless those dividends clearly constitute the recovery of part of investment costs.

Financial assets included in the categories of assets measured at amortised cost and measured at fair value through other comprehensive income due to the business model and the nature of the flows related to them are tested at each balance sheet to see if expected credit losses need to be recognised, regardless of whether there are any indications of impairment. The method of that testing and estimating allowances for expected credit losses differs for individual classes of financial assets:

For trade receivables, the Group applies a simplified approach with allowances for expected credit losses calculated for the entire life of the instrument. Allowance estimates are made on a collective basis and receivables have been grouped by past due period. Allowance estimates are based primarily on historical arrears and the link between the arrears and the actual repayment over the last 3 years, taking into account available forward-looking information.

With respect to other asset classes, in the case of instruments for which the increase in credit risk from the initial recognition was not significant or the risk is low, the Group in the first place recognises default losses for the next 12 months. If the increase in credit risk since its initial recognition has been significant, losses are recognised over the entire life of the instrument.

Financial liabilities

Financial liabilities are recognised in the following items of the statement of financial position:

- loans, other debt instruments;
- lease liabilities (outside of IFRS 9);
- trade and other liabilities;
- derivative financial instruments.

As at the acquisition date, the Group measures financial liabilities at fair value, i.e. most often at the fair value of the consideration received. The Group includes transaction costs in the initial valuation of all financial liabilities, except for the category of liabilities measured at fair value through profit or loss.

After initial recognition, financial liabilities are measured at amortized cost using the effective interest rate method, except for financial liabilities held for trading or designated as measured at fair value through profit or loss. The category of financial liabilities measured at fair value through profit or loss includes derivative instruments other than hedging instruments. Short-term trade liabilities are measured at the amount due because of insignificant discount effects.

Gains and losses on measurement of financial liabilities are recognised in profit or loss under financial activities.

In 2023 and 2022, the Group held only financial liabilities 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 counterparties that are an integral part of the effective interest rate, transaction costs and any other bonuses or discounts.

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

3.13.16 Deferred income tax

The Group is a payer of the corporate income tax ("CIT"). The line 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 profit or loss, is calculated at the end of each reporting period on the basis of the taxable amount, determined taking into account the differences between accounting profit and pre-tax 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 Group 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 the current tax charge.

Deferred tax assets arise when:

1. There are deductible temporary differences, which are temporary differences that will reduce the taxable amount in the future
2. Unused tax losses are carried forward
3. The Group carries forward unused tax credits.

The Group conducts business activities in the Special Economic Zone in Ożarów Mazowiecki and for this reason posts deferred tax assets (zone exemption) on account of 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 Group recognises deferred tax assets in correspondence with the profit (loss) of the period in which the recognition criterion is met. Deferred tax assets are settled in correspondence with the income statement, in the amount of utilisation of the tax exemption in the specific accounting period.

3.13.17 Employee benefits

The Group has the following employee benefits:

- Current benefits, i.e. wages, annual leave, sick leave, bonuses, Social Fund
- Retirement severance payments.

The Group recognises the cost of employee benefits in the period in which the employee works for the Group 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 provided) are expensed in the period in which the employee renders service. Unpaid benefit obligations are measured at undiscounted value.

Bonuses are recognised only when the Group 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 because they are not controlled but only administered by the Group and decisions on how to use them are made by the internal social committee.

Full exclusion of the fund will only be possible if the value of its assets is the same as the value of allocations and increases. In the financial statements the assets and liabilities of the fund will be offset and the surplus will be shown in the statement of financial position – usually as a component of employee liabilities. At the same time, more information on the Social Fund will be contained in the notes.

3.13.18 Grants received

Government grants are not recognised until there is reasonable assurance that the Group will meet the conditions attached to the grant and that the grant will be received.

For the purposes of accounting for grants, the Group 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 grants to assets, the Group accounts for the grant through deferred income over the depreciation period of the asset covered by the grant.

The Group recognises grant proceeds under "Other operating income".

3.13.19 Share-based payments

The Group uses incentive programmes under which key members of the management personnel are granted options convertible to shares of the parent Group.

The value of remuneration for the work of management personnel is determined indirectly by reference to the fair value of the granted equity instruments. The fair value of options is measured on the grant date with the reservation that vesting conditions other than market conditions (i.e. meeting a pre-defined level of financial performance) are not taken into account when estimating the fair value of share options.

The cost of remuneration with a corresponding increase in equity is recognised on the basis of the best available estimates of the number of options to which rights will be acquired in a given period. When determining the number of options to which rights will be acquired, non-market vesting conditions are taken into account.
The Group adjusts these estimates if subsequent information indicates that the number of options granted differs from previous estimates. Adjustments to estimates regarding the number of options granted are recognised in profit or loss of the current period – no adjustments are made to previous periods.

After exercising options convertible into shares, the capital from the valuation of the options is transferred to share premium, reduced by the costs of issuing shares.

3.13.20 Deferred income

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

3.13.21 Fair value

Fair value is the amount for which an asset could be exchanged and liability paid between knowledgeable, willing parties in an arm's length market transaction. The fair value of financial instruments traded in an active market is the market price less the costs associated with the transaction, if their amount is significant. The market price of financial assets held by the entity and the financial liabilities that the entity intends to incur is the current purchase offer submitted to the market, while the market price of the financial assets that the entity intends to purchase and the financial liabilities incurred is the current sale offer presented to the market.

The Group measures fair value using the income method (DCF).

Under in income methods an enterprise is treated as an asset for which it is possible to determine the cash flows it generates. These cash flows are compared with the cost of money taking into account the time and risk of the asset (cash flows related to the asset). The income method with DCF valuation uses the main assumption that the Group's value is based on the amount of income it can generate in the future – that is, how much cash flow it is able to generate. The DCF valuation should take into account the appropriate discounted interest rate. This income method is considered one of the most reliable ways of estimating the value of a company.

3.13.22 Operating segments

An operating segment is part of the Group:

- that is engaged in a business activity that generates revenues and expenses (including revenues and expenses relating to transactions with other parts of the same enterprise);
- whose performance is regularly reviewed by the main body responsible for making operating decisions in the Group 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 Management Board decided to identify segments based on the criterion of differentiated products and services.

Two operating segments were identified that meet the requirements laid down in IFRS 8. These are:

- Semiconductor 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 Management Board, which is responsible for the allocation of resources.

3.13.23 Financial income and costs

Financial income and costs mainly include income and costs relating to:

- interest;
- revenues from participation in the profits of other entities;
- revaluation of financial instruments, excluding financial assets measured at fair value, with the effects recognised in other comprehensive income and reflected in the revaluation reserve and commodity derivatives falling within the scope of IFRS 9 Financial Instruments with remeasurement and realisation gains/losses presented in operating income/costs (where gains/losses on the underlying commodity transactions are recognised);
- exchange rate differences resulting from transactions performed during the reporting period and balance sheet valuations of assets and liabilities at the end of the reporting period, with the exception of exchange rate differences included in the initial value of the tangible asset, to the extent in which they are considered an adjustment to interest expense;
- disposal/ liquidation of financial assets;
- changes in the amount of the accrual as the cost realisation period approaches (the unwinding of discount);
- interest expense for the measurement of employee benefits in accordance with IAS 19 Employee Benefits;
- other items related to financial activities.

3.13.24 Operating costs

Operating costs are recognised in profit or loss in accordance with the matching principle. In the consolidated financial statements, the Group presents costs by origin.

3.13.25 Revenue recognition

The Group'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 Group's business and resulting in an increase in equity, other than an increase in equity resulting from shareholder contributions.

The Group 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 takes 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 Group 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.

The Group 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 must be performed 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 Group recognises revenue on the basis of INCOTERMS 2010 for those transactions where it is assessed that the revenue is recognised at a point in time. The main rule applied by VIGO is EXW, which means that the delivery is considered to have been made when the goods are made available to the buyer at a designated place, with no obligation for the seller to undertake any further steps.

Significant payment terms:

- Payment normally becomes due when risk is transferred to the buyer, 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 1-year commercial guarantee is provided substantially corresponding to the customary product liability terms.

The Group recognises revenue from the provision of services in accordance with the percentage of completion method, measuring work progress at the end of the accounting period. Under this approach, revenue is recognised in the periods in which the services are performed. The percentage of completion 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 Group does not have any contracts in progress.

3.14 Significant values based on professional judgment 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.

Estimates and underlying assumptions are reviewed on an ongoing basis. A change in an accounting estimate is 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.

3.14.1 Professional judgement

In the process of applying accounting policies to the items listed below, the greatest importance was attached to management's professional judgement, in addition to accounting estimates.

Allowance for overdue receivables

The Group revises its trade receivables at each balance sheet date. When determining the level of recoverability of trade receivables, account is taken of changes in their quality from the date of granting the trade credit to the date of preparing the financial statements.

During the financial period, allowances for receivables of PLN 40 thousand were recognised in accordance with IFRS 9.

Allowance for aged inventories in stock

At each balance sheet date, the Group analyses the ageing of inventories held in stock and makes an individual assessment of the price obtainable as at the balance sheet date. On that basis, it takes a decision to create an revaluation allowance.

In the financial period, the allowances on inventories in stock were increased by PLN 1,280 thousand.

The Group releases finished goods, previously held only as replacement products in the 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 inventories in stock will be used in the production process in the following financial year.

Allowance for perpetual usufruct of land

The Group did not recognise any impairment allowance for perpetual usufruct of land. That decision was made on the basis of a valuation report received from an independent valuer determining the fair value of the right of perpetual usufruct of land.

Timing of putting development projects into use

The Group settles development costs after the financial inspection by the supervising institution. On receipt of a positive official report confirming the completion of the project, the Group settles the related expenditure.

Expenditure on development financed from cash flows are settled after obtaining a positive outcome of the project. Where the development project is unsuccessful, as soon as the Company becomes aware of this fact, the related expenditure is taken to other operating costs.

3.14.2 Estimation uncertainty

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

Impairment of assets At each balance sheet date, the Group assesses whether there are any indications that any of its assets may be impaired. If this is the case, the Group estimates the recoverable amount of the asset. The Management Board verified the value of assets as at the balance sheet date and found no evidence of impairment.

Impairment of non-financial assets
In order to determine the value in use, the Management Board estimates the forecast cash flows and the rate at which the cash flows are discounted to the current value (see the subsection on the impairment of non-financial assets). In the process of estimating the present value of future flows, assumptions are made regarding the projected financial results. These assumptions relate to future events and circumstances. The actual realised values may differ from the estimated values, which may result in significant adjustments in the value of the Group's assets in subsequent reporting periods.

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

In accordance with IAS 19, the Group 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 of ± 0.5 p.p.
2. Change in the growth rate of future salaries of ± 0.5 p.p.
3. Change in the employee turnover ratio of ± 0.5 p.p.

The sensitivity analysis was carried out on the assumption that all other actuarial assumptions would remain unchanged. The results of the calculations are as follows:

Item (PLN thousand)	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	194	209	181	181	209	204	185
Disability severance payments	30	31	28	28	31	31	29
Unused holiday leaves	2,001	2,001	2,001	2,001	2,001	2,001	2,001
Total	**2,225**	**2,242**	**2,210**	**2,210**	**2,242**	**2,236**	**2,417**

Provisions for future complaints. In the financial period, a provision of PLN 596 thousand was recognised for possible costs of complaints to be incurred in 2023. Based on the professional judgement of the management, the provision is 0.85% of the sales revenue of 2022. If this level was 0.5 p.p. higher than the estimate, the provision would increase to PLN 947 thousand.

Provisions for disputed liabilities. No provision for possible future liabilities was recognised in the financial period.

Deferred tax assets. In 2022, the Group did not recognise any deferred tax related to the investment tax credit in connection with its business activities in the Tarnobrzeg Special Economic Zone (TSEZ) or other temporary differences due to the low likelihood of the asset being used during the life of the Economic Zone in Poland.

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

The fair value of financial instruments is based on the valuation of those instruments at the balance sheet date received from financial institutions. Other financial instruments are not measured at fair value as it is assumed that their fair value is substantially the same as their carrying amount.

Revenue recognition. The Group uses the percentage of completion method when accounting for long-term contracts for transactions in progress for the provision of services. Under this method, the Group is required to estimate the proportion of work completed to date to the overall work to be completed.

Depreciation and amortisation rates. The amount of depreciation and amortisation rates is determined on the basis of the expected economic useful life of tangible and intangible assets. Each year, the Group verifies the adopted periods of economic useful life 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 profit or loss are presented in the relevant notes.

3.15 Financial risk management objectives and policies

Apart from derivatives, the main financial instruments used by the Group include bank loans, cash and cash equivalents, trade and other receivables and liabilities and short-term deposits generated directly in the course of the Group's business. The main purpose of those financial instruments is to raise funds for activities of the Group's member entities.

The Group's policy is not to trade in financial instruments now or during the period covered by the audited financial statements.

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

The Management Board reviews and approves rules for managing each of those risks – those rules are briefly discussed below. The Group also monitors market price risk relating to all its financial instrument holdings. The size of this risk during the period is shown below.

Basic risk management principles

The Management Board is responsible for establishing a risk management framework and supervising identified risks. The Group's risk management rules are designed to identify and analyse the risks to which the Group is exposed, set appropriate limits and controls and monitor risks and risk appetite. Risk management rules and systems are reviewed regularly to take account of changing market conditions and changes in the Group's business. With appropriate training and established management standards and procedures, the Group seeks to build a stimulating and constructive control environment, in which all employees understand [...] their respective 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 Group's performance or the value of its financial instrument holdings. The objective of market risk management is to maintain and control the Group companies' exposure to market risk within approved parameters while seeking to optimise returns.

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

Other market risks relate to changes in interest rates on financial liabilities and cash and cash equivalents. Short-term trade receivables in foreign currency accounted for 99% of total trade receivables as at 31 December 2023, while short-term trade liabilities in foreign currency accounted for 40% of total trade liabilities as at that date (as at 31 December 2022: 95% and 45%, respectively).

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

Currency risk

The Group continuously analyses fluctuations in the EUR/PLN exchange rate. The table below shows the estimated sensitivity of the pre-tax profit to EUR exchange rate fluctuations (assuming no hedging through financial instruments):

Year ended 31.12.2023 (PLN thousand)	Impact on net profit	Impact on equity	Impact on net profit	Impact on equity
	EUR + 10%/- 10%*		USD + 10%/-10%	
Cash	+/- 17		+/ -54	
Loans and receivables	+/-1,296		+/ -313	
Trade liabilities	+/- 77		+/ -19	
Bank loans	+/- 5,132		+/-	
Total	**+/- 6,522**		**+/ -386**	
Year ended 31.12.2022 (PLN thousand)	**Impact on net profit**	**Impact on equity**	**Impact on net profit**	**Impact on equity**
	EUR + 10%/- 10%*		USD + 10%/-10%	
Cash	+/-36		+/-39	
Loans and receivables	+/-1,301		+/-1,386	

Trade liabilities	+/-322	+/-343
Bank loans	+/- 4,938	+/-5,261
Total	**+/-6,597**	**+/-7,029**

*The analysis for 2023 includes changes of 10% due to the assumption that the risk related to the possibility of fluctuations in the exchange rate of one currency in relation to another will not increase.

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

Assets (in PLN thousand)	31.12.2023	31.12.2022
Currency in EUR	13,127	13,804
Currency in USD	5,905	1,797
Currency in GBP	2	

Liabilities (in PLN thousand)	31.12.2023	31.12.2022
Currency in EUR	32,984	54,337
Currency in USD	189	307
Currency in GBP		51

Interest rate risk

Interest rate risk is mainly related to the Group's use of bank loans. Loans are based on variable interest rates which exposes the Group to the risk of changes in profit and cash flows. Due to the current level of borrowings, it is assumed that the effects of changes in interest rates had a moderate impact on the financial results for 2022.

For the purpose of interest rate sensitivity analysis, based on historical value changes and the knowledge and experience of financial markets, interest rate movements that are "reasonably possible" were (as at 31.12.2022) at -1/+1 percentage points for PLN with respect to bank loans.

PLN thousand	Impact on net profit	Impact on on equity	Impact on pre-tax profit	Impact on equity
	31.12.2023		31.12.2022	
	+ 1p.p./- 1p.p.		+ 1p.p./- 1p.p.	
Liabilities measured at amortised cost, including				
- bank and non-bank loans received	+/- 513		+ / -494	
EUR	+/-513		+ / -494	

Credit risk

The Management Board developed a credit policy whereby each customer's creditworthiness is assessed 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 Group regularly monitors the timeliness of payment of receivables, calls on customers to make payment in the event of delays and, as a last resort, proceeds to debt enforcement.

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

The largest customer in 2023 accounted for 10.2% (2022: 11.4%) of the Group's revenue. The balance due from the Company's largest customer accounts for 7.8% of total gross trade receivables at 31 December 2023 (31 December 2022: 14.7%). All receivables are repaid in accordance with written agreements. The Group does not see any material risk in this regard.

Maximum exposure to credit risk

Financial assets (in PLN thousand)	Carrying amount	
	31.12.2023	31.12.2022

Trade and other receivables	80,826	16,499
Cash and cash equivalents	2,462	2,258

Liquidity risk

Liquidity risk is the risk that the Group will have difficulties meeting its obligations associated with financial liabilities that are settled in cash or other financial assets. The Group's liquidity management is designed to ensure, to the greatest extent possible, that the Group always has sufficient liquidity to meet its obligations as they fall due, both in normal and emergency situations, without being exposed to unacceptable losses or to reputation risk.

The Group minimises liquidity risk through continuous debt collection, which ensures a constant inflow of cash. In addition, the Group controls and conducts activities to meet the terms and conditions of its bank loan agreements. To ensure funding for its operations, the Group relies on external financing – bank credit.

The Group's liquidity risk management tools include:

- Regular monitoring of cash needs and expenditures
- Continuous debt collection, which ensures a constant inflow of cash
- Steps designed to meet contractual conditions and covenants
- Using external sources of financing in the form of bank credit.

Liquidity risk

Specification (PLN thousand)	On demand	3 months	3 to 12 months	1 to 5 years	> 5 years
31.12.2023	**4,388**	**3,405**	**29,125**	**18,803**	
Interest bearing borrowings		3,405	29,125	18,803	
Trade and other liabilities	4,388				
31.12.2022	**6,505**	**3,222**	**18,106**	**28,057**	
Interest bearing borrowings		3,222	18,106	28,057	
Trade and other liabilities	6,505				

The Group assesses that in the context of its financial resources to the current debt, the liquidity risk is moderate.

Capital management

The Group's fundamental principle of its capital management policy is to maintain a solid capital base that will buoy confidence of investors, lenders and the market at large, thus ensuring the future growth of the Group companies. Capital management risk is the failure to achieve those objectives. The Group monitors changes in the shareholding structure, capital ratios and the level of dividends paid to shareholders.

The Group's objective is to achieve return on equity at a level satisfactory to shareholders. The Management Board monitors the return on equity, which is defined as operating profit to equity. The Management Board seeks to maintain a balance between the net profitability achievable with a higher leverage and the benefits and security achieved with a solid capital position.

For the reporting period from 1 January 2023 to 31 December 2023, net profitability, calculated as net profit for the reporting period to equity less net profit, was -1.75% (2022: 8.77%). The Company's debt ratio, calculated as the ratio of total borrowings to total equity, was 26% as at 31 December 2022 (2022: 33.9%).

No changes in the Group's approach to capital management took place during the reporting period from 1 January 2023 to 31 December 2023.

The Group also monitors its capital position using the leverage ratio, is calculated as net debt to total equity plus net debt. The Group's net debt includes interest-bearing borrowings, trade and other liabilities, less cash and cash equivalents.

Capital management

Specification (in PLN thousand)	31.12.2023	31.12.2022
Interest bearing borrowings	51,333	49,385
Trade and other liabilities	4,094	6,505
Less cash and cash equivalents	2,806	2,258
Net debt	**52,621**	**53,632**
Equity	198,180	138,524
Total equity	**198,180**	**138,524**

Specification (in PLN thousand)	31.12.2023	31.12.2022
Equity and net debt	**250,801**	**192,156**
Leverage	0.2098	0.2570

3.16 Comparability of financial data for the current and previous year

There were no significant changes to the accounting policy in 2023.

3.17 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:

Ref.	Description	1.01.2023 – 31.12.2023	1.01.2022 – 31.12.2022
1.	Average exchange rate of the National Bank of Poland at the balance sheet date	4.3480	4.6899
2.	Average exchange rate for the period	4.5283	4.6907
3.	Highest average exchange rate for the period	4.7895	5.0372
4.	Lowest average exchange rate for the period	4.3053	4.4879

The data of the statement of financial position were converted using the average exchange rate of the National Bank of Poland at the balance sheet date. Items of the income statement and the statement of cash flows 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.

4 Additional information and notes to the financial statements

4.1 Assets

4.1.1 Intangible assets

Changes in intangible assets (by type groups) in 2023

Specification (PLN thousand)	Completed development	Other (including computer software)	Total
Gross carrying amount as at 01.01.2023	**26,333**	**2,603**	**28,937**
Increases, due to:	15,739	349	16,088
- development projects completed and accepted	15,739		15,739
- purchase		349	349
Decreases, due to:	819		819
- liquidation	819		819
Gross carrying amount as at 31.12.2023	**39,541**	**2,952**	**44,206**
Amortisation as at 01.01.2023	**7,385**	**2,120**	**9,505**
Increases, due to:	5,052	550	5,602
- amortisation	5,052	550	5,602
Decreases, due to:	819		819
- liquidation	819		819
Amortisation as at 31.12.2023	**11,618**	**2,670**	**14,288**
Net carrying amount as at 31.12.2023	**27,923**	**282**	**29,918**

Changes in intangible assets (by type groups) in 2022

Specification (PLN thousand)	Completed development	Other (including computer software)	Total
Gross carrying amount as at 01.01.2022	**15,480**	**2,603**	**18,083**
Increases, due to:	13,026		13,026
- development projects completed and accepted	13,026		13,026
Decreases, due to:	2,173		2,173
- liquidation	2,173		2,173
Gross carrying amount as at 31.12.2022	**26,333**	**2,603**	**28,937**
Amortisation as at 01.01.2022	**6,015**	**1,571**	**7,586**
Increases, due to:	3,543	550	4,093
- amortisation	3,543	550	4,093
Decreases, due to:	2,173		2,173
- liquidation	2,173		2,173
Amortisation as at 31.12.2022	**7,385**	**2,120**	**9,505**
Net carrying amount as at 31.12.2022	**18,948**	**483**	**19,432**

Value and area of land in perpetual usufruct (right of use)

Property address	Land and mortgage register or file number	Plot area [m2] at 31.12.2022	Plot area [m2] at 31.12.2021	Value as at 31.12.2022 (PLN thousand)	Value as at 31.12.2021 (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
Total		10,674	10,674	3,050	3,050

In 2022, the Group did not conduct any research that would require the related costs to recognised in the statement of comprehensive income. All expenditure on development incurred in 2023 was capitalised in the statement of financial position.

The Group assesses that the following intangible assets are material in the context of its financial statements:

Specification (in PLN thousand)	Carrying amount as at 31.12.2023	Outstanding amortisation period (months)
Detection module technology with multi-element detectors	7,793	48
Technology of affordable infrared detectors SENSORS	7,409	48
Chip production and testing technology	1,794	60
Semiconductor materials technology	1,285	180
LWIR heterostructure technology	998	60
Acquisition system production technology	940	48
Production technology of photodiode type detectors	811	48

Specification (in PLN thousand)	Carrying amount as at 31.12.2022	Outstanding amortisation period (months)
Chip production and testing technology	2,243	60
Semiconductor materials technology	1,400	147
Acquisition system production technology	1,343	40
LWIR heterostructure technology	1,247	60
CHEQUERS technology	1,174	34
Production technology of photodiode type detectors	1,158	40
POTOK+ software	892	53
Exposure detector chip technology	863	24
Automatic machining and measurement technology	823	55
ACCORDS module technology	816	39

4.1.2 Leases

(in PLN)	As at 31.12.2023	As at 31.12.2022
Right of use	3,796,688.44	3,835,829.56
Lease liability	863,700.79	863,889.45
Financial costs of lease	50,796.70	50,807.18
Amortisation costs	39,141.12	39,141.12
Discount rate	5.88%	5.88%

(in PLN)	As at 31.12.2023	As at 31.12.2022
Lease payments:		
principal	188.66	178.18
interest	50,796.70	50,807.18

4.1.3 Property, plant and equipment

Specification (PLN thousand)	Buildings and structures	Machinery and devices	Means of transport	Other tangible assets	Tangible assets under construction	Total
Gross carrying amount as at 01.01.2023	**45,817**	**45,367**	**2,079**	**28,285**	**21,675**	**143,222**
Increases, due to:		19,201		6,642	1,568	27,411
- acquisition of tangible assets		169		70		208
- settlement of tangible assets under construction		19,032		6,572		25,604
- other					1,568	1,568
Decreases, due to:		144		185	20,700	21,029
- liquidation		144		185		329
- taking fixed assets into inventory					20,700	20,700
Gross carrying amount as at 31.12.2023	**45,817**	**64,453**	**2,079**	**34,741**	**2,543**	**149,604**
Depreciation as at 01.01.2023	**5,456**	**16,159**	**535**	**7,570**		**29,720**
Increases, due to:	1,221	3,995	399	2,688	1,221	8,302
- depreciation	1,221	3,995	399	2,688	1,221	8,302
Decreases, due to:		137		189		326
- liquidation		137		189		326
Depreciation as at 31.12.2023	**6,677**	**20,017**	**933**	**10,069**		**37,696**
Net carrying amount as at 31.12.2023	**39,140**	**44,407**	**1,146**	**24,672**	**2,543**	**111,908**

Changes in property, plant and equipment (by type groups) 2022

Specification (PLN thousand)	Buildings and structures	Machinery and devices	Means of transport	Other tangible assets	Tangible assets under construction	Total
Gross carrying amount as at 01.01.2022	**37,584**	**35,438**	**935**	**16,332**	**32,368**	**122,657**
Increases, due to:	8,233	10,091	1,704	12,014	18,464	50,506
- acquisition of tangible assets	8,233		1,704	545		10,482
- settlement of tangible assets under construction				11,469	18,464	29,933
Decreases, due to:		163	559	61	29,157	29,940
- liquidation		163	559	61		783
- taking fixed assets into inventory					29,157	29,157
Gross carrying amount as at 31.12.2022	**45,817**	**45,367**	**2,079**	**28,285**	**21,675**	**143,222**
Depreciation as at 01.01.2022	**4,290**	**12,816**	**782**	**5,550**		**23,438**

Specification (PLN thousand)	Buildings and structures	Machinery and devices	Means of transport	Other tangible assets	Tangible assets under construction	Total
Increases, due to:	1,166	3,481	312	2,075		7,034
- depreciation	1,166	3,481	312	2,075		7,034
Decreases, due to:		138	559	55		752
- liquidation		138	559	55		752
Depreciation as at 31.12.2022	**5,456**	**16,159**	**535**	**7,570**		**29,720**
Net carrying amount as at 31.12.2022	**40,360**	**29,207**	**1,545**	**20,714**	**21,675**	**113,502**

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

As at 01.01.2023	Expenditure incurred during the financial year	Settlement of expenditure						Impairment allowances	As at 31.12.2023
		Buildings premises and civil and water engineering facilities	Technical equipment and machines	Vehicles	Other tangible assets	Intangible assets	Other		
21,675	1,568		20,700						**2,543**

As at 01.01.2022	Expenditure incurred during the financial year	Settlement of expenditure						Impairment allowances	As at 31.12.2022
		Buildings, premises and civil and water engineering facilities	Technical equipment and machines	Vehicles	Other tangible assets	Intangible assets	Other		
32,368	18,464	8,042	9,593	53	11,469				**21,675**

Capitalised borrowing costs (in PLN thousand)

Specification	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Property, plant and equipment	290	240
Total	**290**	**240**

Capital expenditure in 2023 and planned expenditure for 2024

In the financial year of 2023, the Group incurred capital expenditures of PLN 22.7 million for the purchase of tangible assets and intangible assets (apart from expenditures for development in progress) (in 2022: PLN 36 million).

In 2024, there are plans to incur capital expenditures on the purchase of tangible assets related to increasing the level of sales, expanding development activities and increasing production efficiency.

Securities on tangible assets are described in Section 4.2.9 of this report.

The Group 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, Section 5.8 of the Report contains a description of numerous activities related to reducing energy and water consumption and protecting the environment.

Other information on tangible assets

The Group does not invest in real estate. As at the end of 2023, the Group has no significant non-depreciated fixed assets used under rental, lease or hire purchase agreements.

As at the balance sheet date, the Group had depreciated and still used tangible assets in the amount of PLN 9.4 million.

4.1.4 Investments in jointly controlled entities

Company name, legal form, headquarters	Value of shares at purchase price (in PLN thousand)	Revaluation adjustments	Carrying amount of shares (in PLN thousand)	Percentage of shares held	Percentage of votes held
VIGO Ventures ASI Sp. z o.o. ul. Marszałkowska 126/134, 00-008 Warszawa	14,631	-1,983	12,648	50%	50%

The data from the standalone financial statements of VWI for 01.01.2022-31.12.2022 are as follows (in PLN thousand):

Equity	Share capital	Other capitals	Net profit/ loss	Value of assets	Non-current assets	Current assets	Value of liabilities	Value of revenues
33,404	7,705	24,473	1,226	33,579	33,334	246	176	3,173

Cash	Long-term financial liabilities	Short-term financial liabilities	Depreciation/amortisation	Interest income	Interest costs	Total costs	Total revenue
210			14	81		1,945	3,172

The data from the standalone financial statements of VVASI for 01.01.2022-31.12.2022 are as follows (in PLN thousand):

Equity	Share capital	Other capitals	Net profit/ loss	Value of assets	Non-current assets	Current assets	Value of liabilities	Value of revenues
4,708	1,658	3,215	-164	4,796		4,796	88	117

Cash	Long-term financial liabilities	Short-term financial liabilities	Depreciation/ amortisation	Interest income	Interest costs	Total costs	Total revenue
533		26		117	1	260	117

In 2021, the Group formed VIGO Photonics USA (the Group's own representative office in the United States) and in 2023 granted it a working capital loan of PLN 1.7 million.

4.1.5 In-process development expenditure and prepayments

Development expenditure (in PLN thousand)	31.12.2023	31.12.2022
Sensors for Industry 4.0 and IoT		15,202
Epitaxial structures and VCSELs	10,634	10,429
DEMETER	4,471	4,471
Travel	382	373
WidePower Optoelectronic Systems	6,892	4,874
Matrices	10,694	6,354
Pemir	893	822
Car2Tera	86	77
Wikinet		533
Triage	1,443	1,365
Ingaas With Asic	12,229	6,829
AI PRISM	368	40
IBAIA	385	
LWIRPSBDA	115	
CHIPS	101	96

Development expenditure (in PLN thousand)	31.12.2023	31.12.2022
LN2 DETECTORS	776	26
TOXX LWIR DETECTORS	352	63
TOXX MWIR DETECTORS	824	444
CERTIFICATION OF NEW SUPPLIERS OF REFRIGERATORS	546	125
DEDICATED MODULES	81	37
NDIR	217	72
PHOTOGENIC	1,910	263
OPMMEG	1,031	
MiniBot	1,033	
BROMEDIR	355	
FOSMO	194	
SMD	286	82
SOMBRERO	467	125
GIGA	14	
TMD	771	398
TOP20	1,442	344
VIGO Production Supervision	236	
Development expenditure, including:	**59,225**	**53,444**
long term	59,225	53,444
short term		

Other prepayments (PLN thousand)	31.12.2023	31.12.2022
- property insurance	272	242
- subscriptions, charges		571
- invoices to be settled in the new period		47
- membership fees	8	7
- advance invoices	933	105
– other	48	95
Prepaid expenses:	**1,261**	**1,068**
long term	53	
short term	1,208	1,068

A detailed description of in-process research and development is provided in Section 5.3 of the Report.

4.1.6 Inventories

Specification (in PLN thousand)	31.12.2023	31.12.2022
Materials for production	6,893	9,644
Deliveries en route	503	131
Semi-finished products and work in progress	767	1,015
Finished products	6,161	5,502
Gross inventories	**14,422**	**16,292**
Impairment allowance on inventories	2,291	1,011
Net inventories	**12,033**	**15,281**

Inventory ageing analysis for 01.01.2023-31.12.2023

Specification (in PLN thousand)	Aged inventories in days					Total
	1-180	181-365	366-548	549-730	over 730	
Materials (gross)	3,468	1,126	1,403	322	572	6,891
Materials (allowances)		215	702	242	572	1,731
Materials, net	**3,468**	**911**	**701**	**80**	**-**	**5,160**
Semi-finished products and work in progress (gross)	321	173	229	11	33	767
Semi-finished products and work in progress (allowances)			114	8	33	156
Semi-finished products and work in progress (net)	**321**	**173**	**115**	**3**	**-**	**611**
Finished products (gross)	647	289	153	137	225	1,451
Finished products (allowances)			77	103	225	405
Deviations from fixed prices	2,909	897	477	430		4,713
Finished products (net)	**3,556**	**1,186**	**553**	**464**	**-**	**5,759**
Advances on deliveries	**503**					**503**
Total inventories	**7,848**	**2,270**	**1,369**	**547**	**-**	**12,033**

Inventory ageing analysis for 01.01.2022-31.12.2022

Specification (in PLN thousand)	Aged inventories in days					Total
	1-180	181-365	366-548	549-730	over 730	
Materials (gross)	7,915	885	241	109	494	9,644
Materials (allowances)			121	82	494	697
Materials, net	**7,915**	**885**	**121**	**27**	**0**	**8,948**
Semi-finished products and work in progress (gross)	872	47	41	20	35	1,015
Semi-finished products and work in progress (allowances)			21	15	35	70
Semi-finished products and work in progress (net)	**872**	**47**	**21**	**5**	**0**	**945**
Finished products (gross)	1,678	246	129	83	117	2,253
Finished products (allowances)			65	62	117	244
Deviations from fixed prices	2,048	514	270	173	245	3,249
Finished products (net)	**3,726**	**760**	**334**	**193**	**245**	**5,258**
Advances on deliveries	**131**					**131**
Total inventories	**12,644**	**1,692**	**476**	**225**	**245**	**15,281**

Change in inventory allowances

Specification (in PLN thousand)	Allowances on materials	Allowances on semi-finished products and work in progress	Allowances on finished products	Total allowances on inventories
Status as at 01.01.2023	**697**	**70**	**244**	**1,011**
Increases, including:	**1,033**	**86**	**161**	**1,280**
- recognition of allowances in correspondence with other operating costs	1,033	86	161	1,280
Status as at 31.12.2023	**1,730**	**156**	**405**	**2,291**
Status as at 01.01.2022	**417**	**20**		**437**
Increases, including:	**280**	**50**	**244**	**574**

Specification (in PLN thousand)	Allowances on materials	Allowances on semi-finished products and work in progress	Allowances on finished products	Total allowances on inventories
- recognition of allowances in correspondence with other operating costs	280	50	244	574
Status as at 31.12.2022	**697**	**70**	**244**	**1,011**

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

- Holding items withdrawn from production by suppliers for the purposes of their maintenance service
- Holding items used for orders that appear only rarely but in large quantities
- Items which are used for infrequent orders with special parameters.

Finished products staying in stock for more than 365 days are surplus products manufactured during the minimum technological process series. They 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 inventories in stock will be consumed in the production process in 2024.

Finished products are kept in stock for the following reasons:

- To cater to high-volume production orders
- To have 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
- As a result of manufacturing of products in larger batches in order to reduce the price for the customer, with a part of the batch being sold immediately and the rest within the following few months.

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

- Recognised in the cost of production of direct materials: PLN 11,773 thousand, with indirect costs and other costs at PLN 26,612 thousand.

In the reporting period, no inventories were recognised as goods sold.

The Group's inventories are not subject to any pledge or lien.

4.1.7 Receivables

Specification (in PLN thousand)	31.12.2023	31.12.2022
Trade receivables	**15,934**	**14,256**
- from other entities	15,934	14,256
Impairment allowances	30	80
Gross trade receivables	**15,964**	**14,336**

Change in impairment allowance on trade receivables

Specification (in PLN thousand)	31.12.2023	31.12.2022
Impairment allowance on trade receivables at the beginning of the period	**80**	**40**
Increases, including:	**129**	**222**
- allowances on overdue and disputed receivables	129	195
- allowances on uncollectible receivables	**179**	27
Decreases, including:	179	**181**
- reversal of allowances, repayment of receivables	**30**	181
Impairment allowance on trade receivables from other entities at the beginning of the period	**80**	**80**

Change in allowances on other financial receivables

Specification (in PLN thousand)	Loan impairment allowances	Total impairment allowances on other financial receivables
Status as at 01.01.2023	**693**	**693**
Increases, including:	**1,195**	**1,195**
- recognition of allowances in correspondence with other operating costs	1,195	1,195
Decreases, including:	112	112
- reversal of allowances in correspondence with other operating income	112	112
Status as at 31.12.2023	**1,082**	**1,082**
Status as at 01.01.2022		**558**
Increases, including:		**135**
- recognition of allowances in correspondence with other operating costs		135
Status as at 31.12.2022		**693**

Specification (in PLN thousand)	31.12.2023	31.12.2022
Other receivables, including:		
- on account of taxes	1,709	2,132
- other	196	94
- called up share capital	62,694	
Other financial receivables, gross	**64,599**	**2,226**
Other financial receivables		**16**
- loans granted	80	16
Gross financial receivables	80	**2,242**

Currency structure of gross short-term receivables (in PLN thousand)	31.12.2023	31.12.2022
in Polish currency	**64,486**	**982**
in foreign currencies (by currency and after conversion to PLN)	**16,370**	**14,336**
EUR	2,980	2,452
after conversion to PLN	**12,955**	**11,499**
USD	868	931
after conversion to PLN	**3,415**	**4,098**
GBP	0	
after conversion to PLN	**2**	
Total short-term receivables	**80,856**	**16,579**

Structure of receivables

Specification (in PLN thousand)	Total	Up to date	Overdue in days				
			up to 1 month	up to 3 months	up to 6 months	up to 12 months	over 12 months
31.12.2023							
Trade receivables	15,994	13,778	1,028	1,100	2	56	30
impairment allowances	30	30					
Other receivables	65,974	65,974					
impairment allowances	1,082	1,082					
Total	**80,856**	**78,640**	**1,028**	**1,100**	**2**	**56**	**30**
31.12.2022							
Trade receivables	14,337	11,706	1,622	476	430	91	12
impairment allowances	80	80					
Other receivables	2,242	2,242					
impairment allowances							
Total	**16,499**	**13,868**	**1,622**	**476**	**430**	**91**	**12**

Due to the issue of shares described in point 4.15 of this report in 2023, PLN 62,694 thousand was recorded as receivables in respect of called up share capital.

The amount of the receivables is based on the standard payment terms granted by the Group to customers. In the opinion of the Group's Management Board, there is no significant risk of non-payment of the above receivables.

4.1.8 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 Group 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 profit or loss 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 established on the basis of current prices from an active market at the balance sheet date.

4.1.9 Cash and cash equivalents

Specification (in PLN thousand)	31.12.2023	31.12.2022
Cash at bank:		
Bank PLN	2,090	1,816
Bank EUR	39	39
converted into PLN	172	184
Bank USD	139	59
converted into PLN	545	258
Total	**2,806**	**2,258**

The difference between the change in cash in the statement of financial position and the change in this item presented in the statement of cash flows is due to negative exchange differences – presented as a FX gain of PLN 20 thousand based on the balance sheet valuation as at 31.12.2023.

Restricted cash:

Specification (in PLN thousand)	31.12.2023	31.12.2022
Cash received for development projects	1,650	1,116
Total	**1,650**	**1,116**

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

Specification (in PLN thousand)	31.12.2023	31.12.2022
Cash in the Social Fund	53	85
Total	**53**	**85**

4.2 Equity and liabilities

4.2.1 Share capital (structure)

Series/issue	Type of shares	Type of share preference	Type of limitation of rights to shares	Number of shares	Nominal value of the series/ issue (in PLN)	Method of capital coverage	Date of registration	Right to dividend (as of the date)
Series A	bearer shares	the shares are not preference shares	none	547,000	547,000	from the transformation of share capital	20.02.2002	in accordance with the Commercial Companies Code
Series C	bearer shares	the shares are not preference shares	none	147,000	147,000	private placement	29.09.2010	in accordance with the Commercial Companies Code
D series	bearer shares	the shares are not preference shares	none	35,000	35,000	public issue	15.12.2014	in accordance with the Commercial Companies Code
Total number of shares								729,000
Total share capital								729,000
Nominal value of a 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)	31.12.2023	31.12.2022
Share premium account	71,075	8,865
Total	**71,075**	**8,865**

4.2.3 Revaluation reserve

Specification (in PLN thousand)	31.12.2023	31.12.2022
Revaluation reserve	108	99
Total	**108**	**99**

4.2.4 Profit (loss) of the current period

Specification (in PLN thousand)	31.12.2023	31.12.2022
Profit (loss) of the current period	-2,981	7,219
Total	**- 2,981**	**7,219**

4.2.5 Other capitals

Other capitals (profit/loss carried forward and previous year’s profit not paid out in the form of dividend) are aimed at maintaining the ability to continue as a going concern, taking into account the implementation of planned investments, so that the Group can generate returns for shareholders and bring benefits to other stakeholders.

Conditional supplementary capital was created in connection with the incentive programme for key employees of the Group.

Specification (in PLN thousand)	31.12.2023	31.12.2022
Retained earnings	121,526	90,987
Previous year's profit not distributed as dividend	7,219	30,510
Contingent capital increase (incentive scheme)	29	29
Total	**129,249**	**121,526**

Change in other capitals:

Specification (in PLN thousand)	Retained earnings	Undistributed profit	Total
01.01.2023	**121,526**		**121,526**
Increases in the period	**7,646**		**7,646**
Allocation of the 2022 net profit to retained earnings	7,223		7,223
Differences from revaluation	423		423
Decreases in the period	**8**	**7,219**	**7,227**
Allocation of the 2022 net profit to retained earnings	**8**	**7,219**	**7,227**
Correction of errors from previous years	8		8
31.12.2023	**129,249**		**129,249**
01.01.2022	**91,148**		**91,148**
Increases in the period	**30,510**		**30,510**
Allocation of the 2021 net profit to retained earnings	30,510		30,510
Decreases in the period	**132**	**30,510**	**30,642**
Allocation of the 2021 net profit to retained earnings		30,510	30,510
Adjustment to the profit/loss from previous years	85		85
Contingent capital increase (incentive scheme)	47		47
31.12.2022	**121,526**		**121,526**

4.2.6 Amounts not payable as dividends

Specification (in PLN thousand)	31.12.2023	31.12.2022
Capital under Commercial Companies Code - 1/3 of share capital	243	243
Adjustments due to conversion from the Polish GAAP to IFRS/IAS	2,090	2,090
Share premium account	71,075	8,866
Total equity	**73,408**	**11,199**
Completed development	41,267	26,347
Development expenditure	59,225	53,444
Total development not settled	**100,492**	**79,791**

Specification (in PLN thousand)	31.12.2023	31.12.2022
Total	**185,099**	**90,990**

4.2.7 Earnings per share

Calculation of earnings per share – assumptions (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Net profit from continuing operations	-2,981	7,219
Net profit attributable to ordinary shareholders used to calculate diluted earnings per share	-2,981	7,219
Profit presented for the purpose of calculating diluted earnings per share	-2,981	7,219

Number of shares issued	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Weighted average number of shares used to calculate basic earnings per share	729,000	729,000
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	729,000	729,000
Earnings per share (in PLN)	-4.09	9.90

To calculate basic and diluted profit/loss, the numerator was -2,981 and the denominator was 729.

Proposed profit distributions (loss cover) for the financial year:

The 2022 net profit of PLN 7,219 thousand was fully allocated to the supplementary capital.

The Management Board will make recommendations regarding the 2023 profit distribution after analysing the Group's current financial situation.

4.2.8 Provisions

Specification (in PLN thousand)	31.12.2023	31.12.2022
Provisions for retirement and disability severance payments	224	187
Provisions for holiday leaves	2,001	1,950
Total, including:	**2,225**	**2,138**
- long-term	204	184
- short term	2,021	1,953

Changes in provisions for pensions and similar benefits

Specification (in PLN thousand)	Provisions for retirement and disability severance payments	Provisions for holiday leaves
As at 01.01.2023	**187**	**1,950**
Provisions raised	40	51
Provisions released	3	
Balance as at 31.12.2023, including:	**224**	**2,001**
- long-term	204	
- short term	20	2,001
As at 01.01.2022	**272**	**1,671**
Provisions raised		280
Provisions released	84	
Balance as at 31.12.2022, including:	**187**	**1,950**
- long-term	184	0
- short term	3	1,950

Specification (in PLN thousand)Provisions for retirement and disability severance payments	2023	2022
Present value of obligation at the beginning of the period	**187**	**272**
Current service cost	34	28
Interest expense	6	10
Actuarial gains/ losses due to changes in demographic assumptions	-3	-123
Present value of obligation at end of the period	**224**	**187**

Present value of obligation at end of the period	**187**	**272**

The Group has an employee share scheme.

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

The incentive scheme is based on the following key assumptions:

1. The aim of the Incentive Scheme is to introduce additional mechanisms to motivate members of the Management Board and key employees of the Group and its subsidiaries (excluding employees of Vigo We Innovation sp. z o.o. with its registered office in Warsaw) to undertake activities to boost the GroupGroup's organic growth and to achieve the highest possible financial results in the long term. Moreover, the Incentive Scheme is to help create long-term ties between the Company and members of the Management Board and key employees of the Company and its subsidiaries, which will ensure a high level of professionalism in conduct of the Group's and its subsidiaries' affairs.

2. Participants of the Incentive Scheme will be granted free subscription warrants series A and B issued to their names, entitling them to take up not more than 29,160 (twenty-nine thousand one hundred and sixty) ordinary series E bearer shares with a nominal value of PLN 1.00 (one zloty) each.

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

4. Participating in the Incentive Scheme will be members of the Group's Management Board and key employees of the Group and its subsidiaries (except for Vigo We Innovation sp. z o.o. with its registered office in Warsaw) selected by the Group's Management Board after consulting the Supervisory Board from amongst directors and deputy directors or other employees responsible for the implementation of the Group's strategic initiatives and employees of the subsidiaries holding managerial functions (except for Vigo We Innovation sp. z o.o. with its registered office in Warsaw).

In connection with the Incentive Scheme, the Extraordinary General Meeting (EGM) adopted resolutions on the following matters:

a) Rules of the Incentive Scheme (“Rules”) and authorised and obliged the Group’s Management Board and the Supervisory Board to take all actions necessary for the implementation and proper execution of the Incentive Scheme, particularly the relevant actions laid down in the Rules.

b) Issue of maximum 29,160 registered subscription warrants of series A and B, including 11,664 series A Warrants allocated to the members of the Management Board of the Group (40% of the Warrants) and 17,496 Series B Warrants allocated to the persons selected from among the Key Employees (60% of the Warrants) within three stages of the Incentive Scheme, subject to the registration of amendments to the Group’s Articles of Association related to the conditional increase of the Group’s share capital as a result of the issue of the Shares.

c) Disapplication of the existing shareholders’ pre-emptive rights to the Warrants.

d) Conditional increase of the Group's share capital by maximum PLN 29,160 by way of an issue of the Shares, i.e. maximum 29,160 series E ordinary bearer shares with a nominal value of PLN 1.00 (one zloty) each.

e) Disapplication of the existing shareholders’ pre-emptive rights to the Shares.

f) Holders of the Warrants will be entitled to: a) acquire the Shares in a number equal to the number of Warrants they hold, at the Issue Price of PLN 655.89 (six hundred and fifty-five PLN and 89/100), corresponding to the volume-weighted average price of the Group's shares on the regulated market operated by the Warsaw Stock Exchange from 1 June 2020 to 31 August 2021 with a 10% discount or b) acquire the Shares only from a part of the Warrants held, at the nominal price of the Shares of PLN 1.00 (one zloty), provided that the transfer to the Group free of charge remaining Warrants held so that they could be cancelled, determining the number of the Shares which may be acquired and at the same time the number of the Warrants which will be subject to cancellation according to the following formulas:

$S = W \times (MP – IP) / MP$

$C = W – S$

where: S - the number of Shares which the Warrant Holder may acquire at the nominal price of the Shares

W - the number of Warrants held by the Warrant Holder

MP - the market price of the Group's shares corresponding to the closing price of the Group's shares at the Warsaw Stock Exchange on the day preceding the day on which the Warrant Holder submits the Warrant Holder's Share Acquisition Statement

IP- the Issue Price C - the number of Warrants to be cancelled.

g) Amendments to § 7 of the Group’s Articles of Association by adding subsection 1a - 1d (after § 7(1)) in relation to the conditional share capital increase, with the Group's Supervisory Board being authorised to determine the consolidated text of the amended Group's Articles of Association.

h) Establishment of a capital reserve of PLN 15,300,601 for the financing of the acquisition of the Group’s E series shares.

i) The principles of the Group’s financing of the acquisition of the Group's Shares under the Incentive Scheme.

j) Consent for the Group to enter into agreements with members of the Group’s Management Board in order to finance the acquisition of the Shares.

In 2023, the Group did not recognise any amount in remuneration costs related to the fulfilment of the incentive scheme criteria for 2023.

Costs recognised in the income statement for retirement and disability severance payments

Specification (in PLN thousand)	2023	2022
Current service cost	34	34
Interest expense	6	10
Total income statement	**40**	**44**
Actuarial gains/ losses due to changes in demographic assumptions	-3	-123
Total other comprehensive income	**37**	**-79**

Presented below are the main assumptions adopted by the actuary at the balance sheet date to calculate the liability:

Specification	31.12.2023	31.12.2022
Discount rate (%)	5.20%	6.80%
Staff turnover rate (%)	6.00%	5.00%
Expected salary increase rate (%)	5.00%	13.10%

Sensitivity analysis for the provision recognised at the balance sheet date

Specification (in PLN thousand)	-0.50%	+0.50%
Discount rate (%)	2,242	2,210
Expected salary growth rate	2,210	2,242
Anticipated turnover rate (%)	2,236	2,215

The table shows the potential balance of the provision due to changes in the above rates.

In the time periods presented below, the following payments from the defined benefit plan are expected:

Specification (in PLN thousand)	31.12.2023	31.12.2022
Next year	3	4
Between 1 and 5 years	55	60
Above 5 years	2,367	2,833

Other provisions

Specification (in PLN thousand)	31.12.2023	31.12.2022
Provision for Q4 bonuses	1,462	1,375
Provisions for warranty repairs and returns	596	584
Provision for the audit of financial statements	47	38
Other provisions		3
Total, including:	**2,105**	**2,000**
- short term	2,105	2,000

Change in other provisions

Specification (in PLN thousand)	Provisions for warranty repairs and returns	Other provisions	Total
As at 01.01.2023	**584**	**1,416**	**2,000**
Recognised during the financial year	164	134	298
Released	152	41	193
Balance as at 31.12.2023, including:	**596**	**1,509**	**2,105**
- short term	596	1,509	2,105
As at 01.01.2022	**607**	**2,336**	**2,943**
Recognised during the financial year	20		20
Released	44	919	962

Specification (in PLN thousand)	Provisions for warranty repairs and returns	Other provisions	Total
Balance as at 31.12.2022, including:	**584**	**1,416**	**2,000**
- short term	584	1,416	2,000

4.2.9 Credit agreements and long-term liabilities

Bank loans, as at 31.12.2023

Lender and loan type	Loan amount under the agreement (PLN k/ EUR k)	Loan balance (PLN k/ EUR k)	Nominal interest rate	Maturity date	Security
ING Bank Śląski - corporate FX investment loan	EUR 5,800	EUR 950	1M EURIBOR + margin	31.03.2026	described below
ING Bank Śląski - corporate FX investment loan	EUR 3,600	EUR 1,199	1M EURIBOR + margin	31.12.2026	described below
ING Bank Śląski - corporate FX investment loan	EUR 2,000	EUR 1,167	1M EURIBOR + margin	31.03.2026	described below
ING Bank Śląski - corporate FX investment loan	EUR 5,950	EUR 4,095	1M EURIBOR + margin	21.06.2028	described below
ING Bank Śląski - working capital facility (overdraft)	EUR 5,500	EUR 4,357	1M EURIBOR + margin	possible extension of the agreement	described below

Bank loans, as at 31.12.2022

Lender and loan type	Loan amount under the agreement (PLN k/ EUR k)	Loan balance (PLN k/ EUR k)	Nominal interest rate	Maturity date	Security
ING Bank Śląski - corporate FX investment loan	EUR 5,800	EUR 1,831	1M EURIBOR + margin	31.03.2026	described below
ING Bank Śląski - corporate FX investment loan	EUR 3,600	EUR 1,670	1M EURIBOR + margin	31.12.2026	described below
ING Bank Śląski - corporate FX investment loan	EUR 2,000	EUR 1,625	1M EURIBOR + margin	31.03.2026	described below
ING Bank Śląski - corporate FX investment loan	EUR 5,950	EUR 3,347	1M EURIBOR + margin	21.06.2028	described below
ING Bank Śląski - working capital facility (overdraft)	EUR 5,500	EUR 2,050	1M EURIBOR + margin	possible extension of the agreement	described below

a. Agreement for a corporate FX loan to finance the investment and to refinance the capital expenditures incurred by the Group under the investment.

Loan of EUR 5,800,000.00 (the loan amount and sanction/ maturity date were amended by Annex 1 of 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 facility bears a floating interest rate determined by the Bank based on EURIBOR for 1-month interbank deposits increased by the Bank's margin.

The parties agreed on the following security:

a) Contractual mortgage up to EUR 25,350,000.00 established on: (i) the Company's perpetual usufruct of land and freehold of the building situated on that land, located in Ożarów Mazowiecki at ul. Poznańska, entered into the land and mortgage register No. WA1P/00087633/6, (ii) the Company's perpetual usufruct right of the land and ownership of the equipment situated on that land, located in Ożarów Mazowiecki at ul. Poznańska, entered into the land and mortgage register No. WA1P/00082343/1, (iii) the Company's perpetual usufruct right of the land (and the freehold of the building currently being developed on the land) located in Ożarów Mazowiecki at ul.

Poznańska, entered into the land and mortgage register No. WA1P/00083348/3. The mortgage will be established within 180 calendar days from the conclusion of the Agreement.

b) Assignment of rights from the insurance policy of the security item described in point a).
c) A blank promissory note of the Group together with a promissory note declaration.
d) Registered pledge on machinery and equipment purchased as part of the Investment.
e) Assignment of rights from the insurance policy of the security item described in point d).
f) Assignment of rights from the insurance policy against construction/ installation risks under the contract.
g) Other terms of the agreement are in accordance with the customary market conditions applicable to such agreements.

b. Corporate FX 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 facility is granted from the date of its availability to 31.12.2026.

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

The parties agreed on the following security:

a) Contractual mortgage up to EUR 25,350,000.00 established on: (i) the Company's perpetual usufruct of land and freehold of the building situated on that land, located in Ożarów Mazowiecki at ul. Poznańska, entered into the land and mortgage register No. WA1P/00087633/6, (ii) the Company's perpetual usufruct right of the land and ownership of the equipment situated on that land, located in Ożarów Mazowiecki at ul. Poznańska, entered into the land and mortgage register No. WA1P/00082343/1, (iii) the Company's perpetual usufruct right of the land (and the freehold of the building currently being developed on the land) located in Ożarów Mazowiecki at ul. Poznańska, entered into the land and mortgage register No. WA1P/00083348/3. The mortgage will be established within 180 calendar days from the conclusion of the Agreement.
b) Assignment of rights from the insurance policy of the security item described in point a).
c) Registered pledge on machinery and equipment purchased as part of the Investment.
d) Assignment of rights from the insurance policy of the security item described in point c).
e) Power of attorney to use the funds held in all accounts opened and maintained by the Bank (now and in the future) in favour of the Group, denominated in PLN, EUR and USD.
f) Group's statement on submission to debt enforcement proceedings (issued under Article 777(1)(5) of the Code of Civil Procedure) for up to EUR 5,400,000.00.
g) Other terms of the agreement are in accordance with the customary market conditions applicable to such agreements.

c. Corporate FX loan agreement for investment financing

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

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

The parties agreed on the following security:

a) A joint contractual mortgage up to EUR 25,350,000.00 on the perpetual usufruct right of land, together with the buildings, located in Ożarów Mazowiecki.

b) Assignment of rights from the insurance policy of the real properties held as security.

c) Statement on submission to debt enforcement proceedings for up to EUR 3,000,000.00.

d) Power of attorney to use the funds held in all accounts opened and maintained by ING Bank Śląski S.A. (now and in the future), denominated in PLN, EUR and USD.

e) Assignment of rights from the General Contractor's construction risks insurance policy – at least for the amount corresponding to the value of the General Contractor's works.

f) Registered pledge on machinery and equipment purchased during the investment.

g) Assignment of rights from the insurance policy for the machinery and equipment.

d. Corporate FX loan agreement for investment financing

Facility of EUR 5,950,000.00 to finance investments and refinance capital expenditures incurred. The facility is granted for the period from 29.03.2019 to 31.03.2026.

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

The parties agreed on the following security:

a) A joint contractual mortgage up to EUR 25,350,000.00 on the perpetual usufruct right of land, together with the buildings, located in Ożarów Mazowiecki.

b) Assignment of rights from the insurance policy of the real properties held as security.

c) Statement on submission to debt enforcement proceedings for up to EUR 3,000,000.00.

d) Power of attorney to use the funds held in all accounts opened and maintained by ING Bank Śląski S.A. (now and in the future), denominated in PLN, EUR and USD.

e) Assignment of rights from the General Contractor's construction risks insurance policy – at least for the amount corresponding to the value of the General Contractor's works.

f) Registered pledge on machinery and equipment purchased during the investment.

g) Assignment of rights from the insurance policy for the machinery and equipment.

e. Agreement for a working capital facility (overdraft).

Facility of EUR 5,500,000.00 to finance investments and refinance capital expenditures incurred. The facility is granted for the period from 29.03.2019 with an extension option (to be amended on 21.12.2023).

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

The parties agreed on the following security:

a) A joint contractual mortgage up to EUR 25,350,000.00 on the perpetual usufruct right of land, together with the buildings, located in Ożarów Mazowiecki.

b) Assignment of rights from the insurance policy of the real properties held as security.

c) Statement on submission to debt enforcement proceedings for up to EUR 3,000,000.00.

d) Power of attorney to use the funds held in all accounts opened and maintained by ING Bank Śląski S.A. (now and in the future), denominated in PLN, EUR and USD.

e) Assignment of rights from the General Contractor's construction risks insurance policy – at least for the amount corresponding to the value of the General Contractor's works.

f) Registered pledge on machinery and equipment purchased during the investment.

g) Assignment of rights from the insurance policy for the machinery and equipment.

Maturity structure of borrowings

Specification (in PLN thousand)	31.12.2023	31.12.2022
	value in PLN	value in PLN
Short-term borrowings	32,530	21,326
Long-term borrowings	18,803	28,057
- maturing between 1 to 3 years	16,520	25,129
- maturing between 3 to 5 years	2,283	2,928
Total borrowings	**51,333**	**49,384**

Loans currency structure

Specification (in PLN thousand)	31.12.2023		31.12.2022	
	value in foreign currency	value in PLN	value in foreign currency	value in PLN
PLN		15		7
EUR	11,766	51,318	10,523	49,350
USD			6	27
Total borrowings		**51,333**		**49,384**

Committed loans

Lender and loan type	Loan amount under the agreement (PLN k/ EUR k)	Amount committed as at 31.12.2022 (PLN k/EUR k)	Amount committed at 31.12.2021 (PLN k/EUR k)
ING Bank Śląski - corporate FX investment loan	EUR 5,950		EUR 2,603
ING Bank Śląski - working capital facility (overdraft)	EUR 5,500	EUR 1,143	EUR 3,450

Table of credit facility movements in 2023 (PLN thousand)

Loan amount	as at 01.01.2023	+/- principal	+ accrued interest/- accrued interest paid	+ valuation (decrease in liability)/- valuation (increase in liability)	as at 31.12.2023
EUR 5,800	8,585	-/-4 009	+277/-259	+448/-	4,147
EUR 3,600	7,832	-/-2 143	+270/-248	+478/-	5,233
EUR 2,000	7,621	-/-2 083	+270/-247	+465/-	5,096
EUR 5,950	15,698	+5,708/-2,213	+860/-779	+1,388/-	17,886
EUR 5,500	9,614	+9,596/-	+667/-654	+267/-	18,956
overdraft	7	+15/7			15
Total	**49,357**	**+15,311/-10,448**	**+2,344/-2,187**	**+3,046/-**	**51,333**

Table of credit facility movements in 2022 (PLN thousand)

Loan amount	as at 01.01.2022	+/- principal	+ accrued interest/- accrued interest paid	+ valuation (decrease in liability)/- valuation (increase in liability)	as at 31.12.2022
EUR 5,800	12,472	-/-4 124	+135/-135	+349/-111	8,585
EUR 3,600	10,046	-/-2 410	+118/-118	+201/-6	7,832
EUR 2,000	6,993	+2,186/-1,765	+143/-143	+210/-3	7,621
PLN 6,000	4,270	-/-4 270	+128/-128	-/-	
EUR 5,950		+15,892/-	+129/-129	+6/-200	15,698
EUR 5,500		+9,614/-	+101/-101	-/-	9,614
overdraft	29	+34/-29			34
Total	**33,810**	**+27,726/-12,598**	**+754/-754**	**+766/-320**	**49,384**

Other long-term liabilities

The Group has no long-term liabilities other than bank loans, grants and provisions.

Loans and guarantees granted

In 2023, VIGO Photonics did not grant any loans. In 2022, VIGO Photonics also granted a working capital loan of PLN 0.5 million to VIGO Photonics Taiwan.

4.2.10 Trade and other liabilities

Specification (in PLN thousand)	31.12.2023	31.12.2022
Liabilities on account of other taxes, duties, social security and other, except for CIT, including:	**1,083**	**930**
Personal income tax	286	270
Social security (ZUS) contributions	767	633
PFRON [State Fund for Rehabilitation of the Disabled]	30	28
Other liabilities	**217**	**366**
Other liabilities	137	302
Liabilities towards employees on account of salaries	80	64
Total other liabilities	**1,300**	**1,296**

Currency structure of short-term liabilities

Short-term liabilities (currency structure) in 2023 (in PLN thousand)	Amount

a) in Polish currency	**3,140**
b) in foreign currencies (by currency and after conversion to PLN)	**955**
EUR	176
after conversion to PLN	**766**
USD	48
after conversion to PLN	**189**
Total short-term liabilities	**4,094**

Short-term liabilities (currency structure) in 2022 (in PLN thousand)	Amount
a) in Polish currency	**2,890**
b) in foreign currencies (by currency and after conversion to PLN)	**2,769**
EUR	533
after conversion to PLN	**2,499**
USD	70
after conversion to PLN	**220**
GBP	10
after conversion to PLN	**51**
Total short-term liabilities	**5,659**

4.2.11 Social assets and Social Fund liabilities

Specification (in PLN thousand)	31.12.2023	31.12.2022
Loans to employees		
Cash	351	274
Social Fund liabilities	50	79
Allocations to the Social Fund during the financial year	**401**	**353**

4.2.12 Financial instruments

The value of financial asses presented in the statement of financial position as at 31 December 2023 relates to the following categories of financial instruments as defined in IFRS 9:

- Financial assets measured at amortised cost (AAC)– trade receivables and other receivables as well as cash and cash equivalents
- Financial assets measured at fair value through profit or loss – designated as such at initial recognition or later (AMFV) – investment in investment funds

The Group has no other categories of financial assets.

The value of financial liabilities presented in the statement of financial position as at 31 December 2023 relates to the following categories of financial instruments as defined in IFRS 9:

- Financial liabilities measured at amortised cost.

The Group has no other categories of financial liabilities.

Financial assets (in PLN thousand)	Carrying amount		Fair value		Qualification category in 2023	Qualification category in 2022
	31.12.2023	31.12.2022	31.12.2023	31.12.2022		
Trade and other financial receivables	17,840	16,483	17,840/ *	16,483/ *	AAC	AAC
Cash and cash equivalents	2,806	2,258	2,806/ *	2,258/ *	AAC	AAC

*It is assumed that the fair value is close to the carrying amount – for this reason, no approach was used to measure those balance sheet items

Financial liabilities (in PLN thousand)	Carrying amount		Fair value		Qualification category in 2023	Qualification category in 2022
	31.12.2023	31.12.2022	31.12.2023	31.12.2022		
Interest bearing bank and non-bank loans, including:	**51,333**	**49,358**	**51,333/***	**49,358/ ***		
- other - short term	18,803	21,300	18,803/*	21,300/ *	Financial liabilities measured at amortised cost.	Financial liabilities measured at amortised cost.
- other - long term	32,530	28,057	32,530/*	28,057/ *		
Trade liabilities	**4,388**	**5,536**	**4,388/***	**5,536/ ***		

*It is assumed that the fair value is close to the carrying amount – for this reason, no approach was used to measure those balance sheet items

The Group did not have any derivatives either at 31.12.2023 or at 31.12.2022

01.01.2023–31.12.2023	Financial assets measured at amortised cost (in PLN thousand)	Financial assets measured at fair value through profit or loss (in PLN thousand)	Financial liabilities measured at amortised cost (in PLN thousand) – bank loans	Financial liabilities measured at amortised cost (in PLN thousand) - trade liabilities	Total valuation of financial instruments (in PLN thousand)
Interest income/ costs	Income:+143		Income:+160		Income: +303
			Costs:-2,609	Costs:-80	Costs:-2,689
Trade receivables and cash	Income:+1,503				Income:+1,503
	Costs:-1,821				Costs:-1,821
Loans granted	Costs:-677				Costs:-677
Bank loans			Income:+1,690		Income:+1,690
			Costs:-513		Costs:-513
Trade liabilities				Income:+363	Income:+363
				Costs:-179	Costs:-179
Total +gain/-loss	**+1,646/-2,498**		**+1,850/-3,122**	**+363/-259**	**+3,859/-5,879**

01.01.2022–31.12.2022	Financial assets measured at amortised cost (in PLN thousand)	Financial assets measured at fair value through profit or loss (in PLN thousand)	Financial liabilities measured at amortised cost (in PLN thousand) – bank loans	Financial liabilities measured at amortised cost (in PLN thousand) - trade liabilities	Total valuation of financial instruments (in PLN thousand)
Interest income/ costs	Income:+158	Income:+70			Income:+228
	Costs:-79	Costs: -50	Costs:-1,273	Costs:-27	Costs:-1,429
Trade receivables and cash	Income:+526				Income:+526
	Costs:-493				Costs:-493

Bank loans			Income:+457		Income:+457
			Costs:-612		Costs:-612
Trade liabilities				Income:+238	Income:+238
				Costs:-461	Costs:-461
Total +gain/-loss	**+684/-572**	**+70/-50**	**+457/-1,885**	**+238/-488**	**+1,449/-2,995**

4.2.13 Other contingent and off-balance sheet liabilities

As at 31 December 2023, the Group had no contingent assets.

Securities related to credit agreements are described in Section 4.2.9 of this Report.

Other contingent liabilities are described below:

Securities related to credit agreements are described in Section 4.2.9 of this Report.

Other contingent liabilities are described below:

1. A blank promissory note for the National Centre for Research and Development (NCBiR) as collateral for the proper performance of obligations arising from the grant agreement MAZOWSZE/0032/19-00 of 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.
2. A blank promissory note for National Centre for Research and Development (NCBiR) as collateral for the proper performance of obligations under the grant agreement MAZOWSZE/0090/19-00 of 03.12.2019 for the project "Sensors for Industry 4.0 and IoT" under the competition Path for Mazovia/2019.
3. 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 of 28.02.2020 for the project "Multi-element infrared detectors for non-contact multifunctional diagnostics" under Measure 1.2 "Research and development activity of enterprises" of the Regional Operational Programme of the Mazowieckie Voivodeship for 2014-2020.
4. 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" (agreement No. POIR.01.01-00-0480/20-00 of 23.09.2021). The National Centre for Research and Development has the right to fill the promissory note, at any time, with the amount of grant to be returned, together with interest calculated at the rate specified for tax arrears, accrued from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
5. A blank promissory note securing the proper performance of obligations under the Grant Agreement for the project "PEMIR - development of mid-infrared detectors using plasmonic amplification" no. POLTUR4/PEMIR/2/2021 of 15.03.2021. The National Centre for Research and Development has the right to fill the promissory note, at any time, with the amount of grant to be returned, together with interest calculated at the rate specified for tax arrears, accrued from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
6. 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" (agreement No. TECHMATSTRATEG-III/0026/2019-00 of 25.03.2021). The National Centre for Research and Development has the right to fill the promissory note, at any time, with the amount of grant to be returned, together with interest calculated at the rate specified for tax arrears, accrued from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
7. 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" (agreement No. POIR.01.01.01-00-0185/20-00 of 24.05.2021). The National Centre for Research and Development has the right to fill the promissory note, at any time, with the amount of grant to be returned, together with interest calculated at the rate specified for tax arrears, accrued from the date of transfer of funds to the account of the Beneficiary to the date of repayment.
8. A blank promissory note for National Centre for Research and Development (NCBiR) as collateral for the proper performance of obligations under grant agreement HYDROSTRATEG1/000E/2022 for the project "Development of an innovative photonic water resources monitoring system" implemented as part of the 1st competition of the Government Strategic Programme Hydrostrateg "Innovations for water management and inland navigation" (agreement date: 25 August 2023).
9. A blank promissory note for National Centre for Research and Development (NCBiR) as collateral for the proper performance of obligations under the grant agreement POLTAJ10/2022/37/LWIRPSBDA/2023 of 14 June 2023 for the project "LWIR photodetector supported by dielectric antennas" (LWIRPSBDA) as part of the 10th competition under the 10th Polish-Taiwanese/Taiwanese-Polish Joint Research Call (2022).
10. On 12 September 2022, an Investment Agreement was signed between VIGO Photonics S.A. and Warsaw Equity ASI Sp. z o.o. and Wojciech Smoliński and Marek Kotelnicki and VIGO Ventures ASI Sp. z o. o. The Investment Agreement sets out the principles of investing, together with Warsaw Equity ASI Sp. z o. o., in innovative technological ventures through VVASI. VVASI is an alternative investment fund focusing on technology, new technology and industry sectors, innovations in photonics, optics, automation, robotics, photovoltaics, materials engineering sectors, as well as projects undertaken by research units, with a concentration on R&D projects that foster cost-effective production of innovative, technologically advanced devices and systems. Under the Investment Agreement, VIGO Photonics S.A. and Warsaw Equity ASI Sp. z o.o.

acquired new shares in VVASI in exchange for a cash contribution of PLN 1,911,300 by both parties. Furthermore, the Partners determined the VVASI Budget until 31 December 2025 at PLN 36,182,200.00 (i.e. PLN 18,091,050.00 for each party). This budget will be paid out ad hoc as part of the implementation of VVASI's investment activities. The agreement will remain in force until completion of all Exits from the investments or until 31 December 2032. Moreover, the Investment Agreement lays down the decision-making process regarding VVASI investments (all decisions require the consent of both parties), the maximum investment size (maximum EUR 1 million or EUR 1.5 million with follow-on investments), the minimum size of shares taken up by VVASI (5%), rules for co-investment in projects by the VVASI team, rules for the incentive program for the VVASI team and rules for exiting from VVASI investments. At the same time, on 12 September 2022, an agreement was signed with Warsaw Equity ASI Sp. z o. o. and VIGO WE Innovation sp. z o. o. on the termination and expiry of the investment agreement of 9 February 2017, as amended by subsequent annexes, regarding the investment in VIGO WE Innovation sp. z o.o. Under the agreement, VIGO WE Innovation sp. z o.o. will be taken over by VVASI. Further investments in innovative technological ventures will be carried out by the parties through VVASI. The Group recognised its obligation to make a cash contribution of PLN 3,460,828.00 to the Incubator budget as a contingent liability.

11. Agreement of 20 September 2018 with Włodzimierz Strupiński, PhD for the implementation of a joint venture, whereby the Group will purchase equipment for the production of semiconductor layers and deploy it at its production plant in Ożarów Mazowiecki, while Włodzimierz Strupiński, under an employment contract, will provide comprehensive service for VIGO relating to 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 investment value was estimated at PLN 20.5 million. The project implementation period was divided into two stages ("Implementation Period" until the end of 2019 and "Production Period" in 2020-2024).

    The agreement provides for verification procedures regarding the achievement, in cooperation with Włodzimierz Strupiński, of VIGO's production capacity in relation to III-V semiconductor compounds as well as sets out the liability of Włodzimierz Strupiński, including liquidated damages, for default under the agreement.

    Under the terms of the agreement, the Group agreed to pay Włodzimierz Strupiński a salary under the employment contract as well as a separate fee 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 the sale of semiconductor compounds generated by VIGO's Epitaxy Division in a specified fiscal year.

    In addition, Mr Strupinski will be entitled to remuneration linked to the success of the whole project, 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 "Reference Amount", calculated as EBITDA of the Epitaxy Division (EBITDA EPI) to the EBITDA of the entire Company and the average capitalisation of the Company calculated for the last financial year in the Production Period (2024), less the expected return on VIGO's investment in the development of the Epitaxy Division, assuming a 10% rate of return per annum. Depending on the value of EBITDA of the Epitaxy Division, the bonus 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 remuneration for the joint venture may be paid to Włodzimierz Strupiński in the form of shares of VIGO Photonics or in cash, or a combination of both. 80% of the bonus will be paid at the election of VIGO (in the form of shares or share options or in cash) and 20% at the election of Mr Strupiński.

    As at the balance sheet date, an annual bonus of PLN 485 thousand was recognised as payable to Włodzimierz Strupiński.

4.2.14 Accruals and other liabilities:

Specification (in PLN thousand)	31.12.2022	31.12.2021
Grants to tangible assets	**10,029**	**10,939**
SPOWPK/2.2.1/14/0155	69	76
Technology bonus 3.2.2	9,960	10,863
Deferred income - grans - funds towards development projects	**53,435**	**44,468**
EXPOSURE	625	1,250
MIREGAS	162	325
CHEQUERS	774	1,151
MIRPHAB	1,218	1,523
WATERSPY	811	1,158
INDII5	183	330
AQUARIUS	940	1,343
ACCORDS	282	407
TRANSFER	590	737
Sensors for Industry 4.0 and IoT	9,471	9,475
Epitaxial structures and VCSELs	7,435	7,458
PIAP Voucher for innovations	272	340

Specification (in PLN thousand)	31.12.2022	31.12.2021
Regional	2,539	2,539
VAT Voucher for innovations	245	327
Car2Tera	92	26
TRAVEL	282	164
PEMIR	657	648
WidePOWER	259	351
WikiNet	382	400
MIRPIC	5,400	3,860
MATRICES	4,416	2,068
TRIAGE	905	638
INGAAS WITH ASIC	5,552	2,751
AI PRISM	520	353
PHOTOGENIC	4,372	4,846
LWIRPSBDA	218	
IBAIA	688	
OPMMEG	1,533	
MiniBot	1,317	
BROMEDIR	766	
FOSMO	529	
Tangible assets received as a donation	**5**	**18**
Prepayments received for future obligations		**40**
Deferred income, including:	**63,469**	**55,465**
Long term	60,297	52,854
Short term	3,172	2,611

4.2.15 Co-financing from public funds

The Group receives co-financing for research and development from European funds and national funds. The Group also receives grants to its fixed investments.

Co-financing of research and development

In the reporting period, the following projects were carried out co-financed by the European Commission under the Horizon 2020 and Horizon Europe, and the European Defense Fund programmes:

Ref.	Project	Project budget for the Company [EUR thousand]	Grant for the Company [EUR thousand]	Project implementation period
1.	CAR2TERA	24	24	01.01.2019 - 31.03.2023
2.	TRIAGE	420	294	01.01.2021 - 29.02.2024
3.	MINIBOT	609	609	01.12.2022 - 30.11.2025
4.	AI-PRISM	240	168	01.10.2022 - 30.09.2025
5.	PHOTOGENIC	1,331	1,331	01.10.2022 - 30.09.2025
6.	OPMMEG	500	500	01.12.2022 - 30.11.2025
7.	IBAIA	337	337	01.12.2022 - 30.11.2026

Agreements under projects co-financed by the European Commission are drawn up according to a uniform template. Under the agreement, the European Commission may impose financial penalties, i.e. withholding part of the funding if the beneficiaries:

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

The financial penalties will range from 2% to 10% of the maximum EU contribution specified for the beneficiary. If the beneficiary is found guilty of another breach within five years from the date of the first breach, the Commission may increase the financial penalties to the 4%–20% range.

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

Ref.	Project	Agreement date	Project budget for the Company [PLN thousand]	Grant for the Company	Project implementation period
1.	INGAAS WITH ASIC – Manufacture of InGaAs sensors with integrated ASIC electronics for the range of 1.7 - 2.6 µm	23.09.2021	12,650	8,520	1.01.2021-31.12.2023
2.	MATRIX – Polish matrix active in infrared for space applications	24.05.2021	9,374	6,218	1.01.2021-31.12.2023

The Grant Agreement provides for the following contractual penalties:

- Repayment of the funding with interest in the event of termination of the agreement.
- Repayment of the funding or consent to reduction of subsequent payments – in cases specified in the agreement such as the use of funds contrary to their purpose or in breach of procedures; use of the funds wrongly or in an excessive amount.

The Group carries out projects co-financed by the National Centre for Research and Development from EU funds under the Strategic Programme for Scientific Research and Development "Modern Material Technologies" – TECHMATSTRATEG, under International Programmes – EUREKA, MERA.net, as well as under the competition "Path for Mazovia" and Polish-Turkish international cooperation projects.

Ref.	Project	Agreement date	Project budget for the Company [PLN thousand]	Grant for the Company	Project implementation period
1.	Production technology of innovative epitaxial structures and VCSEL laser devices, key to the development of photonics	21.11.2019	13,014	9,110	01.01.2020-31.03.2023
2.	PEMIR - development of mid-infrared detectors using plasmonic amplification	15.03.2021	1,115	836	01.03.2021-31.01.2024
3.	MIRPIC - new transparent electrodes for VCSEL lasers	22.02.2021	471	354	01.10.2020-29.02.2024
4.	MATRIX - Integrated photonics circuit technologies for the mid-infrared range	25.05.2021	9,492	6,801	01.04.2021-31.12.2024
5.	LWIRPSBDA – Long wave detectors supported by dielectric antennas	14.06.2023	1,163	680	01.06.2023-31.03.2026

4.2.16 Proposed profit distributions (loss cover) for the financial year:

The current dividend policy does not provide for the payment of dividend from the net profit for 2022. However, each year, the Management Board may recommend the payment of a dividend after analysing the current financial position. The 2021 net profit of PLN 33,047 thousand was fully allocated to the supplementary capital.

The Group did not release performance forecasts for the given year.

4.3 Statement of comprehensive income

4.3.1 Net revenue from the sale of products, goods and materials by type and territory

Specification (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Continued operations	**85,699**	**76,568**
Sale of goods and materials	324	381
Sale of products, including	72,489	63,513
- Detection modules segment	69,867	62,133
- Semiconductor materials segment	2,622	1,380
Sale of services	2,581	3,980
- Detection modules segment	2,029	1,212
- Semiconductor materials segment	552	2,768
Total revenue from sales	**75,395**	**67,874**
Other operating income	8,262	8,270
Financial income	2,759	424
TOTAL revenue from continued operations	**86,416**	**76,568**
Revenue from discontinued operations	**n/a**	**n/a**
TOTAL revenue	**86,416**	**76,568**

Specification	01.01.2023 - 31.12.2023		01.01.2022 - 31.12.2022	
	PLN thousand	PLN thousand	PLN thousand	%
Domestic	**5,883**	**7.80%**	**4,167**	**3.89**
Exports, including:	**69,512**	**92.20%**	**63,707**	**96.11**
European Union	38,534	51.10%	37,668	67.16
Third countries	30,978	41.10%	26,039	28.95
Total	**75,395**	**100.00%**	**67,874**	**100.00**

Percentage share of customers in total sales in the period:

01.01.2023-31.12.2023

Ref.	Customer	Amount (PLN thousand)	Share in total sales (%)
1.	A German company	10,077	13.46
2.	A company from Caterpillar Group	7,014	9.37
3.	Safran Aerotechnics	6,516	8.71
4.	German company II	6,079	8.12

01.01.2022-31.12.2022

Ref.	Customer	Amount (PLN thousand)	Share in total sales (%)
1.	German company I	11,650	16.98
2.	a company from Caterpillar Group	5,535	8.07
3.	German company II	4,911	7.16
4.	Safran Aerotechnics	4,673	6.81

In 2023, no unit revenue was recognised in respect of long-term services carried out under unit price contracts.

4.3.2 Discontinued operations

No operations were discontinued in 2023.

4.3.3 Other comprehensive income

Specification (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Actuarial gains (losses) that will not be subsequently reclassified to profit or loss:	**-108**	**-123**
Actuarial gains on defined benefit plans		
Actuarial losses on defined benefit plans	-108	-123
Total comprehensive income attributable to non-controlling interests	**-18**	**-123**

As a result of operating in the Tarnobrzeg Special Economic Zone (TSEZ), the tax effect of other comprehensive income is nil.

(PLN thousand)	01.01.2023- 31.12.2023			01.01.2022 - 31.12.2022		
	Amount before tax	Tax	Amount after tax	Amount before tax	Tax	Amount after tax
Actuarial gains (losses) on defined benefit plans	-108		-108	-123		-123
Total comprehensive income	**-108**		**-108**	**-123**		**-123**

4.3.4 Income tax

The tax charge includes current and deferred income tax that was not recognised in other comprehensive income or directly in equity.

Current income tax

Current tax charge is calculated based on the applicable tax regulations. The application of those regulations makes a distinction between tax profit (loss) and 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 charge is calculated based on the tax rates applicable in the given financial year. The current tax rate, based on regulations, is 19% (since 2004). The current regulations do not provide for differentiation of tax rates for future periods. Due to the conduct of business in the Special Economic Zone, VIGO Photonics S.A. uses income tax exemption (for income achieved accordance with the zone permit). The tax year 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.

The Management Board of VIGO Photonics estimated that the Group would not be able to use the entire deferred tax asset resulting from the investment relief in the Special Economic Zone until the end of the operation of the Special Economic Zone in Poland (31 December 2026).

The expected amount of aid to be used over those three tax years is approximately PLN 8 million. Due to the above, in 2023 the deferred tax asset of PLN 12,763 thousand was reversed.

In 2023, the Group generated income of PLN 11,016 thousand on operations in the Special Economic Zone. The tax that the Group did not pay in connection with the zone exemption was PLN 901 thousand. The remaining aid to be used at discounted value in subsequent tax years is PLN 8 million as at 31 December 2023. This is an amount equal to 65% of discounted qualified expenditures on tangible assets less discounted aid to those tangible assets obtained from other sources, as well as discounted unpaid income tax from operations in the Special Economic Zone in previous years.

Income tax disclosed in the statement of comprehensive income (PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Current income tax	**110**	**81**
For the financial year	110	81
Deferred income tax	**14,166**	**383**
Origination and reversal of temporary differences	14,166	383

Tax charge disclosed in the statement of comprehensive income	**14,276**	**-465**

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

PLN thousand	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Balance at the beginning of the period		
Deferred tax assets	+22,792	+22,840
Deferred tax liability	-782	-455
Net deferred tax at the beginning of the period	+22,011	+22,395
Change in the balance in the period affecting:	-14,166	-383
Profit or loss (+/-)	-14,166	-383
Net deferred tax at the end of the period, including	7,846	+22,012
Deferred tax assets	**+8,789**	**+22,792**
Deferred tax liability	**-943**	**-782**

Deferred tax assets as at 31.12.2023

Temporary differences	Balance at the beginning of the period	**Change** Profit or loss /Equity	Balance at the end of the period
Assets			
Inventories	1,011	+1,281	2,291
Trade receivables	80	-50	30
Investments in related parties	1,256	-105	1,151
Liabilities			
Provisions for employee benefits	3,512	+175	3,687
Other provisions	584	+59	643
Other liabilities	33	+154	186
Total	**6,513**	**+1,610**	**8,123**
Deferred tax liabilities as at 31.12.2023			
Assets			
Property, plant and equipment	4,693	+4,740	9,433
Total	**4,693**	**+4,740**	**4,740**
Tax rate			**19%**
Deferred tax asset	1,238	+441	1,679
Deferred tax liability	-892	-943	-1,835
Change in the balance of deferred tax	-348	502	-154
Investment tax credit in TSEZ	+21,664	-13,664	8,000
Deferred tax in the statement of comprehensive income		**-14,166**	

Deferred tax assets as at 31.12.2022

Temporary differences	Balance at the beginning of the period	**Change** Profit or loss /Equity	Balance at the end of the period
Assets			
Inventories	436	+574	1,011
Trade receivables	40	+40	80
Investments in related parties	1,042	+214	1,256
Liabilities			
Provisions for employee benefits	4,175	-663	3,512
Other provisions	608	-24	584
Other liabilities	465	-432	33
Total	**6,766**	**-291**	**6,513**
Deferred tax liabilities as at 31.12.2022			
Assets			
Property, plant and equipment	2,918	1,774	4,693
Total	**2,919**		**4,693**
Tax rate			**19%**

Deferred tax asset	1,286	+48	1,238
Deferred tax liability	-554	-338	-892
Change in the balance of deferred tax	732	385	-345
Investment tax credit in TSEZ **Deferred tax in the statement of comprehensive income**	21,664	**+385**	21,664

Current income tax	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Profit before tax	11,392	12,014
Revenues increasing the tax base	15,111	21,625
Revenues excluded from taxation	-13,002	-11,244
Costs increasing deductible costs	-3,209	-1,119
Non-deductible costs	14,912	11,261
Taxable income	25,925	32,536
Deductions from income, including	24,593	-32,109
- activities in the TSSE	-10,787	-10,485
- grants received	-14,562	-21,624
Tax base	577	427
Income tax at 19% rate	109	81
Deferred income tax	14,166	383
Tax disclosed in the statement of comprehensive income	14,275	465
Effective tax rate (share of tax expense reported in the income statement in profit before tax)	0.04%	0.04%

Specification (in PLN thousand)	01.01.2023-31.12.2023	01.01.2022-31.12.2022
Profit (loss) before tax	12,333	12,014
Tax rate applied	19%	19%
Income tax at the rate	2,443	2,283
Reconciliation of income tax due to:		
Items permanently non-deductible (+)/not constituting taxable income	1,919	1,289
Recognition of investment tax credit	-13,664	1,992
Income tax	14,276	465

4.3.5 Costs by type

Specification (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Depreciation/ amortisation	12,308	9,349
Use of materials and energy	17,120	13,471
External services	8,677	9,826
Taxes and charges	266	349
Salaries	26,885	24,704
Social security and other benefits	4,920	8,345
Other costs by type	1,012	1,009

Specification (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Total costs by type, including:	**71,188**	**67,053**
Change in finished products	-4,939	-3,189
Selling costs (negative value)	-9,378	-10,395
General and administrative expenses (negative value)	-18,388	-20,674
Cost of production of products and services sold	**38,483**	**32,795**

Depreciation/ amortisation costs and impairment allowances recognised in the statement of comprehensive income

Specification (in PLN thousand)	01.01.2023- 31.12.2023	01.01.2022 - 31.12.2022
Items included in cost of sales:	**10,208**	**8,732**
Depreciation of tangible assets	4,568	4,675
Amortisation of intangible assets	5,640	4,058
Items included in selling costs	**30**	**18**
Depreciation of tangible assets	15	13
Amortisation of intangible assets	15	5
Items included in general and administrative expenses	**2,070**	**599**
Depreciation of tangible assets	2,069	544
Amortisation of intangible assets	1	55

The amount of amortisation constituting part of development costs in 2023 was PLN 88 thousand; PLN 1,562 thousand is amortisation of the assets that were capitalised and development expenditure in 2022 and will be settled in future periods (in 2022, PLN 540 thousand and PLN 1,765 thousand, respectively).

The gross value of used, fully depreciated tangible assets as at 31 December 2023 is PLN 9,369 thousand.

Cost of employee benefits

Specification (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Salaries	26,885	22,103
Social security and other benefits	3,962	3,788
Other employee benefits	958	965
Total costs of employee benefits, including:	**31,805**	**26,855**
Items included in cost of sales	20,470	16,895
Items included in selling costs	2,291	568
Items included in general and administrative expenses	9,044	9,393

4.4 Other operating income

Other operating income (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Profit on disposal of non-current assets	64	275
Subsidies to grants - indirect costs - lump sum to direct costs	3,951	1,054
Settlement of subsidies to grants and tangible assets	2,777	5,574
Inventory overages	1	7
Reversed impairment allowances on receivables	50	
Other sales (rent, recharged invoices)	501	207
Compensations and awards	20	244
Impairment allowances on loans granted	120	494
Profit on investments in jointly controlled entities	613	
Other	164	414
Total	**8,262**	**8,270**

4.5 Other operating costs

Other operating costs (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Donations	8	
Involuntary shortages of current assets	735	24
Allocations to warranty provisions, inventories, receivables	1,326	1,322
Liquidation of goods and materials	3,520	548
Liquidation of tangible assets	51	
Allocation of own expenditure to unsuccessful development projects		723
Other cost of sales (rent, recharged invoices)	202	274
Other	68	6
Total	**5,906**	**2,891**

Income and costs related to impairment of financial assets for 2023 and 2022 were presented as other operating income and costs in respect of receivables relating to operating activities. The Group does not present expected credit losses in the financial statements due to immateriality of that item.

No impairment allowances on financial assets were recognised as financial income or costs in either period.

Recognition of impairment allowances (in PLN thousand)	01.01.2023-31.12.2023	01.01.2022 - 31.12.2022
Receivables	30	80
Inventories	2,291	1,011
Loans granted	1,151	1,180
Expenditure on shares		76
Total	**3,472**	**2,347**

4.6 Financial income

Financial income (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Excess of FX gains over FX losses	1,815	293
Other	171	75
Total	**1,986**	**368**

4.7 Financial costs

Financial costs (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Interest and fees	2,115	1,336
Other		109
Total	**2,115**	**1,445**

4.8 Statement of cash flows

The cash flow statement presents information on cash flows incurred during the period, broken down into operating, investing and financing activities. The entity presents cash flows from operating, investing and financing activities in the manner most appropriate for the type of business it conducts. Classification based on activities provides information that allows users to assess the impact of these activities on the entity's financial position and on the amount of cash and cash equivalents. This information can also be used to assess the relationships between individual types of activities. The table below explains the inconsistencies between the balance sheet movements and the movements of those items in statement of cash flows.

Specification (in PLN thousand)	31.12.2023	31.12.2022
Cash in the balance sheet	**2,806**	**2,258**
Exchange differences on balance sheet valuation	-20	-8
Total cash and cash equivalents as presented in the statement of cash flows	**2,806**	**2,251**
Depreciation/amortisation:	**12,381**	**9,362**
amortisation of intangible assets	6,668	4,093
depreciation of tangible assets	5,678	5,269
Profit (loss) on investing activities results from:	**-101**	**-239**
Profit on disposal of non-current assets	-64	
Liquidation of non-current assets	61	-239
Impairment allowances on financial receivables	-97	
The change in provisions is due to the following items:	**206**	**-625**
balance sheet change in provisions for liabilities		-943
balance sheet change in provisions for employee benefits	88	195
balance sheet change in provisions for employee benefits recognised in equity	9	123
balance sheet change in other provisions	109	
The change in inventories is due to the following items:	**3,248**	**-8,382**
balance sheet change in inventories	3,248	-8,382
The change in receivables is due to the following items:	**-1,552**	**3,555**
change in short-term receivables arising from the balance sheet	-1,552	3,555
The change in short-term liabilities, except for financial liabilities, results from the following items:	**-1,629**	**542**
change in short-term liabilities arising from the balance sheet	-1,629	525
change in lease obligations		17
Change in prepayments:	**-185**	**-284**
change in prepayments arising from the balance sheet	-185	-284
Change in prepayments and accrued income results from the following items:	**-6,728**	**-7,463**
change in prepayments and accrued income resulting from the balance sheet	-6,679	18,035
adjustment for investment grants received		-25,782
change in prepayments arising from the balance sheet	-48	-284
The value of "other adjustments" consists of the following key items:	**-15**	**- 3,136**
change in the status of the right of use resulting from the balance sheet		52
change in other prepayments and accrued income		-188
incentive scheme		-47
income tax		465
share expenses		-2,887
called up share capital	-62,694	
change in the balance of investments in subordinated entities (based on carrying amounts)	-63	

Specification (in PLN thousand)	31.12.2023	31.12.2022
share premium	62,209	
corrections to previous years	-78	-85

The amounts of interest income/costs and FX gains/losses in connection with the financial instruments held by the Group are presented in Section 4.2.12.

4.9 Other supplementary information to the consolidated financial statements for 2023:

4.9.1 Average employment in the financial year, broken down by professional groups expressed in full-time equivalents

Specification (average FTEs)	01.01.2023- 31.12.2023	01.01.2022 - 31.12.2022
Management Board	2.08	1.50
Administration	20.26	34.70
Sales Department	18.48	19.27
Purchasing & Logistics Department	9.14	10.75
IT Team	9.42	5.58
Production Department	63.03	69.01
Epitax Production Department	7.44	6.33
Research & Development Department	41.99	55.11
Matrix Technology Development Department	9.08	7.78
Production Engineering Department	18.42	5.08
Total	**199.34**	**215.11**

Specification (in persons)	01.01.2023 - 31.12.2023	01.01.2022- 31.12.2022
Number of employees hired	47	38
Number of employees terminated	49	35
Total	**-2**	**3**

4.9.2 Consolidation adjustments

Items of the statement of financial position for 01.01.2023-31.12.2023 (in PLN thousand)	Dr amount	Cr amount
Elimination of investments in subordinated entities	-484	
Elimination of financial receivables	-4,920	
Elimination of trade receivables	-1,312	-294
Elimination of inventories	-98	-117
Elimination of financial liabilities		-5,404
Elimination of trade liabilities	-294	-1,311
Total	**-7,107**	**-7,126**

Items of the statement of financial position for 01.01.2023-31.12.2023 (in PLN thousand)	Dr amount	Cr amount
Revenue elimination in the group	-2,129	-2,624
Elimination of the cost of production of products and services sold	-20	-2,129
Elimination of the value of goods and materials sold	-264	
Elimination of selling costs	-2,361	
Elimination of financial costs	-133	
Elimination of financial income		-133

Items of the statement of financial position for 01.01.2023-31.12.2023 (in PLN thousand)	Dr amount	Cr amount
Total	**-4,906**	**-4,887**
Total consolidation adjustments	**-12,013**	**-12,013**

Items of the statement of financial position for 01.01.2022-31.12.2022 (in PLN thousand)	Dr amount	Cr amount
Elimination of investments in subordinated entities	-541	
Elimination of financial receivables	-3,575	
Elimination of trade receivables	-1,716	-207
Elimination of inventories	3,241	-3,296
Elimination of financial liabilities		-3,575
Elimination of trade liabilities	-207	-1,716
Total	**-2,798**	**-9,335**
Items of the statement of comprehensive income for 01.01.2022-31.12.2022 (in PLN thousand)	Dr amount	Cr amount
Revenue elimination in the group	-3,500	-1,106
Elimination of the cost of production of products and services sold	-3,241	-205
Elimination of selling costs	-1,106	
Elimination of financial costs	-109	-109
Total	**-7,957**	**-1,420**
Total consolidation adjustments	**-10,755**	**-10,755**

Items of the statement of financial position for 01.01.2021-31.12.2021 (in PLN thousand)	Dr amount	Cr amount
Elimination of investments in subordinated entities	484	
Elimination of financial receivables	840	
Elimination of financial liabilities		1,324
Total	**1,324**	**1,324**
Total consolidation adjustments	1,324	1,324

4.9.3 Remuneration and transactions with members of management and supervisory bodies

Benefits paid to members of the Management Board

Specification (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
For role on the bodies	1,236,164.04	984,382.00
Salary under employment contract	320,000.00	271,800.00
Total	**1,556,164.04**	**1,256,182.00**

Name	Role	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Remuneration of Management Board members (PLN)			
Adam Piotrowski	Management Board President	597,613.02	702,780.00
Łukasz Piekarski	Management Board Member	463,091.01	553,402.00
Marcin Szrom	Management Board Member	495,460.01	
Total		**1,556.164,04**	**1,256,182.00**

Remuneration of Supervisory Board members (PLN)

Name	Role	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Przemysław Danowski	Supervisory Board Chairman	24,000.00	72,000.00
Janusz Kubrak	Supervisory Board Member	26,000.00	62,400.00
Marek Wiechno	Supervisory Board Member	69,800.00	62,400.00
Zbigniew Więcław	Supervisory Board Member	63,400.00	62,400.00
Piotr Nadolski	Supervisory Board Member	55,466.67	62,400.00
Krzysztof Kaczmarczyk	Supervisory Board Member	63,400.00	62,400.00
Mirosław Grudzień	Supervisory Board Member	63,400.00	62,400.00
Krzysztof Dziewicki	Supervisory Board Member	32,546.67	
Marcin Kubrak	Supervisory Board Member	8,106.67	
Waldemar Maj	Supervisory Board Member	8,106.67	
Total		**414,226.68**	**446,400.00**

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

The Group does not have any liabilities resulting from pensions and benefits of similar nature for former members of management or supervisory bodies or former members of administrative bodies nor does it have any liabilities incurred in connection with those pensions.

4.9.4 Operating segments

Specification 01.01.2023 - 31.12.2023		Continued operations		Total
		Detection modules	Semiconductor materials	
Segment income	including:	**79,778**	**3,879**	**83,657**
	Revenue from sales	72,222	3,173	75,395
	Other operating income	7,556	706	8,262
Segment costs	including:	**69,913**	**2,223**	**72,136**
	Cost of products, services and materials sold	36,753	1,729	38,482
	Selling costs	9,378	0	9,378
	General and administrative expenses	18,105	362	18,467
	Other operating costs	5,775	131	5,906
Segment profit/(loss)		**9,767**	**1,656**	**11,423**
Profit/(loss) from continued operations before tax and financial income (costs)		9,767	1,656	11,423
Interest expense		2,051	324	2,375
Significant items of income		770	1,908	2,678
Significant items of costs		428	0	428
Profit/(loss) before tax		**8,054**	**3,240**	**11,294**
Income tax		12,459	1,817	14,276
Profit (loss) after tax		**-4,405**	**1,423**	**-2,981**
Total assets		**263,209**	**58,546**	**330,051**
Segment assets		263,209	58,546	330,051
Total liabilities		**82,788**	**41,302**	**124,384**
Segment liabilities		82,788	41,302	124,384
Other segment information				
Capital expenditure		101,030	40,797	141,827
- tangible assets		72,837	39,071	111,908
- intangible assets		28,192	1,726	29,918
Depreciation/ amortisation		10,821	1,560	12,381

Specification 01.01.2022 - 31.12.2022		Continued operations		Total
		Detection modules	Semiconductor materials	
Segment income	including:	**71,494**	**4,650**	**76,144**
	Revenue from sales	63,725	4,149	67,874
	Other operating income	7,769	502	8,270
Segment costs	including:	**62,927**	**4,513**	**67,440**
	Cost of products, services and materials sold	29,735	3,060	32,795
	Selling costs	10,310	85	10,395
	General and administrative expenses	20,015	659	20,674
	Other operating costs	2,868	708	3,576
Segment profit/(loss)		**8,567**	**137**	**8,704**
Profit/(loss) from continued operations before tax and financial income (costs)		8,567	137	8,704
Interest expense		907	320	1,227
Significant items of income		226	142	368
Significant items of costs		214		214
Profit/(loss) before tax		**7,724**	**-40**	**7,684**
Income tax		-465		-465
Profit (loss) after tax		**7,259**	**-40**	**7,219**
Total assets		**168,010**	**50,898**	**218,908**
Segment assets		168,010	50,898	218,908
Total liabilities		**76,528**	**38,963**	**115,491**
Segment liabilities		76,528	38,963	115,491
Other segment information				
Capital expenditure		94,944	37,990	132,934
- tangible assets		77,216	36,286	113,502
- intangible assets		17,728	1,704	19,432
Depreciation/ amortisation		9,025	325	9,349

4.9.5 Statutory auditor's remuneration

Remuneration due for the financial year (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
- audit of the annual consolidated financial statements	28	28
- audit of the annual consolidated financial statements	10	10
- interim review of the consolidated financial statements	16	16
- interim review of the consolidated financial statements	8	6
Total	**62**	**60**

4.9.6 Related party transactions

Commercial transactions with VIGO Photonics Corp. were concluded on an arm's length basis.

- Sale of products of PLN 2,129 thousand.
- The current costs of the period include a contractual commission on sales of PLN 2,463 thousand and the purchase of production input of PLN 258 thousand.

4.10 Change in accounting policies

There were no significant changes to the accounting policy in 2023.

4.11 Correction of errors from previous periods

In the reporting period, the Group made a correction to the financial statements for 2022 due to incorrect accounting for financial lease.

Items of the statement of financial position for 01.01.2022-31.12.2022 (in PLN thousand)	Comparative data	Adjustments	Restated comparative data
Non-current assets	**218,908**	**-18**	**218,891**
Right of use	3,854	-18	3,854
Total assets	**254,015**	**-18**	**253,997**
Equity	**138,524**	**-81**	**138,442**
Correction of errors from previous years		-85	-85
Profit (loss) of the current period	7,219	+4	7,223
Long-term liabilities	**81,896**	**+64**	**81,959**
Lease obligations	800	+64	863
Short-term liabilities	**33,956**		**33,956**
Lease obligations	46	-46	
Other liabilities	1,235	+46	1,281
Total liabilities	**254,015**	**-18**	**253,997**

Items of the statement of comprehensive income for 01.01.2022-31.12.2022 (in PLN thousand)	Comparative data	Adjustments	Restated comparative data
General and administrative expenses	20,674	-26	20,647
Other operating costs	3,576	-87	3,489
Profit (loss) on operating activities	**8,704**	**-113**	**8,818**
Financial costs	**1,446**	**+109**	**1,554**
Profit/ loss before tax	**7,684**	**+4**	**7,688**
Profit (loss) after tax	**7,219**	**+4**	**7,223**
Net profit (loss) per share (in PLN)	**9.90**	**+0.01**	**9.91**

Items of the statement of cash flows for 01.01.2022-31.12.2022 (in PLN thousand)	Comparative data	Adjustments	Restated comparative data
Operating activities			
Profit/ loss before tax	7,684	+4	7,688
Net profit/ loss	7,219	+4	7,223
Total adjustments	-3,359	-752	-4,111
Change in lease obligations	-64	+64	
Other adjustments	-2,320	-815	-3,135
Cash from operating activities	3,860	-283	3,577
Net cash flows from operating activities	3,779	-283	3,496
Investing activities			
Inflows	25,769	283	26,052
Grants received	25,499	283	25,782
Net cash flows from investing activities	-22,136	283	-21,853

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

No such events were reported in 2023.

4.13 Obligations arising from investment agreements

As at the balance sheet date, the Group has no significant obligations arising from investment agreements.

4.14 Other disclosures

- The Group has no branches.
- The Group does not have any liabilities resulting from pensions or benefits of similar nature towards former management or supervisory personnel or former members of administrative bodies, nor does it have any liabilities incurred in connection with those pensions.

4.15 Subsequent events

- On 16 January 2024, the Company's Management Board learned that the Central Securities Depository of Poland ("KDPW") had issued declaration No. 50/2024 of 16 January 2024 on concluding an agreement with the Company on the registration of the Company's 145,799 series F ordinary bearer shares ("Shares") under the ISIN code PLVIGOS00015 in the securities depository operated by the KDPW.

  The Shares will be registered on the condition that they are introduced to trading on the regulated market (main market) operated by the Warsaw Stock Exchange S.A., where the Issuer's other shares marked with the above ISIN code are traded. The registration will take place in connection with the closure of accounts maintained for transferable rights to Shares marked with the PLVIGOS00056 code within 3 days from the receipt by the KDPW of the decision to introduce the shares to trading on the regulated market where the Issuer's other shares with the above ISIN code are traded, but not earlier than on the day indicated in that decision as the day of introduction of those shares to trading on that regulated market.

- On 17 January 2024, the Management Board learned that the Management Board of the Warsaw Stock Exchange ("WSE") had adopted resolution No. 78/2024 of 17 January 2024 on determining the last day of quotation on the main market of the WSE for rights to series F ordinary bearer shares of the Company and resolution No. 79/2024 on the admission and introduction to stock exchange trading on the main WSE market of the Company's series F ordinary bearer shares ("Resolutions").

  Under the Resolutions, the WSE Management Board decided to:

  (i) set 19 January 2024 as the day of the last quotation on the main market of the WSE for 145,799 rights to the Company's series F ordinary bearer shares;

  (ii) (ii) confirm that the Company's 145,799 series F ordinary bearer shares ("Shares") have been admitted to stock exchange trading on the main market of the WSE; and

  (iii) (iii) introduce the Shares to stock exchange trading on that market from 22 January 2024, provided that on the above date KDPW registers the Shares and marks them with ISIN code PLVIGOS00015.

- With reference to the Company's Current Report 7/2024 of 18 January 2024, on 22 January 2024 the Management Board of VIGO Photonics S.A. learned that the Central Securities Depository of Poland ("KDPW") had issued an announcement of 18 January 2024 regarding the date of registration in the securities depository operated by the KDPW of the Company's 145,799 series F ordinary bearer shares ("Shares").

  In accordance with the above announcement, the Shares will be registered in the securities depository on 22 January 2024. Therefore, the registration of the Shares will meet the condition of introducing the Shares to stock exchange trading on the main market resulting from Resolution No. 79/2024 of the Management Board of the Warsaw Stock Exchange S.A. as referred to in the Company's Current Report 7/2024. Pursuant to the content of the resolution, the Shares will be introduced to stock exchange trading on the main market on 22 January 2024.

- On 23 February 2024, the Management Board of VIGO Photonics S.A. learned that the Issuer's project: "HyperPIC - Photonic integrated circuits for mid-infrared applications" ("Project") had been put on the list of projects selected for funding under Priority II. Priority II. An environment conducive to innovation Measure 2.10 IPCEI Recruitment FENG.02.10-IP.01-002/23, European Funds for a Modern Economy 2021-2027. The project will be implemented as part of the integrated European project IPCEI ME/CT (Important Projects of Common European Interest on Microelectronics and Communication Technologies).

  The Management Board informed about the decision of the European Commission approving the maximum public aid in the project in Current Report 22/2023 of 12 June 2023.

  The aim of the project is to develop and implement the technology of photonic integrated circuits intended for mid-infrared detection, to build a complete production line of mid-infrared photonic integrated circuits and to create a complete supply chain for these systems. The project requires the development of new technologies, significant investment and operational expenditure, as well as expenditure on the commercialization of new products on a dynamic market.

The total value of eligible costs in the project is PLN 878,606,239.96, and the maximum amount of public aid is PLN 453,694,142.06, which corresponds to the so-called financial gap in the project. Eligible costs in the project include expenditure on research and development work, expenditure on the construction of a new production line and operating costs after launching the new production line.

The project is planned to be implemented in 2023-2029 and consists of two phases:

– R&D phases (2023-2027). The value of eligible costs in the R&D phase is PLN 150,738,267.75

– FID (First Industrial Deployment) phase, i.e. the first industrial implementation (2023-2029), including investments in a new production line and implementation of new products into production, including financing of part of the operating costs during implementation. The value of eligible costs in the FID phase is PLN 727,867,972.21.

After the end of the FID phase, it is planned to start serial production (after 2029), under which no public funding is provided for the project. The Company's Management Board expects that the eligible costs of the project, above the value of funding from public funds, will be covered from the Company's funds and equity, from debt financing and/or, in particular in the FID phase, from other sources, including strategic project partnership and/or off-balance sheet financing in the project finance formula.

Approval of the consolidated financial statements:

Adam Piotrowski	Łukasz Piekarski	Marcin Szrom
Management Board President	Management Board Member	Management Board Member

Sylwia Wiśniewska-Filipiak

Chief Accountant

Ożarów Mazowiecki, 23 April 2024

5 Management Board's report on the Group's activities in 2023

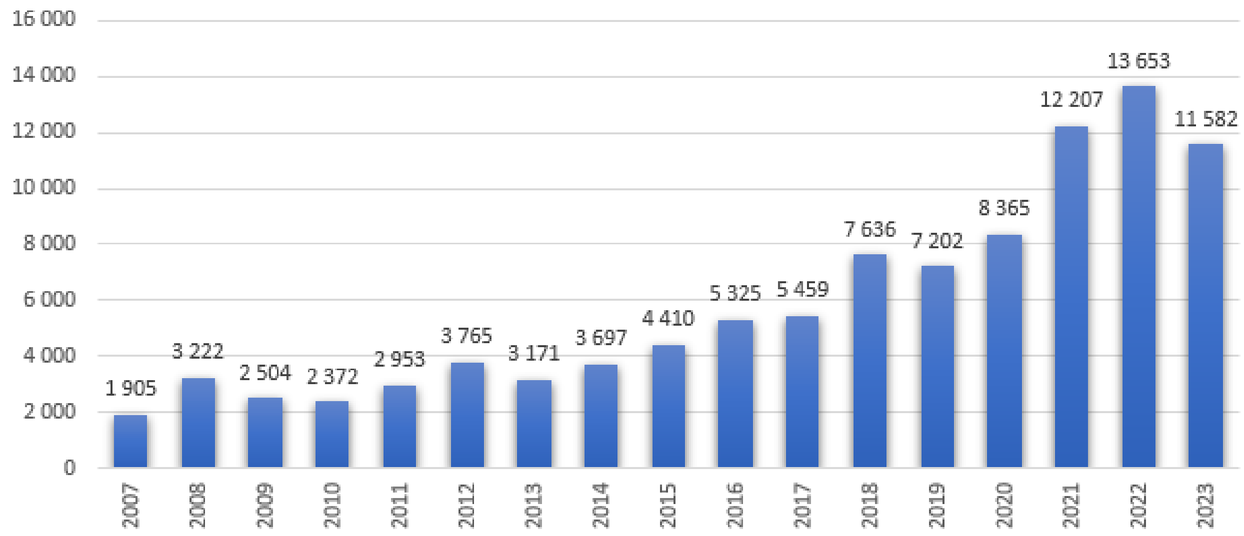
5.1 Summary of the Group's activities in 2023 together with a description of the factors and events that affected the financial results

5.1.1 Revenue from sales

Production volume

In 2023, the Group sold 11,582 detectors, down 15.2% compared to the previous year.

Figure 1. Sales volume of detector modules [units]



Information on basic products

In 2023, the Group achieved PLN 75.4 million in revenue from the sale of products, services, materials and goods, an increase of 11.1% (PLN 7.5 million) compared to 2022.

Sales markets

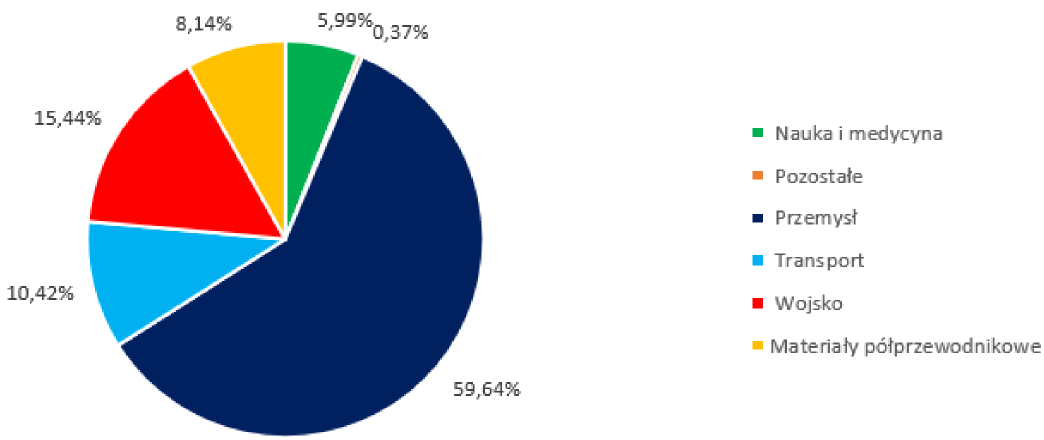
In 2023, the following categories had the largest share in the sale of products and services:

- Industrial applications (59.6% of total revenue from sales). The key contributors in this category are detectors used for gas analysers, emission monitoring systems and gas leakage detection systems, as well as systems intended for manufacturers of latest generation semiconductors.
- Rail applications (10.4% of sales) – systems for detecting failures in high-speed railways and systems for detecting fires in trains.
- Military applications (15.4% of sales) – detectors used in intelligent munitions control systems and detectors in laser-targeting warning systems.
- Scientific and medical applications (6% of sales)

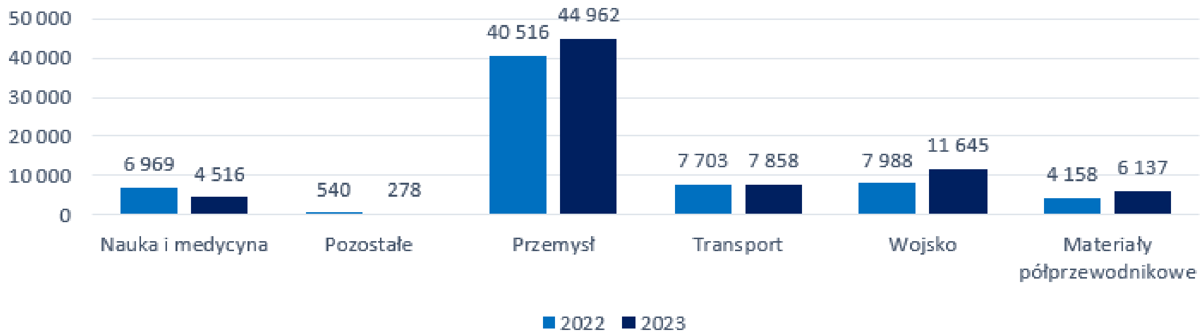
In the segment of semiconductor materials, whose share in sales was 8.1%, the Group recorded a YoY increase in sales (47.6%)

Other applications had a combined share of 0.4% of total sales.

Wykres 2. Sprzedaż produktów i usług w 2023 r. wg docelowych zastosowań [%]



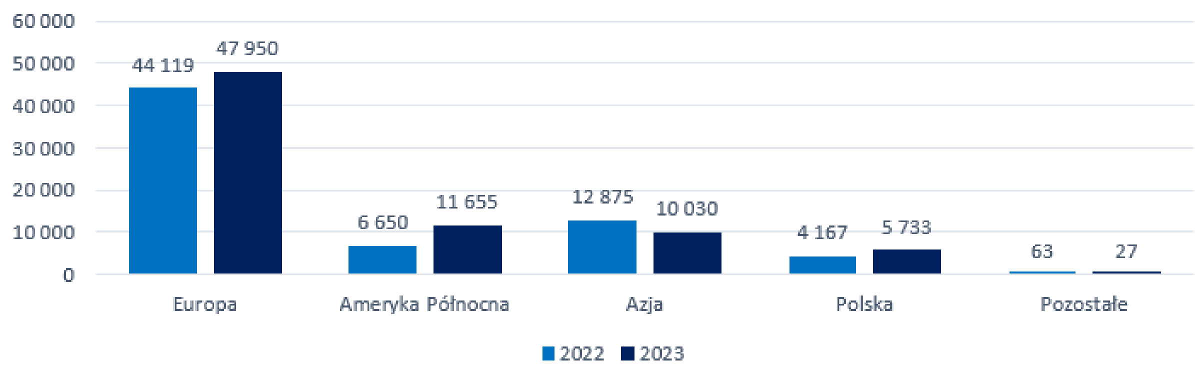
Wykres 3. Sprzedaż Grupy w 2022 r. i w 2023 r. wg docelowych zastosowań [tys. zł]



The Group posted a strong 75.3% (PLN 5 million) increase in sales in the American market compared to 2022 and a significant growth of sales value in the European market (up PLN 3.83 million or 8.7%).

Compared to 2022, the Group also achieved a major 37.6% (PLN 1.57 million) increase in sales in the Polish market, mainly for military applications.

Wykres 4. Sprzedaż Grupy w 2022 i w 2023 r. wg rynków geograficznych [mln zł]



5.1.2 Operating costs

The ordinary operating costs increased by 3.9% vs 2022. They were mainly driven by the increase in production, which resulted in increased costs of material and energy consumption (up 25.5% or PLN 3.5 million) and higher salary costs (up 9.8% or PLN 2.4 million). The increase in energy prices in the market had a significant impact on the increase in energy costs in the reporting period.

The cost of production of products and services sold by the Group was PLN 38.4 million. The difference is due to:

Items of the statement of comprehensive income for 01.01.2023-31.12.2023 (in PLN thousand)	Dr amount	Cr amount
Revenue elimination in the group	-2,129	-2,624
Elimination of the cost of production of products and services sold	-117	-2,129
Elimination of the value of goods and materials sold	-264	
Elimination of selling costs	-2,361	
Elimination of financial costs	-133	
Elimination of financial income		-133
Total	**-5,004**	**-4,887**

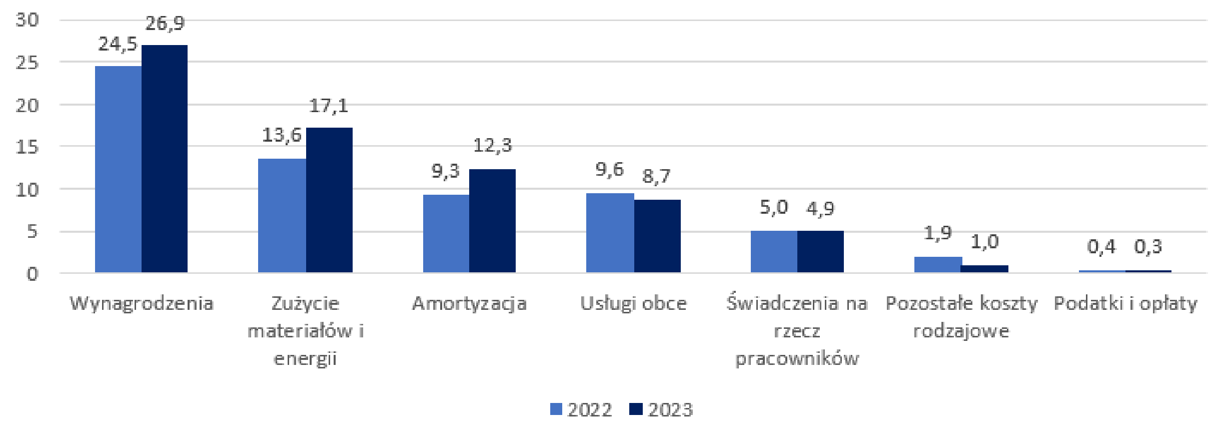
In addition, the following changes can be noted in the cost structure:

- Depreciation increased by PLN 2.96 million (31.6%), which is due to the purchase of equipment as part of investments made in previous years, as well as the completion of some R&D projects;
- The cost of external services fell by PLN 0.9 million (-9.2%);
- The cost of external services fell by PLN 0.9 million (-46.8%);

The Group's total operating costs in 2023 were PLN 66.33 million, up 3.9% YoY. The Group’s total operating costs were PLN 71.2 million.

Differences in operating costs are presented in the chart below.

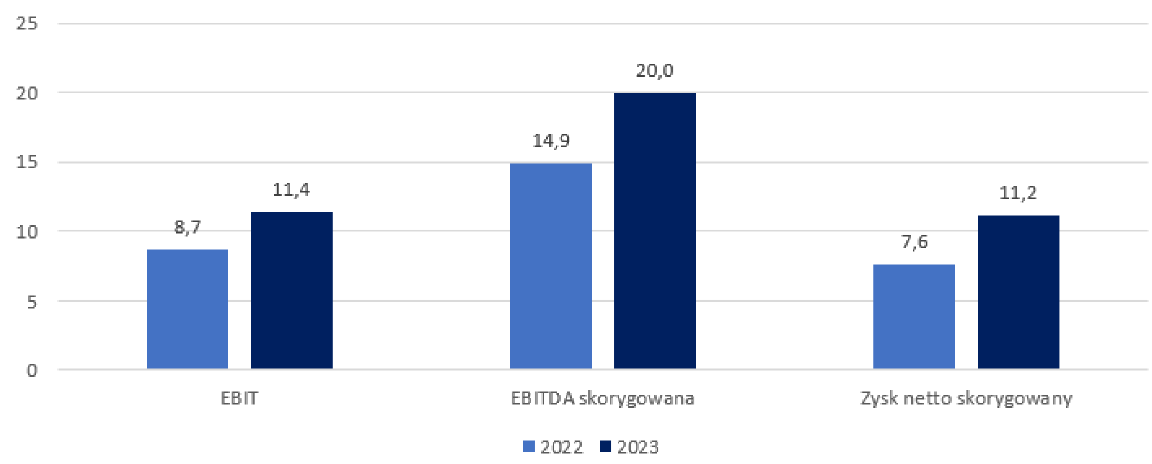
Figure 5. Operating costs in 2022 and 2023 by type [PLN million]



5.1.3 Profit

In 2023, operating profit (EBIT[1]) was PLN 11.4 million, up PLN 2.7 million (31.2%) YoY. Adjusted EBITDA reached PLN 19.98 million, up PLN 5.05 million (33.8%) compared to 2022. In 2023, net profit came in at PLN -2.99 million. In order to ensure comparability of data with previous periods, the management report also contains net profit adjusted for non-recurring items (i.e. excluding the deferred tax asset). The adjusted net profit was PLN 11.18 million, up PLN 3.58 million (47.1%) compared with the previous year.

Figure 6. The Group's financial performance in 2022-2023 [PLN million]



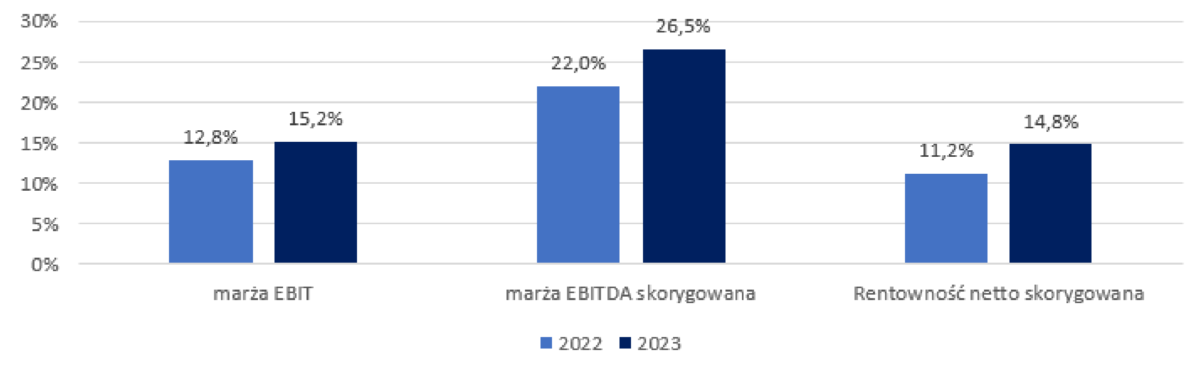
Specification (adjusted for non-recurring items)		2023	2022
EBIT	**[PLN thousand]**	**11,423**	**8,704**
Adjusted EBITDA	**[PLN thousand]**	**19,985**	**14,931**
Operating profit (loss)	[PLN thousand]	11,423	8,704
Depreciation/ amortisation	[PLN thousand]	12,381	9,349
Settlement of subsidies to grants and tangible assets	[PLN thousand]	-3,849	-3,151
Incentive scheme	[PLN thousand]	29	29
EBIT margin		**15.2%**	**12.8%**
Adjusted EBITDA margin		**26.5%**	**22.0%**

[1] EBIT is an economic indicator that is not reflected in the current IASs/IFRSs and is not applicable for financial reporting purposes. For this reason, in the Group's opinion, it represents an "alternative performance measure" (APM). The disclosed EBIT figure corresponds to operating profit/loss.

Adjusted net profit margin		**14.8%**	**11.2%**

In 2023, net profit margin (based on adjusted profit) was 14.8%; EBITDA margin was 26.5%, while EBIT margin was 15.2%.

Figure 7. Margins generated by the Group in 2022-2023 (%)



5.1.4 Assessment of the Group's financial position

In 2023, revenues were PLN 75.4 million (up 11.1% YoY), and net profit (adjusted for non-recurring items) was PLN 11.18 million (up 47.1%).

In the opinion of the Management Board, the Group's financial position is positive. In order to accelerate business growth, new series F shares were issued in 2023. The issue was aimed at obtaining proceeds that would enable the continuation of the key development projects implemented by the Group, in accordance with the development strategy for 2021-2026 adopted by the Management Board in June 2021, including – subject to Management Board's decision:

a) Accelerating sales growth under development initiatives that form the Group's core business (sales of infrared detectors and modules and semiconductor materials), by supporting operational activities throughout the value chain, in particular investments in the development of own sales structures in key markets and continued development of technologies and new products, in order to further strengthen the Group's position as a leading supplier of mid-infrared photon detectors and a supplier of semiconductor materials for applications in photonics and microelectronics.

b) Continuation of the project related to the development of infrared detector array technology for civilian and military applications and the launch of serial production of infrared detector arrays.

c) Implementation of a project related to the development of photonic integrated circuit technologies and their subsequent implementation into serial production. The share issue will finance the initial phase of the HyperPIC project, for which a decision of the European Commission was obtained approving public aid up to EUR 102.9 million. The decision on a grant for the Group and on its final amount will be taken as part of the competition procedure within the European Funds for a Modern Economy programme. The grant procedure will be available to the entities for which the European Commission has issued a positive decision regarding the eligibility for aid. The HyperPIC project will allow the Company to significantly scale its business by becoming a leading supplier of integrated mid-infrared sensor solutions.

The share issue generated proceeds of PLN 62,693,570.00.

5.1.5 Dividend policy

In accordance with the updated dividend policy announced on 16 June 2021 in current report No. 12/2021, the Group does not intend to pay dividend during Strategy implementation period. The final recommendation as to dividend payment will depend on a number of factors relating to the Group and its industry, including in particular the prospects for the Group's future activities, earnings and financial position, and will take account of all possible restrictions on dividend payment, liquidity ratios, expansion plans and legal requirements with respect to the above. The dividend amount recommended by the Management Board will depend on the Group's need to reinvest the generated profits in order to fund the Group's operations and support its continued robust growth.

5.1.6 Key developments in 2023 and until the date of approval of the financial statements

20 January	Introduction of new IR detectors based on material from groups III-V.
28 January – 2 February	Participation in the international Photonics West 2023 Exhibition in the United States
14 February	Publication of a new VIGO Photonics product catalogue.
22–23 February	Participation in the Space Industry Days organised by the European Space Agency (ESA).

8 March	Organisation of a webinar devoted to a new product – SWIR Matrix.
15 March	Placing second in the Listed Company of the Year ranking in the Innovative Products and Services category.
31 March	Sponsorship and expert support for the programme aimed at young photonics students – RESONATORS.
3–6 April	Participation in the Smart City Summit & Expo in Taiwan.
4 April	Presentation and participation in the panel discussion "Challenges and Opportunities for Electronic and Photonic Ecosystems Resulting from the EU Chips Act".
7 April	Publication of a database of scientific publications from around the world based on VIGO Photonics infrared detectors.
20 April	Co-creation of the Microelectronics, Electronics and Photonics Cluster.
19–21 April	Participation in the Optics & Photonics International Exhibition OPIE23 in Japan.
25 April	Participation in a discussion panel on the space industry during the European Economic Congress.
27 April	Participation in and presentation at the SPIE Optics + Optoelectronics show in the Czech Republic.
28 April	Participation in the Photonics21 Partnership Annual Meeting and a presentation related to the EU Chips Act.
4 May	Receiving the "Forbes Diamond 2023" award.
12 May	Participation in the International Photonics Job Fair.
16–17 May	Sponsorship and presentation at the Infrared Colloquium conference in Switzerland.
29 May	Adding a new product to the VIGO Photonics offer - QCL epi-wafers
7 June	Organisation of a webinar on new infrared detectors based on materials from groups III-V.
27–30 June	Participation in the largest photonics industry fair in Europe – Laser World of Photonics in Germany.
14 July	Participation in the Korean-Polish Economic Forum
27 July	Participation in the Polish-Taiwanese business meeting organised by the PARP (Polish Agency for Enterprise Development).
20 August	Marketing of new products – infrared detectors based on III-V materials
6–8 September	Participation in the largest semiconductor industry fair – Semicon Taiwan
5–8 September	Participation in the International Defence Industry Exhibition MSPO and signing a cooperation agreement with PCO S.A. concerning development of Polish optoelectronic systems.

5.2 Group's development outlook

5.2.1 Short-term outlook

Operating income

Based on the current order portfolio, the Group expects a significant increase in revenues in 2024, especially in the industrial and military segments.

The Group also expects to see accelerated growth in 2024, especially in the following segments:

- Industrial, which is related to the marketing of a new family of LN2 cooled products, as well as the strong demand for gas analysis detectors, especially on the American and Asian markets;
- Military, which is related to the increase in orders from key customers from the European market, as well as ongoing development projects for customers from the American market;
- Semiconductor materials – in connection with the launch of serial production of laser structures for a European customer and the existing pipeline of development projects for other clients.

5.2.2 Long-term outlook

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

Under the strategy, the primary objective until 2026 is to grow capital and increase value for Shareholders. This will be achieved by continued growth in the global photonics market, including by supporting the development of the market segments where the Group is active, and expanding operations into new areas.

The Management Board identifies a number of potential business opportunities within the photonics market. When leveraged, they may help the Company to achieve its growth ambitions in the 2026 perspective. The Management Board considers the following initiatives the most promising in terms of the adopted growth vision:

a) Exploration of the MCT (HgCdTe) detector market, including expansion (in terms of geographies and segments) in market areas not covered by regulations excluding 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 European Union 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.

The VIGO 2026 Strategy consists of two phases.

2021-2023 Perspective

In Phase 1 (2021-2023), the focus was on:

1) Continuation of initiated development projects, including photonic integrated circuit technology, III-V material detectors, semiconductor material epitaxy and infrared source technology.
2) Development of the technological and technical base common to key growth support initiatives by investing in R&D and universal infrastructure.
3) Selection, based on outcomes of R&D projects and analysis of the market situation, of the most promising growth initiatives and preparation of an investment plan to support their implementation.

In June 2021, the Company published the following strategic goals:

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

Due to unfavorable changes in the macroeconomic environment, the Group did not achieve its goals for 2022 and 2023.

However, a number of growth initiatives are under way that are intended to ensure a sustainable increase in sales revenues in the coming years.

2024-2026 Perspective

In Phase 2, the Group will focus on implementing and executing the most promising growth initiatives selected in Phase 1 of the Strategy, including:

- Accelerating sales growth under development initiatives that form the core business (sales of infrared detectors and modules and semiconductor materials), by supporting operational activities throughout the value chain, in particular investments in the development of own sales structures in key markets and continued development of technologies and new products, in order to further strengthen own position as a leading supplier of mid-infrared photon detectors and a supplier of semiconductor materials for applications in photonics and microelectronics.
- Continuation of the project related to the development of infrared detector array technology for civilian and military applications and the launch of serial production of infrared detector arrays.
- Implementation of a project related to the development of photonic integrated circuit technologies and their subsequent implementation into serial production as part of the PIC Initiative. The key project under this initiative is HyperPIC, for which a decision was obtained from the European Commission approving public aid of EUR 102.9 million. The decision on a grant for the Group and on its final amount will be taken as part of the competition procedure within the European Funds for a Modern Economy programme. The grant procedure will be available to the entities for which the European Commission has issued a positive decision regarding the eligibility for aid. The HyperPIC project will allow the Company to significantly scale its business by becoming a leading supplier of integrated mid-infrared sensor solutions.

The Company's ambition is to maintain the revenue growth rate at 20-30% p.a. and high profitability of its ordinary activities, including a gross margin in excess of 60% and EBITDA margin in excess of 40%.

5.3 Research and Development

The Group is currently implementing the following strategic growth initiatives:

Detectors Initiative

The purpose of the Detectors Initiative is to:

a) Improve the technologies and manufacturing processes of products based on mercury cadmium telluride (MCT). Particular attention is paid to the marketing of new products for industrial, military and space applications, in jurisdictions not covered by regulations excluding the use of mercury and cadmium in detectors.

b) Expand VIGO's range of detectors was on III-V materials. In connection with the introduction of the EU RoHS Directive, the possibility of marketing goods containing substances hazardous to the environment (such as mercury) will be limited in the civil market during the next several years. Ahead of those changes, the Company has been developing detectors based on A3B5 materials, e.g.: indium and arsenic antimonides.

c) 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 most important goals of the projects is to reduce the production costs of current products and to develop new products that respond to problems and applications reported by customers. Production costs are reduced by automating production and increasing yields.

Projects implemented within the portfolio respond to the needs reported by customers. For example, as part of one of the projects carried out for a new customer, dedicated detectors with dedicated filters were developed, which are paired in terms of the detector's field of view (FOV). Currently, the project is at the implementation stage and is to be completed in Q2 2024.

The portfolio also includes projects done for the Group's regular customers. Due to the increase in the volume of sales to a regular customer, it was necessary to optimise production costs of a particular type of detector by improving yields and automating production. As part of the project, automatic detector assembly solutions were implemented (accelerating production) and chip measurements were applied using Probe Station for an improved chip qualification (increasing yields at subsequent production stages).

The most important objective of the LN2 project is to develop and introduce liquid nitrogen-cooled detectors into serial production. Currently, the key project is at the stage of prototyping the first type of detector and improving the detector design. It is to be completed at the end of Q2 2024. Ultimately, the LN2 detector range will consist of several detector types differing in wavelength, size and encapsulation method. The project is a response to customer needs, in particular the problem of availability of LN2 detectors in an ever-expanding global market. The LN2 detector market is mature, and participation in that market guarantees annual revenues of up to several million EUR. In recent years, the global supply chain for LN2 detectors has been disrupted due to the geopolitical situation. Customers are looking for alternative supply sources, which represents an opportunity to quickly gain significant market share.

As part of the second goal, related to the launch of detectors from groups III-V, the Group is implementing a number of co-financed development projects, including: project POLTUR4/PEMIR/2/2021, "Plasmon-enhanced high operating temperature medium infrared photodetectors" – PEMIR. The project seeks 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 applied in many existing and new markets including industrial (automotive, manufacturing control), environmental (pollution control), medical and military. The total cost of the project is: PLN 1,115,343.81, including the grant: PLN 836,507.86. The project is co-financed by the National Centre for Research and Development under the POLTUR4 competition.

Another project in this area jest TRIAGE "Ultra-broadband infrared gas sensor for pollution detection" (grant agreement ID: 101015825), which will develop a smart 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 supply dedicated infrared detector modules for TRIAGE sensors. VIGO's 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, including the EU funding: EUR 4,994,300.96. The project is co-financed under the Horizon 2020 programme.

Another project implemented under this initiative, as part of the programme of developing detectors based on III-V materials is Ai-Prism "AI Powered human-centred Robot Interactions for Smart Manufacturing" (grant agreement ID: 101058589), whereby VIGO, in cooperation with partners, including the Łukasiewicz Research Network – PIAP, will implement in its production environment a robot supported by artificial intelligence. This innovative solution will be used to automate one of the production stages of unique immersion lenses. The technology and implementation are intended to facilitate the evaluation of the performance, portability, scalability and deployment of AI-powered robotic solutions on a large scale. The project is carried out in an international consortium of twenty five partners. Implementation period: 1.10.2022-30.09.2025. Total project costs: EUR 12,533,996.00, including the EU funding: EUR 9,335,578.88. The project is financed under the Horizon Europe programme.

Another project carried out by the Group in this area is IBAIA "INNOVATIVE ENVIRONMENTAL MULTISENSING FOR WATERBODY QUALITY MONITORING AND REMEDIATION ASSESSMENT" (grant agreement ID: 101092723), whereby innovative detection modules will be developed in situ (without transporting the sample to the laboratory), operating in real time, enabling faster and more efficient monitoring of the aquatic environment. Under the project, VIGO will be involved in the development of mid-infrared transducers; the fabrication of QCL epitaxial structures and manufacture of the photonic detector, and will participate in the integration of the manufactured system. The project is carried out in an international consortium of 17 partners. Implementation period: 1.12.2022-30.11.2026. Total project costs: EUR 4,786,433.75, including the EU funding: EUR 4,786,435.00. The project is financed under the Horizon Europe programme.

The last project covered by the Initiative and financed with a grant is "LWIR photodetectors supported by dielectric antennas (LWIRPSBDA)".

The aim of the project is to develop and demonstrate a new detection device operating in high-temperature conditions (HOT – high operating temperature, 230 K in the first stage and 300 K) and in the long-wave range – 10.6 micrometers with performance exceeding currently available HgCdTe detectors. The proposed architecture of the device will allow for higher detectivity by reducing the volume of the detector, thus reducing the noise level and increasing optical coupling through the use of an amorphous silicon dielectric antenna, optimized for the longwave range (10.6 micrometers). The detector structure will be based on InAs/InAsSb type-II superlattice. The use of a dielectric antenna will increase the quantum efficiency 2.5 times for the wavelength of 10.6 micrometers. Implementation period 01.04.2023-31.03.2026. Total project costs: PLN 1,865,357.04, including a grant of PLN 1,382,257.04. The project is co-financed by the National Centre for Research and Development under the 10th Polish-Taiwanese/Taiwanese-Polish Joint Research Call (2022).

Under the Initiative, in 2024 solutions will be implemented that have been developed within the "Affordable Detection Module" area, a project that provides for marketing low-cost (<EUR 100) detection modules (detectors with signal amplification) for wide use in industrial and environmental protection applications. Two tasks are currently being carried out under 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 allow 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 help achieve similar parameters as when using immersion lenses, but at much lower production cost.

The InGaAs development programme cover the project "Production of InGaAs sensors with integrated ASIC electronics for the range of 1.7 - 2.6 µm", which sought to develop and market a new mass-market product: 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. The total eligible cost of the project was PLN 12,650,098.83, including the grant of: PLN 8,520,919.18. The project is co-financed by the National Centre for Research and Development under the Fast Track competition. The project was completed on 31.12.2023.

PIC Initiative

The initiative seeks to develop optoelectronic systems for infrared range photonics. They 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 the PIC include:

▪ Analyses of chemical composition of gases

▪ Analysis of impurities in liquids

▪ FSO (free space optical) communications

▪ Medical, telemedicine and gas detection-related applications.

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 clients (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, an agreement was signed for the project "photonics integrated circuits technologies for MidIR", abbreviated as: MIRPIC, agreement no.: TECHMATSTRATEG- III/0026/2019-00. The project will result in a product innovation in the form of specialised integrated photonics 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, facilitating the design, fabrication and performance testing of an ASPIC demonstrator. The demonstrator will reflect the typical characteristics of integrated photonics 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: 1.04.2021-31.12.2024. Total cost of the project: PLN 29,255,381.61, including the grant: PLN 26,564,942.41.

In October 2023, together with partners from the Warsaw University of Technology and the European Regional Centre for Ecohydrology of the Polish Academy of Sciences, the FOSMO project "Development of an innovative photonic water resources monitoring system" was started.

The project seeks to develop a water monitoring system implementing newly developed reagentless photonic methods. In phase 1, laboratory measurement methods will be developed and tested, and then miniature sensor systems will implement them. As the project progresses, accessory components will be developed which, when integrated with sensors, will create multiparametric probes that are autonomous in terms of power and communication. In parallel, validation procedures will be carried out to confirm the correct operation of the designed sensors and probes.

As part of the implementation of the FOSMO project, VIGO Photonics S.A. will be involved in the implementation of the following tasks: development of sensors – detection systems; development of an autonomous measurement probe and demonstration and tests of the autonomous measurement probe in the conditions of research platforms.

The project is co-financed by the National Centre for Research and Development under the HYDROSTRATEG programme. Implementation period: 01.10.2023- 31.09.2026. Total cost of the project: PLN 23,962,066.25, including a grant of PLN 20,214,504.06.

In January 2023, under agreement no.101092697, the BROMEDIR project "Broadband Mems-Based Infrared Spectrometers: the coof a multipurpose spectral sensing photonic platform (BROMEDIR)" was started.

BROMEDIR aims to develop and test demonstrators of a system that will be able to meet the growing market demand for miniaturised sensors that can analyse many chemical parameters at the same time. For many years, simultaneous measurement of many substances has been possible thanks to the use of spectroscopy. The BROMEDIR project will develop next-generation miniature spectrophotometers that will next be used in three application domains: agriculture, hydrogen supply chain quality monitoring and fuel quality monitoring. VIGO's main tasks in this project are: development of a modern uncooled mid-infrared photonic detector; participation in the integration and testing of the ultra-compact FTIR spectrophotometer; participation in the validation of the FTIR spectrophotometer in appropriate environments; participation in performance evaluation and development of recommendations. Implementation period: 1.01.2023-30.06.2026. Total project costs: EUR 4,999,821.25, with 100% EU funding. The project is financed under the Horizon Europe programme.

As part of the Initiative, further grant applications were submitted.

Matrices Initiative

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

The continuation of the Matrices programme under the new strategy is designed to develop 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 in 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. The project is implemented under the competition of the National Centre for Research and Development: Fast Track for Mazovia.

In 2021, based on the agreement: POIR.01.01.01-00-0185/20-00, the Group began implementation of the project:

"Polish matrix for space applications active in infrared", which was continued in 2022 and 2023. The main objective of the project was to develop a matrix for the infrared range of 2-5 µm for space applications. An additional objective was to develop a measurement set for characterisation of typical matrices, modules and mid-resolution infrared cameras. The infrared array proposed in the project was made of a technologically advanced material - type II InAs/InAsSb superlattice, a new and entirely innovative product in the Polish market. The matrix also constitutes an innovative product on a global scale and will replace the existing indium antimonide InSb matrices. The project was 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: PLN 15,582,310.69, and the grant amount: PLN 11,568,965.39. The project was completed on the contractual end date on 31.12.2023.

MOCVD Epitaxy Initiative

The Initiative seeks 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.

On 21.11.2019, an agreement was signed on co-financing of the research project MAZOWSZE/0032/19-00: "Production technology of novel epitaxial structures and VCSEL laser devices critical for the development of photonics" within the competition "Path for Mazovia". VIGO Photonics S.A. was the leader of the consortium that also included Warsaw University of Technology and Łódź University of Technology. The total amount of eligible costs of the Project was PLN 16,302,135.55, while the grant amount was PLN 12,398,365.18. Eligible costs of VIGO Photonics were PLN 13,014,525.55 and the grant amount was PLN 9,110,755.18. The project sought 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 also included 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 was based on the 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 were 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, VIGO Photonics will start the production of epitaxial wafers and their sale on the global market and will be the first in Poland to start the technological process of VCSEL devices production from own material and according to the design developed by the consortium.

Another ongoing activity in this area was the Car2TERA project, "Terahertz sensors and networks for next generation smart automotive electronic systems", (agreement no. 824962), implemented under Horizon 2020 by a European consortium comprising eight partners. The project sought to develop terahertz sensors and networks for a new generation of intelligent automotive electronic systems.

The Group is also implementing the project called TRAVEL "Novel Transparent Electrodes for VCSELs", agreement no. M-ERA.NET2/2019/9/2020. The project is carried out 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. Eligible costs: PLN 1,142,725.35, including a grant of PLN 1,024,808.10.

In 2023, the initiative also included work on the WikiNET project: "Vertical Cavity Surface Emitting Lasers", agreement no.: NCBR/VII/PL-IL/1/2020. The project sought to produce long-wave, single-mode integrated VCSEL wafers that allow fast modulation while maintaining a low unit cost. Vigo's task was to develop high quality strained quantum wells for O and C bands. The project laid the foundation for large-scale industrial production of long-wavelength VCSEL lasers. The project was co-financed by the National Centre for Research and Development under the 7th Polish-Israeli competition. Eligible costs: PLN 1,166,233.70, grant amount: PLN 999,675.28.

In 2023, as part of the Initiative, implementation of three new co-financed projects continued. Of those projects, the largest budget was allocated to: Photogenic "Photonics on Germanium – New Industrial Consortium" (agreement no.: 101069490), involving the development of an innovative technology for the production of VCSEL epitaxial structures on germanium substrates. The project provides for iterative optimisation of growth using MBE and MOCVD techniques, which will result in the achievement of high crystalline quality of the produced structures with competitive parameters in relation to VCSELs produced on GaAs substrates. The role of VIGO in the project is to develop a technology for the growth of VCSEL structures on germanium substrates using the MOCVD technique and extensive cooperation in the development of technologies for the production of laser devices. The project is carried out by an international consortium of seven partners. Implementation period: 1.10.2022-30.09.2025. Total project costs: EUR 4,788,752.00, 100% financed by the EU. The project is financed under the Horizon Europe programme.

Another project launched under the initiative in 2022 and continued in 2023 is OPMMEG, "OPTICALLY-PUMPED MAGNETOMETER ARRAYS FOR MAGNETOENCEPHALOGRAPHY" (agreement no.: 101099379), which will develop an OPM (optically pumped magnetometer) matrix for wide application in Magnetoencephalography – a non-invasive imaging technique used to study human brain functions, among others. This method enables the measurement of brain activity with good spatial and temporal resolution. VIGO's main task under the project will be the development, design and epitaxy of VCSEL heterostructures, VCSEL processing and optoelectronic tests. The project is carried out in an international consortium of five partners. Implementation period: 01.12.2022-30.11.2025. Total project costs: EUR 2,483,327.50, 100% financed by the EU. The project is financed under the Horizon Europe programme.

The last project co-financed under the Epitaxial initiative, is Mini-BOT: "MINIATURIZED BOARD-MOUNTABLE OPTICAL TRANSCEIVER FOR HIGH DATA RATE MILITARY SATELLITE COMMUNICATIONS" (agreement no.: 101102948), whose main goal is to create satellite communication systems. One of the key components of the communication system will be VCSELs. Under the Mini-BOT project, VIGO Photonics S.A. will be involved in the development of the configuration and interfaces of the communication module and the production and tests of the epitaxial heterostructure for VCSELs, as well as the development and assembly of the entire optoelectronic module. The project is carried out in an international consortium of five partners. Implementation period: 01.12.2022-30.11.2025. Total project costs: EUR 3,422,099.17, 100% financed by the EU. The project is co-financed by the European Commission under the European Defense Fund.

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

5.4 Risk factors and threats to the Group's operations and development

The Group's business, financial performance and results 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 Group's business, financial position and results, 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 Group is not currently aware or which it considers immaterial, may also have a material adverse effect on the Group's business, financial condition and results, and may lead to the loss of some or all of the invested capital.

5.4.1 Business and operational factors

Risk of lower-than-expected demand for products

Market growth plans are based on various market reports and analyses, and plans of clients 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 Group's clients may not be fully achieved both as a result of failures of ongoing projects and the adoption of erroneous assumptions or expectations. As a result, the demand for the Group's products may be lower than expected.

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

This risk will be mitigated by VIGO's own research and participation in various international projects, including in cooperation with the Group's existing clients, aimed at developing new applications for infrared detectors.

Risk of losing distributors or clients

The main sales channels comprise selling products directly to clients 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. For this reason, the loss of one or more key distributors could adversely affect the Group's financial performance, the value for shareholders and profits.

In addition, there is a risk of losing key clients, who are direct buyers of the Company's products. Quality, economic or customer service issues may discourage partners from further cooperation. Therefore, the loss of key clients, may adversely affect financial results and reduce the Group's value for shareholders.

In order to mitigate the risk, the Group constantly searches the markets for potential new distributors, monitors the satisfaction level of its existing clients and continuously looks for new potential clients to replace any clients 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) and can be sourced only from a limited group of suppliers that guarantee their high quality.

In 2022, the Group noted increasing problems with the supply of electronic components used in the production of detection modules (microcontrollers, integrated circuits, etc.) related to the global economic situation. The delivery times of those components have significantly increased, and the prices of available components have substantially risen. These problems affect the entire electronics industry across the world.

In the event of delays in the supply or deterioration of the quality of raw materials, the production of detectors may be temporarily suspended or delayed. Component costs can increase significantly when sourced from a brokerage market.

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

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

In order to mitigate the risk, the Group continuously monitors the supply market. In order to minimise the risk of electronic component availability, the Group increases the stock of those components and cooperates with its clients to take advantage of their market position and accelerate deliveries.

Risks related to the war in Ukraine

In connection with the war in Ukraine, the Group has assessed its impact on the Group's activities and financial results. The Group decided to suspend the sale of its products to Russia and Belarus. The suspension of sales to Russia will not have a material impact on the Group's financial results. In 2021, sales to Russia were PLN 244 thousand and in previous years ranged from PLN 100 thousand and 150 thousand per year.

In connection with the sanctions, the Group has noted additional risks associated with the supply of components manufactured in the Russian Federation. If additional restrictions are introduced, problems may occur with the timeliness of deliveries or restrictions on the ability to purchase those components. The value of components imported from Russia in 2021 was PLN 7.3 million. The Group has taken steps to find alternative suppliers and is also working with suppliers to change the location of component production. The certification of new suppliers is progressing as planned. The Group successfully completed the certification of a new supplier. In addition, the previous supplier moved its production outside of Russia. At this stage, the Group does not see any significant problems with the availability of components that have been purchased from the Russian market so far. However, due to disruptions in global supply chains in the electronic components market, this risk cannot be completely ruled out.

Competition-related risk

The high technological barriers and the high capital intensity of the technologies used make the radiation detector market a highly concentrated one. Only a few players in this market can be considered direct competitors to the Group. There is a risk that in the event of the emergence of competitors, the Group may lose part of the market and clients 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 Group's value for its shareholders.

The risk is neutralised by the Group through continuous development of technology, ensuring technological superiority over competitors, as well as through planned investments that will reduce the price of products on offer. In addition, the Group 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 Group's products, their manufacturing requires highly qualified personnel with many years of experience. Skills, knowledge and experience of employees are among the most important competitive advantages of VIGO. For this reason, losing a key employee may cause difficulties in the production process, delays in deliveries and deterioration of product quality and thus negatively affect the financial results and reduce the value of the Group for its shareholders.

In order to minimise the above risk, the Group applies an attractive bonus scheme for employees and provides opportunities for upskilling and work involving unique technical matters. Employees' performance and skills are evaluated on a continuous basis. There are staff development programmes in place, and talents are promoted to managerial positions.

The Group has been preparing for a generational shift in the company for several years now. Senior employees are gradually replaced by younger ones. Their training is conducted jointly with technical universities around the world. The generational shift is an ongoing process that does not affect the continuity of the Company's business.

5.4.2 Technological risks

Risks related to research and development

Constant technological progress and developing methods of manufacturing infrared detectors call for continuous research and development. Advanced research into the development of detector production technology help improve the parameters of manufactured products.

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

As the end result of R&D might turn out to be less satisfactory than expected, the anticipated economic benefits might differ from those assumed in the plan. Unsatisfactory R&D results might cause the Group to lose the invested funds and its competitive position.

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

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

Risks associated with the emergence of alternative technologies

The Group manufactures detectors based on MOCVD technology and is currently investing in the start of 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 current R&D will significantly improve the parameters of infrared detectors manufactured using these technologies.

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

The risk will be neutralised by the Group 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 Group uses a laboratory furnished with modern and unique equipment for doing research and manufacturing detectors. The apparatus used has been individually customised to the Group's needs and it is not possible to purchase it in the market.

Due to the above, in case of failure or damage to the apparatus, it cannot be replaced in a short time. The materialisation of the risk may disrupt the production or delay order processing, and thus may negatively affect the Group's financial results and reduce its value for shareholders.

In order to minimise the impacts of the risk, the Group 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 Group limits the possibility of delays by concluding appropriate agreements with suppliers and monitoring the quality of supplies and services. The Group determines the required stock levels of particular components and plans production taking into account the above risk. The Group puses only proven carriers and transfers the transport risk to clients (deliveries are primarily EXW) or procures insurance against transport damage.

5.4.3 Financial risks

Risk of losing EU grants for planned investments

The implementation of investments and R&D projects with EU grants implies a number of additional obligations for the Group, especially in the area of procurement and selection of suppliers and contractors. Failure to meet the stringent requirements may cause the Company to lose some or all of the grants. The loss of grants would mean the need to return the grants received, and expenses would have to be funded from equity.

The Group has extensive experience and is very successful in independently obtaining EU grants, while the Group's management has experience in the implementation of EU projects. The technologies implemented by the Group 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 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. In 2020, the Group applied to the EC for an extension of the transitional period for medical devices, and in 2023 it applied for extension of the transitional period for control and measuring equipment. In 2022, a consultant working for the EC recommended extending the transitional period to 2028.

In order to minimise the risk of limiting the market for HgCdTe detectors, the Group 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 Group 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 Group) are several times worse than detectors made from HgCdTe.

5.5 Human capital

Human capital is absolutely one of the most important assets of VIGO Photonics, which enables the implementation of ambitious development goals.

In 2023, the overall annual employment level was maintained almost unchanged, but the company faced the highest level of employee turnover in years (+5.12 percentage points). This turnover mainly affected technology and production departments.

The Group took a number of measures to stop that adverse phenomenon, for example, modified forms of employment and increased in the number of open-ended contracts with a simultaneous decrease in the number of fixed-term contracts. This should result in some stabilisation of employment in the medium and long term. Salaries were also reviewed, the scope of professional training was extended, and team bonding initiatives were restored. In 2024, the range of employee benefits will also be expanded.

Not all effects of higher turnover were eliminated in 2023. However, it is worth noting that the increase in the number of administrative employees relative to operational employees is not so much the result of headcount increase but should rather be attributed to the organisational changes (initiated in 2022) designed to improve the Company's efficiency

Number of women/ men	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Women	67	69
Man	140	140
other	no data	no data
Total	**207**	**209**

Contract type	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Open-ended contract	34	54
Fixed-term contract	173	155
Total	**207**	**209**

Managerial/ other positions	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Management Board	3	0
Managers	32	29
Others	158	180
Total	**207**	**209**

Specialist positions	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Research & Development Department	52	61
Sales Department	15	16
Epitax Production Department	8	7
Production Department	60	68
Support Departments	72	57
Total	**207**	**209**

5.6 Average employment in the financial year by professional groups (in FTEs)

Specification (average FTEs)	01.01.2023- 31.12.2023	01.01.2022 - 31.12.2022
Management Board	2.08	1.50
Administration	20.26	34.70
Sales Department	18.48	19.27
Purchasing & Logistics Department	9.14	10.75
IT Team	9.42	5.58
Production Department	63.03	69.01
Epitax Production Department	7.44	6.33
Research & Development Department	41.99	55.11
Matrix Technology Development Department	9.08	7.78

Production Engineering Department	18.42	5.08
Total	**199.34**	**215.11**

Specification (in persons)	01.01.2023 - 31.12.2023	01.01.2022-31.12.2022
Number of employees hired	47	38
Number of employees terminated	49	35
Total	**-2**	**3**

5.7 Environmental protection and health and safety

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

Accordingly, the key environmental goals identified at the Company include the rational management of raw materials, materials and energy as well as the prevention of pollution. Adverse environmental impact is prevented by implementing technological and technical as well as organisational and procedural measures. The implemented measures are periodically checked and evaluated in order to confirm compliance with relevant laws and standards as well as industry-specific regulations.

The Group implements sustainable development projects involving the reduction of utilities consumption. The implemented measures include, in particular, reduction of energy and water consumption, reduction of the amount of industrial wastewater, prevention and reduction of the amount of industrial waste, 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 Group cooperates with business partners, third party experts and industry organisations. The Management Board provides resources, training, equipment and other support to support the implementation of the environmental policy by employees at all levels of the Group's organisation structure, in line with the assignment of tasks and responsibilities.

Consumption in 2023	Q1	Q2	Q3	Q4	Total
water [m3]:	1,264	918	658	951	3,791
thermal energy [GJ]	1,085	565	643	1,059	3,352
electricity [MWh]	819	737	790	835	3,181

Consumption in 2022	Q1	Q2	Q3	Q4	Total
water [m3]:	1,367	921	605	1,261	4,154
thermal energy [GJ]	719	558	562	1,086	2,925
electricity [MWh]	850	783	757	830	3,223

5.7.1 Water

Water is very important for Vigo's manufacturing process. The water consumption for production is monitored daily. In the case of excessive consumption, the building administrator receives a notification from the BMS system. In 2022, the total water consumption for sanitary and technological purposes 4,154 m^3.

As consumption increases, systems are being installed to reuse water in the most water-intensive production centre. With the implementation of new projects for water reuse, future consumption is expected to fall compared to current consumption.

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

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

5.7.2 Energy

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

The Company does not use fossil fuels for heating. It does not have its own heating furnaces. One of the Company's buildings is heated from the district heating system. The other two buildings are heated by geothermal heat pumps. This consists of 60 deep boreholes of approximately 100 m each.

5.7.3 Thermal energy

Thermal energy from the district heating network is used to maintain proper conditions in production rooms throughout the year. Thermal energy from the district heating network is also used to heat one of the buildings owned by the Group. Heating is available during the cold months. Once the outside temperature increases, the heating system is switched off.

5.7.4 Electricity

The Group uses electricity supplied by five low-voltage lines from a leased MV substation. The energy supplied powers both the production machinery and building equipment. The Company is gradually replacing lighting sources with LEDs with much lower energy consumption. The machine park is also being upgraded.

5.7.5 Wastewater

The Group holds a water permit to discharge a mixture of domestic and industrial wastewater into the municipal sewer system. The permit obligations are being continuously monitored. To this end, physical and chemical analyses of sewage quality are carried out once a quarter. No excesses have been recorded so far.

Rainwater and snowmelt, after being pre-treated in a separator of oil-derivative substances, are discharged from the Group's premises to an underground tank with a capacity of 200 m^3, and then to the municipal rainwater drainage system. This solution prevents pollutants from entering into the ground.

5.7.6 Waste

The Group generates municipal waste and hazardous waste within its industrial plants and beyond, as well as other waste types related to its operations. In 2022, 3361 kg of hazardous waste was generated in connection with the operation of the plants, an increase compared with the previous year. The Group conducts selective collection of packaging waste from paper and cardboard, glass and plastics.

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

Where required, waste records are kept in accordance with the Waste Act.

In July 2023, the Group obtained a positive decision to produce hazardous waste in its plants for a period until July 2032.

5.7.7 Emission into the air

As a result of technological processes, the Group emits gaseous and particulate substances into the air. There are no air quality standards or reference values for most pollutants emitted.

In July 2022, the Group obtained a positive decision for the emission of gases and dust into the air for a limited period until June 2032.

5.7.8 Noise

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

5.7.9 Biodiversity

According to the master plan, Group's premises are located in the area of production facilities and warehouses – Tarnobrzeg Special Economic Zone EURO-PARK WISŁOSAN. These are urbanised areas. They are not covered by any form of nature conservation and are not adjacent to protected areas. For this reason, the Group's activities do not affect the biodiversity of the neighbouring areas.

5.7.10 Occupational health & safety

The Company complies with Polish regulations on occupational health and safety. Employee safety is one of the cornerstones of the Company. By caring about our people's safety, we promote stable development of the Company. This is evidenced by the fact that no accidents involving employees have been observed at the Company for over 25 years. The Company's premises, working rooms and workstations meet the requirements of the Polish law. Employees are provided with appropriate personal protective equipment and the premises are equipped with top class safety devices. The Company conducts regular audits in the area of occupational health and safety and fire protection.

In addition to basic training required by law, the Company's employees attend additional training courses, obtaining relevant certificates or qualifications. The awareness of employees regarding potential hazards helps minimise those hazards to a large extent. Training and sharing information about potential dangerous situations with employees strengthens the sense of safety.

5.8 Corporate governance

Since the date of admission of the Group's shares to trading on the regulated market, i.e. since 21 November 2014, the Management Board of VIGO Photonics S.A, appreciating the importance of corporate governance principles to ensure transparency of internal relations and the Group's relations with the outside world, in particular with current and future shareholders, in pursuance of the obligation under §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" (Good Practices 2021, DPSN2021). The consolidated texts of the above documents are publicly available at: www.corp-gov.gpw.pl under the "Regulations" tab.

The Group published a list of applicable Good Practices on 30 July 2021, which is available on the Group's website. Out of the published good practices, the Group does not apply the following:

INFORMATION POLICY AND COMMUNICATION WITH INVESTORS

1.3. The Group integrates ESG factors in its business strategy, including in particular:

1.3.1. environmental matters, including measures and risks related to climate change and sustainable development;

The Group does not apply the above principle.

The Group's current strategy does not include ESG matters. At the same time, it is the intention of the Group's Management Board to consider ESG matters, including environmental ones, when working on details of the Group's current strategy.

1.3.2. social and employee factors, including among others actions taken and planned to ensure equal treatment of women and men, decent working conditions, respect for employees' rights, dialogue with local communities, customer relations.

The Group does not apply the above principle.

The Group's current strategy does not include ESG matters. In its activities, the Group places great emphasis on employee matters, respect for their rights, care about working conditions and equal opportunities for employee development. At the same time, it is the intention of the Group's Management Board to consider ESG matters when working on details of the Group's current strategy.

1.4. In order to ensure proper communication with stakeholders on the adopted business strategy, the Group publishes on its website information about its strategic direction and measurable goals objectives, including in particular long-term goals, planned activities and progress vs goals, using financial and non-financial metrics .

The Group does not apply the above principle.

Information on the Group's strategy is published on the Company's website. The Group plans to publish on its website information on the progress towards implementation of its strategic goals. The principle followed because the Group's current strategy does not include the ESG matters.

1.4.1. Explain how climate change considerations are integrated into the decision-making processes of the company and its Group entities, highlighting the resulting risks;

The Group does not apply the above principle.

The Group's strategy does not include references to climate change considerations, although the Group publishes in its financial reports basic metrics concerning the environmental impact of its business. At the same time, it is the intention of the Group's Management Board to consider ESG matters when working on details of the Group's current strategy.

1.4.2. Present, among other things, the equal pay index for employees, defined as the percentage difference between the average monthly pay (including bonuses, awards and other benefits) of women and men in the last year, and present information about actions taken to eliminate any pay gaps, including a presentation of related risks and the time horizon of achieving the equality target.

The Group does not apply the above principle.

So far, the Group's strategy has not included ESG matters, including those related to equal pay for women and men. Within the next 12 months, the Group intends to publish on its website the value of the equal pay index and other information indicated in the above principle.

MANAGEMENT BOARD AND SUPERVISORY BOARD

2.1. The Group should have in place a diversity policy applicable to the management board and the supervisory board, approved by the supervisory board and the general meeting, respectively. The diversity policy defines diversity goals and criteria, among others including gender, education, expertise, age, professional experience, and specifies the target dates and the monitoring systems for such goals. With regard to gender diversity of corporate bodies, the participation of the minority group in each body should be at least 30%.

The Group does not apply the above principle.

The Group 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 Group places great emphasis on equal treatment irrespective of gender, beliefs or origin and the basic criteria for the selection of candidates for particular positions are professional skills and experience relevant to the Group's current needs. The current membership of the Group's Supervisory Board and Management Board is diverse in terms of education, expertise, age and professional experience.

2.2. Decisions to elect members of the management board or the supervisory board of companies should ensure that the composition of those bodies is diverse by appointing persons ensuring diversity, among others in order to achieve the target minimum participation of the minority group of at least 30% according to the goals of the established diversity policy referred to in principle 2.1.

The Group does not apply the above principle.

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

2.7. The exercise of functions by members of the Group's management board in the bodies of entities outside the Group requires the consent of the supervisory board.

The Group does not apply the above principle.

The Group's current internal regulations do not provide for the obligation to obtain the consent of the supervisory board for a member of the management board to perform functions in bodies of non-Group entities. The Group's intention is to introduce relevant provisions to the Group's corporate documents within the next 12 months.

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

The Group does not apply the above principle.

The Group 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 Group places great emphasis on equal treatment irrespective of gender, beliefs or origin and the basic criteria for the selection of candidates for particular positions are professional skills and experience relevant to the Group's current needs. The current membership of the Group's 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 chairman 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 Group does not apply the above principle.

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

3.7. Principles 3.4–3.6 also apply to entities within the Group that are material to its business, if they have designated persons to perform these tasks.

Not applicable.

The entities in the group do not have separate internal audit, risk management and compliance functions. As the activities of those entities develop, the principles corresponding to those used at the Group will be applied.

GENERAL MEETING AND RELATIONS WITH SHAREHOLDERS

4.13. A resolution on a new issue of shares with exclusion of pre-emptive rights, which at the same time grants the pre-emptive right to subscribe for the new issue shares to selected shareholders or other entities, may be adopted if at least the following conditions are met:

a) The Group has a reasonable, economically justifiable need to raise capital urgently, or the share issue is connected with reasonable, economically justifiable transactions, such as, inter alia, a merger with or acquisition of another company, or the shares are to be subscribed under an incentive scheme adopted by the Group;

b) the persons to whom preemptive right will be given will be identified according to objective general criteria;

c) the share subscription price is reasonably related to the current price of the shares in the target or is determined as a result of a market-based book-building process.

In July 2021, the Group reported derogation from the above principle.

However, on 18 October 2021, the Group's General Meeting adopted the Rules of the incentive scheme of VIGO Photonics S.A. for key employees and the Management Board, which comply with the above principle, and the acquisition price for the shares remains in a reasonable relation to the quotations of the Group's shares from the period preceding the adoption of the scheme.

REMUNERATION

6.3. If one of the company's incentive programmes is a managerial options programme, then the realisation of the options programme should be conditional on the fulfilment by the entitled persons, within a period of at least three years, of predetermined, realistic and appropriate financial and non-financial and sustainable development objectives for the Group, and the price set for the acquisition of shares by the entitled persons or the settlement of the options may not differ from the value of the shares at the time of the adoption of the programme.

In July 2021, the Group reported derogation from the above principle.

However, on 18 October 2021, the Group's General Meeting adopted the Rules of the incentive scheme of VIGO Photonics S.A. for key employees and the Management Board, which comply with the above principle, and the acquisition price for the shares does not deviate from the share price noted in the period preceding the adoption of the scheme.

6.4. As the supervisory board performs its responsibilities on a continuous basis, the remuneration of supervisory board members cannot depend on the number of meetings held. The remuneration of members of committees, in particular the audit committee, should take into account additional workload on the committee.

The Group does not apply the above principle.

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

5.8.1 Corporate giving and sponsorship activities

Due to the scale of its operations and the nature of its market and clients, the Group does not engage in intensive corporate giving or sponsorship activities. The Group engages only in sponsoring events related to the Group's business, i.e. events related to the photonics, optics and optoelectronics industry.

5.8.2 Internal control and risk management system

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

The Chief Accountant has oversight over preparation of the financial statements and financial reports of the Group. At the same time, she is responsible for the organisation of the work related to the preparation of financial statements and keeps track of changes required by external laws and regulations concerning stock exchange reporting requirements.

The financial function has access to information on the current position the Company by means of individual access codes to specific modules of the IT and accounting & financial system. The data for the financial statements and the financial statements themselves are prepared by the Group's Accounting Department. The preparation of financial statements is supervised by the Group's Financial Director.

Every month, after book-closing, members of the Group's Management Board receive and scrutinise management information reports with key financial data.

The financial data that are the basis for financial statements and financial reports come from the accounting and financial system that records transactions in accordance with the Group's accounting policy based on International Accounting Standards and International Financial Reporting Standards. Once ready, 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 interim review, respectively, by the statutory auditor. Audit results are submitted to the Management Board and the Supervisory Board. The auditor's report is also submitted to the General Meeting.

5.8.3 Shareholders holding, directly or indirectly, significant interests

Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting:

- at the balance sheet date:

Shareholder	Number of shares	% of the registered capital	Number of votes	% of votes at the General Meeting
Warsaw Equity Management S.A.	104,000	14.27%	104,000	14.27%
Józef Piotrowski	86,650	11.89%	86,650	11.89%
Janusz Kubrak	48,100	6.60%	48,100	6.60%
Investors TFI	47,038	6.45%	47,038	6.45%
PTE Allianz Polska S.A.	39,071	5.36%	39,071	5.36%
Mirosław Grudzień	37,200	5.10%	37,200	5.10%
Others	366,941	50.33%	366,941	50.33%
Total	**729,000**	**100.00**	**729,000**	**100.00**

- as at the date of publication of the annual report:

Shareholder	Number of shares	% of the registered capital	Number of votes	% of votes at the General Meeting
Warsaw Equity Management S.A.	124,800	14.27%	124,800	14.27%
Józef Piotrowski	85,277	9.74%	85,277	9.74%
OTE Allianz Polska S.A.	56,735	6.49%	56,735	6.49%
Janusz Kubrak	48,100	5.50%	48,100	5.50%
Others	559,937	64.00%	559,937	64.00%

Total	**874,799**	**100.00**	**874,799**	**100.00**

The shares of VIGO Photonics S.A. are ordinary bearer shares. Each share carries one vote at the Group's General Meeting. Shareholders of series A, C and D shares have rights resulting from the holding of those shares and provided for by generally applicable laws, including the right to dividends, pre-emptive rights and the right to claim surplus assets in the event of liquidation of the Group.

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

The Articles of Association provide for personal entitlements of shareholders:

- S Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (S Closed-End Non-Public Assets Investment Fund) has a personal entitlement in the form of the right to appoint and remove 1 (one) member of the Group's Supervisory Board as long as it holds shares in the Group representing not less than 14% of the Group's share capital. Supervisory Board members are appointed and removed by submitting a written statement to the Company, which is effective on its delivery to the Company.
- Józef Piotrowski has a personal entitlement in the form of the right to appoint and remove 1 (one) member of the Supervisory Board of the Group for as long as he holds shares in the Group representing not less than 10% of the Group's share capital. This personal entitlement vested in Józef Piotrowski by virtue of the Articles of Association will be vested in Adam Piotrowski (son of Józef Piotrowski) in the event that Józef Piotrowski transfers to Adam Piotrowski the shares in the Group representing not loss than 10% of the Group's share capital. Supervisory Board members are appointed and removed by submitting a written statement to the Company, which is effective on its delivery to the Company.

If the interest of S Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych in the Group's share capital is less than 14% or the interest of Józef Piotrowski or Adam Piotrowski in the Group's share capital is less than 10%, respectively, then the members of the Supervisory Board will be appointed and removed by the General Meeting.

If the above-mentioned individuals with personal entitlements 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 will be appointed by the General Meeting, subject to the right of the individuals with personal entitlement to remove 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 Group do not provide for any limitations as to the exercise of voting rights nor do they provide that, with the cooperation of the Group, capital rights attached to securities are separate from the holding of securities. With respect to the Group, limitations on the exercise of voting rights can only result from generally applicable laws.

To the Management Board's best knowledge, no restrictions have been imposed on the transfer of ownership of the Group's shares.

5.8.4 Rules for appointing and removing members of supervisory and managing bodies, and their powers

The Supervisory Board consists 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 expires after a period of 2 (two) full financial years running from the Group registration date.

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

Supervisory Board members 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 removal) 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, will appoint new Supervisory Board members by way of co-option. Members of the Supervisory Board will 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 having the status 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-option 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 convenes 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 exercises constant supervision over the Group's activities in all areas of its operations.

The duties of the Supervisory Board include in particular:

1. Examining and reviewing financial statements and the Management Board's report on the Group'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 point 1), together with a brief assessment of the Group's operations, including an assessment of the internal control system and the system of managing the Group's significant risks.
3. Examining Management Board's proposals concerning distribution of profits and loss cover.
4. Appointing an auditor to audit and review the Group's financial statements, as well as approving the terms of the agreement with the auditor and approving termination of such agreement by the Group.
5. Appointing and removing 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 covered by resolutions of the General Meeting.
7. Granting consent to the acquisition and disposal of real estate, perpetual usufruct and interests in real estate.
8. Granting consent for the Group 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 6,000,000.00 (six 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 6,000,000.00 (six million) in the financial year.
9. Approving the Group's annual budgets and any amendments to them.
10. Granting consent for the Group to conclude a material agreement with a related entity, i.e. an agreement whose value is not less than PLN 2,000,000.00 (two million). The above obligation does not apply to customary transactions entered into on market terms within the ordinary business of the Group with a subsidiary in which the Group holds a majority stake as well as activities provided for in the Group's budget approved by the Supervisory Board.
11. Appointing committees.
12. Considering other matters delegated to the Supervisory Board by resolution of the General Meeting, by law or by the Articles of Association, or proposed by the Management Board.

From the date of admission of the Group's shares to trading on the regulated market operated by the Warsaw Stock Exchange, if the Supervisory Board consists of more than five persons, the Supervisory Board will 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 the financial reporting process, including issuing opinions on the accounting policy adopted by the Group and the principles of preparing financial statements.
- Discussing annual, semi-annual and quarterly financial statements with the Group's governing bodies.
- Monitoring the performance of financial audit activities, including discussing the results of the audit of the annual financial statements.
- Presenting recommendations to the Supervisory Board regarding the selection of the Group's statutory auditor and his remuneration.
- Monitoring the independence of the statutory auditor and the entity authorised to audit financial statements, including issuing opinions on the scope of any additional work contracted to the statutory auditor by the Management Board.
- Monitoring the effectiveness of the risk management system that has a significant impact on the Group.
- Monitoring the effectiveness of the Group's internal control system, including the effectiveness of remedial actions.
- Monitoring the compliance of the Group's operations with laws and regulations.
- Issuing opinions on significant financial information published by the Group.

In 2022, the Audit Committee performed the tasks of the audit committee provided for in the applicable regulations.

The Supervisory Board may appoint from among its members commissions, investigation teams or committees, both permanent and temporary ones to look into specific issues – defining their organisation, modus operandi and detailed powers – provided that the subject matter of the work of a given commission, team or committee falls within the remit of the Supervisory Board.

During the period from 1 January 2022 to 31 December 2022, the Audit Committee was composed of:

- Marek Wiechno – Chairman of the Audit Committee
- Zbigniew Więcław – 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 having 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 management 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 business management.
- 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 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, a 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, Robyg, 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 having knowledge and skills in the field of business in which the Group operates, with an indication of the manner of acquiring the same, is as follows:

1. Marek Wiechno: has knowledge and skills in the industry in which the Group operates acquired through many years of service on the Group's Supervisory Board.
2. Zbigniew Więcław: has knowledge and skills in the industry in which the Group operates acquired through many years of service on the Group's Supervisory Board.
3. Krzysztof Kaczmarczyk: has knowledge and skills in the industry in which the Group 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.

Four Audit Committee meetings were held in 2023:

- 30 January
- 1 March
- 13 April
- 12 September

5.8.5 Policy on the selection of the audit firm for the audit of the financial statements

The policy for the selection of an audit firm to carry out the audit of the financial statements of VIGO Photonics Group was adopted by a resolution of the Audit Committee of 6 October 2017. The audit firm selection policy lays down the rules for the selection of the audit firm. According to the Group's Articles of Association, Supervisory Board's duties include appointing an auditor to audit and review the Group's financial statements, as well as approving the terms of the agreement with the auditor and approving termination of such agreement by the Group. In turn, the Audit Committee recommends to the Supervisory Board the selection of an audit firm to audit the financial statements and review the interim financial statements of the Group. The Group's Management Board is required to inform the Polish Financial Supervision Authority (KNF) if 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:

- Indicates the audit firm to which it proposes to entrust the statutory audit.
- Represents that the recommendation is free from influence by third parties.
- States that the Group 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 Accounting Act.

When the selection referred to above does not concern the extension of the audit agreement, the recommendation of the Audit Committee includes:

- At least two options for the selection of the audit firm together with a rationale and
- An indication of the Audit Committee's reasonable preference for one of the options.

In selecting an audit firm, the Group is not required to follow the procedure referred to in Article 130(3)(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 must justify the reasons for not following the recommendation of the Audit Committee and communicate that justification to the General Meeting. The audit firm is selected in the fourth quarter of the year preceding the year for which the audit and interim review of the Group's half-yearly financial statements will be conducted. The Group's Management Board concludes an agreement on the audit and interim review of the financial statements with the audit firm for a minimum period of two years. No statutory audits of annual financial statements or interim reviews of half-yearly financial statements may be delegated to subcontractors of the audit firm. The Management Board announces the selection of the audit firm in the Group's current report.

All proposals of audit firms concerning:

- Performance of audits and interim reviews
- Non-audit services provided by those audit firms, received by the Group, will be forwarded to the Audit Committee.

The Audit Firm Selection Policy governs the following procedure for the selection of audit firms.

The Group's Management Board, on the basis of the Audit Committee's guidelines, sends a Request for Proposal to the selected entities, provided that those 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 Group's internal regulations.

The Group's Management Board, responding to the queries of the audit form authorised to participate in the selection procedure, prepares documentation which will enable them to learn about the Group's operations and conducts direct negotiations with the interested bidders.

Following negotiations, the Management Board forwards the collected proposals to the Audit Committee.

The Audit Committee analyses and evaluates the proposals and presents a Recommendation to the Supervisory Board, in accordance with the principles laid down in Point I of the 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 the 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
- Audit firm rotation
- Audit fees

The Policy elaborates on the above 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 findings expressed in drafts of those reports.

The Audit Committee uses the following sources of knowledge about the firm making the proposal:

- Information contained in the proposal
- 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 effectiveness of the internal quality control system
    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 check of compliance with the 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(5) of the Act on Statutory Auditors which may influence the choice of the audit firm.

Experience

The Audit Committee reviews:

- 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 must make a statement on its independence assurance practices, which must also include a confirmation of the internal review of independence compliance accompanying the transparency report.

The audit firm will:

- 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.
- 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 ("excessive familiarity") and thus to reinforce the independence of auditors and audit firms, audit firm must be rotated.

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:

- The first audit agreement is 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(5) of the Accounting Act)
- 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 five years (Article 134(1) of the Act on Statutory Auditors)
- The key statutory auditor may not conduct the statutory audit in the Company for more than five years (Article 134(2) of the Act on Statutory Auditors)
- The key statutory auditor may again conduct a statutory audit in the Company after a period of at least three years from the completion of the last statutory audit (Section 134(3) of the Act on Statutory Auditors)
- Neither the audit firm nor, where applicable, any member of its network operating within the Union shall may undertaken a statutory audit of the same public interest entity within a consecutive period of four years (Article 17(3) of Regulation 537/2014).

Remuneration for the audit

Remuneration for carrying out statutory audits for the Group 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 will 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 the 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 Group nor any member of the network to which the statutory auditor or audit firm belongs may provide the audited Group, its parent undertaking or its controlled undertakings within the European Union, directly or indirectly, with any prohibited non-audit services during the following periods:

- from the beginning of the audited period to the issuance of the audit report and
- 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 paragraph 3 of Article 5 of Regulation 537/2014 in conjunction with the audit of the Financial Statements.

The Policy on the provision of permitted non-audit services by the audit firm for VIGO Photonics S.A. was adopted by a resolution of the Audit Committee of 6 October 2017.

The key matters covered by the above Policy are:

- Catalogue of conditionally permitted services
- Conditions for performing services.

The catalogue of conditionally permitted services included in the above Policy coincides with the catalogue of services listed in Article 136(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, the conditions for the performance of permitted services are:

- Approval of the 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 Group'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.
- Limits on the remuneration for permitted services. Pursuant to Article 4(2) of Regulation 537/2014, where an audit firm provides non-audit services other than those referred to in Article 5(1) of Regulation 537/2014 (prohibited) to the Group 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 modus operandi of the Management Board are defined by the Commercial Companies Code, the Group's Articles of Association and Terms of Reference of the Management Board.

The Management Board consists of 2 (two) to 3 (three) members, including the President of the Management Board, who are appointed and removed 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 is joint and lasts 3 (three) years.

The Management Board manages the Group's affairs and represents it before third parties.

The Management Board is responsible for all matters related to the management of the Group's affairs not reserved for other governing bodies of the Group by law or the Articles of Association.

The authority to represent and bind the Group is vested in two Management Board members acting together.

Disposing of a right or incurring of an obligation with a value exceeding PLN 6,000,000.00 (six 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 6,000,000.00 (six million) in the financial year. This obligation does not apply to the performance of activities provided for in the Group'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 is valid if all members of the Management Board have been notified of the contents of the draft resolution.

The President of the Management Board convenes and chairs 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 buyback of the Group's shares.

5.8.6 General Meeting and its powers

The General Meeting operates on the basis of the Commercial Companies Code and the Group's Articles of Association.

General Meetings may be held as an Annual General Meeting or Extraordinary General Meeting.

General Meetings are held either at the Group's registered office or in Warsaw.

The Annual General Meeting should take place within six months after the end of each financial year.

The Extraordinary General Meeting is 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 its appropriate.

A General Meeting may be cancelled. The date of the General Meeting may also be changed. The General Meeting is cancelled and its date is changed in the same manner as prescribed for the calling of the General Meeting.

If the notice of the General Meeting includes information on the possibility for shareholders to participate in the General Meeting using electronic communication means, the Group must ensure that the shareholders can participate in the General Meeting using electronic communication means.

Detailed rules for holding the General Meeting using electronic communication means are defined by the Management Board. The Management Board publish the rules on the Group's website. The rules should enable:

1) Real-time streaming of the General Meeting
2) Two-way communication in real time so that shareholders are 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 the General Meeting, outside the venue of the General Meeting, using electronic communication means.

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.

The pledgee or usufructuary has no voting rights attached to shares or the interim certificate.

A resolution of the General Meeting is required for matters reserved by the provisions of the Commercial Companies Codes, other legal provisions or the Articles of Association.

Resolutions of the General Meeting are adopted by an absolute majority of votes cast, unless the provisions of the Commercial Companies Code or the Articles of Association provide otherwise.

The powers of the General Meeting include in particular:

1) Considering and approving the Management Board's report on the Group's operations and the financial statements for the previous financial year and granting a vote of approval for members of the Group's bodies for the performance of their duties.
2) Making decisions of remedying a loss caused in formation of the Group or in exercise of management or oversight.
3) Adopting resolutions on the distribution of profit or loss cover.
4) Determining the date and time of dividend payment.
5) Appointing and removing members of the Supervisory Board.
6) Disposing of and leasing the enterprise or its organised part; encumbering the company's assets.
7) Issuing convertible or priority bonds and issuing subscription warrants as referred to in Article 453 § 2 of the Commercial Companies Code.
8) Buying back own shares in the case referred to in Article 362 § 1 Section 2 of the Commercial Companies Code and authorising their buyback in the case referred to in Article 362 § 1 Section 8 of the Commercial Companies Code.
9) Merging or dividing the Group unless a resolution of the Group is not required by the Commercial Companies Code.
10) Winding up/ liquidating the Group.
11) Transforming the Group.
12) Establishing the rules for remunerating members of the Supervisory Board, including the rules for granting separate remuneration for those members who were assigned to permanent individual exercise of supervision duties.
13) Amending the Group's Articles of Association.
14) Approving the Terms of Reference of the Group’s Supervisory Board amendments to the Terms of Reference of the Group’s Supervisory Board.
15) Increasing or decreasing the share capital, subject to the rights vested in the Group’s other governing bodies in this regard.
16) Adopting resolutions on cancelling the Group's shares.
17) Establishing capital reserves and other special purpose funds.
18) Examining matters submitted by the Supervisory Board, Management Board or shareholders.
19) Dealing with other matters reserved for the General Meeting by law or the Articles of Association.

Acquiring and disposing of real estate, perpetual usufruct or interests in real estate do not require a resolution of the General Meeting.

The General Meeting may adopt its terms of reference detailing the procedure for organising and conducting its meetings. The terms of reference may be adopted, amended or repealed only by an absolute majority of votes cast in favour of the relevant resolution.

5.8.7 Personal and organisational changes in the Company

The changes that took place in the membership of the Supervisory Board in 2023 are described in Section 3.4 of this report.

The membership of the Management Board was expanded from two to three members.

The membership of the governing bodies is described in Section 3.4 of this Report.

5.8.8 Remuneration and transactions with members of management and supervisory bodies

Specification (in PLN thousand)	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
For role on the bodies	1,236,164.04	984,382.00
Salary under employment contract	320,000.00	271,800.00
Total	**1,556,164.04**	**1,256,182.00**

Name	Role	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Remuneration of Management Board members (PLN)			
Adam Piotrowski	Management Board President	597,613.02	702,780.00
Łukasz Piekarski	Management Board Member	463,091.01	553,402.00
Marcin Szrom	Management Board Member	495,460.01	
Total		**1,556.164,04**	**1,256,182.00**

Remuneration of Supervisory Board members (PLN)

Name	Role	01.01.2023 - 31.12.2023	01.01.2022 - 31.12.2022
Przemysław Danowski	Supervisory Board Chairman until April 2023	24,000.00	72,000.00
Janusz Kubrak	Supervisory Board Member	26,000.00	62,400.00
Marek Wiechno	Supervisory Board Chairman since May 2023	69,800.00	62,400.00
Zbigniew Więcław	Supervisory Board Member	63,400.00	62,400.00
Piotr Nadolski	Supervisory Board Member	55,466.67	62,400.00
Krzysztof Kaczmarczyk	Supervisory Board Member	63,400.00	62,400.00
Mirosław Grudzień	Supervisory Board Member	63,400.00	62,400.00
Krzysztof Dziewicki	Supervisory Board Member	32,546.67	
Marcin Kubrak	Supervisory Board Member	8,106.67	
Waldemar Maj	Supervisory Board Member	8,106.67	
Total		**414,226.68**	**446,400.00**

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

Members of the Management Board and Supervisory Board do not receive any remuneration, rewards or other benefits resulting from the Group's equity-based incentive or bonus programmes.

5.8.9 Any agreements with members of the Management Board providing for compensation in the event of their resignation or removal

In the employment contract concluded with a Management Board member is terminated by the Group, the Management Board member is entitled to a severance pay equal to his/her 6-month remuneration. The severance pay may not be claimed if the contract is terminated due to the employee's breach of duties, committing a crime or due to other reasons constituting grounds for summary termination of the contract.

5.8.10 Shares held by members of management and supervisory bodies

As at 31 December 2023, the Group’s share capital was PLN 729,000.00, divided into 729,000 shares with a nominal value of PLN 1.00 each. All shares forming the Group's share capital were fully paid up.

As at 31 December 2023, members of the Group's Management Board held the following shares in the Group:

- Adam Piotrowski – President of the Management Board, held 649 shares (nominal value of shares: PLN 649)
- Łukasz Piekarski – Member of the Management Board, held 485 shares (nominal value of shares: PLN 485)

As at 31 December 2023, members of the Group's Supervisory Board held the following shares in the Group:

- Zbigniew Więcław held 12,000 shares (nominal value of shares: PLN 12,000)
- Mirosław Grudzień held 37,200 shares (nominal value of the shares: PLN 37,200).

None of the Management Board or Supervisory Board members of the Group hold any shares in VIGO VENTURES ASI Sp. z o.o.

The Group is not aware of any agreements between shareholders (insurance, cooperation or collaboration agreements).

5.8.11 Rules for changing the Group's Articles of Association

The rules for amending the Group's Articles of Association are governed by the Commercial Companies Code. Amendments to the Articles of Association require a resolution of the General Meeting and an entry into the official register.

5.8.12 Court or arbitration proceedings

The Group is not party to any court or arbitration proceedings.

5.8.13 Changes in the basic principles of managing the Group

Members of the Management Board as at the balance sheet date and as the date of preparation of the financial statements:

- Adam Piotrowski – President of the Management Board (CEO), General Director
- Łukasz Piekarski – Member of the Management Board, Financial Director (CFO)
- Marcin Szrom – Member of the Management Board, Chief Operating Officer

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

- Marek Wiechno – Chairman of the Supervisory Board
- Krzysztof Dziewicki – Member of the Supervisory Board
- Zbigniew Piotr Więcław – Member of the Supervisory Board
- Marcin Kubrak – Member of the Supervisory Board
- Waldemar Maj – Member of the Supervisory Board
- Krzysztof Kaczmarczyk – Member of the Supervisory Board
- Mirosław Grudzień – Member of the Supervisory Board.

During the financial year, the following changes occurred in the composition of the Supervisory Board:

- Przemysław Danowski (Chairman of the Supervisory Board) resigned with immediate effect as Supervisory Board member (Current Report 11/2023 of 28 April 2023) without giving reasons;
- Marek Wiechno was appointed Chairman of the Supervisory Board (Current Report 15/2023 of 12 April 2023);
- Due to the election of Marek Wiechno as Chairman of the Supervisory Board and his resignation from the position of Chairman of the Audit Committee, on 19 May 2023, the Issuer's Supervisory Board adopted a resolution on the appointment of Zbigniew Więcław as Chairman of the Audit Committee (Current Report 19/2023 of 19 May 2023);
- Janusz Kubrak resigned with immediate effect as Supervisory Board member (Current Report 20/2023 of 31 May 2023) for personal reasons;
- On 29 June 2023, in accordance with the provisions of §17 point 4 of the Company's Articles of Association, Krzysztof Dziewicki was appointed a member of the Issuer's Supervisory Board (Current Report 27/2023 of 29 June 2023). Krzysztof Dziewicki does not conduct any activities in competition against the Company or its affiliates. He does act in any competitive company as a partner in a civil partnership, a limited partnership or as a member of a governing body of a corporation, or in any other competitive legal person as a member of its body. He is not recorded in the Register of Insolvent Debtors kept under the National Court Register Act.
- Piotr Nadolski resigned with as Supervisory Board member as of the date of the next General Meeting of the Company (Current Report 28/2023 of 7 July 2023) for personal reasons;
- On 20 November 2023, the Extraordinary General Meeting of the Issuer appointed Marcin Kubrak and Waldemar Maj as members of the Supervisory Board for a three-year joint term of office running from June 28, 2021 alongside the previously elected members of the Issuer's Supervisory Board.

  Marcin Kubrak has secondary education (studied at the Warsaw University of Technology, Faculty of MEIL 1989-1996). He started his career in 1991 as a tour guide for foreign trips to Far Eastern countries (Thailand, Korea, Singapore) in the INT EXPRESS travel agency; from 1992 he served as the Head of the Inbound Tourism Department, where he was responsible for organising the arrival of tourist groups to Poland from countries of Western Europe. In 1994, he set up Fair Cargo, was one of the first companies in Poland to launch air forwarding and air freight services. Until 2005, he was the owner and managing director of that company. In 2005-2015, he served as a member of the Management Board and Managing Director of Expeditors Polska (Expeditors International Group), a company listed on NASDAQ in the USA. Since 1999, he has been a shareholder and CEO of AIRNET, which owns and operates a forwarding terminal at the Okęcie airport in Warsaw. Since 2004, he has been a shareholder and member of the Management Board of Airnet Service, which conducts air freight holding activities. Marcin Andrzej Kubrak started his aviation career in 1996. In 1997, he obtained an airplane pilot's license. Currently, he is an airline pilot with an ATPL license. He is an instructor and state examiner (TRE) of the Boeing 737 type. Additionally, he serves as the head of pilots at Enter Air. In 2003-2005, he worked for Air Polonia. In 2005-2009, he worked for Centralwings as Pilot Captain. Currently, Marcin Kubrak is a member of the Management Board of EnterAir S.A., Director of Aviation Operations at EnterAir S.A. – a company listed on the Warsaw Stock Exchange since 2015.

Marcin Kubrak agreed to run for the position of and serve as a member of the Issuer's Supervisory Board and submitted a declaration that he does not participate in a company in competition against the Issuer as a partner in a civil partnership, a limited partnership or as a member of a governing body of a corporation, or in any other competitive legal person as a member of its body. Moreover, in accordance with his statement, he is not recorded in the Register of Insolvent Debtors kept under the National Court Register Act. According to the statement, Marcin Kubrak has knowledge and skills of accounting or auditing financial statements as well as knowledge and skills in the industry in which the Issuer operates, specifically "enterprise management and corporate finances".

Waldemar Maj graduated from the Warsaw University of Technology, Faculty of Technical Physics and Applied Mathematics, in 1980, obtaining a master's degree in engineering. In 1989, he earned a PhD from the Polish Academy of Sciences, Institute of Physics, Polish Academy of Sciences. In 1996, he obtained a Master in Business Administration (MBA) from Harvard University in Boston, USA with a major in finance. In the summer of 1995 he served as Corporate Finance Associate at Union Bank of Switzerland in Zurich, Switzerland. In 1981-1991, he was an assistant professor (from 4/1991), an assistant at the Institute of Physics of the Polish Academy of Sciences. He authored numerous publications, including Rapid Communication in Physical Review B. Postdoctoral Fellow at the Kamerlingh Onnes Laboratory at the University of Leiden, Holland (1990-3/1991). In 1991-1994, he was an advisor to the Minister of Finance, responsible for aid programs; president of the Foundation for the Development of the Financial System and Chairman of the Supervisory Board of Bank Gdański. He implemented the European Union's Phare programme of ECU 32 million. In 1996 - 2000, he held the position of Senior Investment Officer, Oil, Gas and Mining at the International Finance Corporation (The World Bank Group) in Washington, USA, where he organised financing in the form of loans and capital investments for mining projects, mainly gold and silver mines in emerging markets and supervised investments in portfolio companies in Central Asia and South America. In 2000-2002, as a Senior Associate at McKinsey & Company in Warsaw, he provided strategic consulting in the banking, insurance and telecommunications sectors. In 2002-2005, Waldemar Maj served as a member of the Management Board of DZ Bank Polska S.A. in Warsaw, and from June 2003 as the CEO (from 6/2003). He managed the restructuring of AmerBank S.A., implemented a central IT system within 7 months and optimised costs, developed and implemented the bank's development strategy, which helped restore its profitability with subsequent renaming as DZ Bank Polska. In 2005–2007, Waldemar Maj was Vice-President of the Management Board of Bank BGŻ S.A. in Warsaw. He supervised institutional and treasury banking and implemented a new strategy that resulted in a successful growth of loans and deposits at a level approximately twice as high as the market average. In 2007-2007 he was Vice-President of the Management Board and CFO at PKN ORLEN S.A., where he supervised the financial department and investor relations. He was a member of the Management Board of AB Mazeikiu Nafta and the Supervisory Board of Unipetrol a.s. He mobilised financing for over PLN 4 billion, improved the company's liquidity and maintained its investment rating. Since April 2009 to date, Waldemar Maj has been a partner and founder of METROPOLITAN CAPITAL SOLUTIONS in Warsaw, a provider of strategic and M&A consulting for companies and private equity funds. He is also an investor and CEO of technology startups Neutrino Geology and Algorytmik, Chairman of the Supervisory Board of Hycom and member of the Supervisory Board of Creotech Instruments. He was Chairman of the Supervisory Board of PZU and a member of Supervisory Boards of GPW, Ciech, Bank BGZ, TFI Origin, TMS Brokers and Stock Spirits in Luxembourg. Waldemar Maj was involved in the democratic movement in 1976-1989, which earned him Officer's Cross of the Order of Polonia Restituta. Waldemar Maj agreed to run for the position of and serve as a member of the Issuer's Supervisory Board and submitted a declaration that he does not participate in a company in competition against the Issuer as a partner in a civil partnership, a limited partnership or as a member of a governing body of a corporation, or in any other competitive legal person as a member of its body. Moreover, in accordance with his statement, Waldemar Maj is not recorded in the Register of Insolvent Debtors kept under the National Court Register Act.

According to his statement, Waldemar Maj meets the criteria of independence of a member of the Supervisory Board specified by the European Commission in Annex No. II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (OJ L.05.52.51), Article 129 of the Act of 11 May 2017 on statutory auditors, audit firms and public supervision (consolidated text: Journal of Laws of 2022, item 1302 as amended) and additional requirements specified in Best Practice for GPW Listed Companies, an annex to Resolution 13/1834/2021 of the Stock Exchange Council of 29 March 2021.

5.9 Share capital and ownership structure

5.9.1 Group's shareholders

Shareholders holding, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the General Meeting:

- at the balance sheet date:

Shareholder	Number of shares	% of the registered capital	Number of votes	% of votes at the General Meeting
Warsaw Equity Management S.A.	104,000	14.27%	104,000	14.27%
Józef Piotrowski	86,650	11.89%	86,650	11.89%

Janusz Kubrak	48,100	6.60%	48,100	6.60%
Investors TFI	47,038	6.45%	47,038	6.45%
PTE Allianz Polska S.A.	39,071	5.36%	39,071	5.36%
Mirosław Grudzień	37,200	5.10%	37,200	5.10%
Others	366,941	50.33%	366,941	50.33%
Total	**729,000**	**100.00**	**729,000**	**100.00**

- as at the date of publication of the annual report:

Shareholder	Number of shares	% of the registered capital	Number of votes	% of votes at the General Meeting
Warsaw Equity Management S.A.	124,800	14.27%	124,800	14.27%
Józef Piotrowski	85,277	9.74%	85,277	9.74%
OTE Allianz Polska S.A.	56,735	6.49%	56,735	6.49%
Janusz Kubrak	48,100	5.50%	48,100	5.50%
Others	559,937	64.00%	559,937	64.00%
Total	**874,799**	**100.00**	**874,799**	**100.00**

The total number and value of all the Group's shares is presented 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 might result in future changes in the proportion of shares held by the existing shareholders.

During the financial year, the Group did not issue new securities and did not acquire any own shares.

5.10 Other supplementary information to the Management Report for 2023:

5.10.1 Audit agreement and audit firm's remuneration

On 17 September 2020, the Group's Supervisory Board selected the firm authorised to carry out the audit and interim review the financial statements for the years 2021, 2022 and 2023. The audit firm was selected in accordance with the applicable laws and professional standards.

The company selected to perform this function was Mazars Audyt sp. z o.o. with its registered office in Warsaw, address: 00-549 Warszawa, 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 statutory auditor.

The audit firm and members of the auditing team meet the conditions for preparing an impartial and independent audit report on the annual financial statements in accordance with applicable laws, professional standards and professional ethics.
The Company complies with the applicable laws related to the rotation of the audit firm and the key statutory auditor and the mandatory cooling off period.

VIGO has an auditor selection policy in place as well as a policy on the provision for VIGO of non-audit services by the audit firm, including services conditionally excluded from the range of prohibited services.

On 17 September 2020, the Audit Committee adopted a resolution on recommending to the Group's Supervisory Board an audit firm to audit the annual financial statements and review the interim financial statements.

Pursuant to § 4(1)(8) of the Terms of Reference 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. The Audit Committee stated that its recommendation was free from any third party influence and that no clause of any kind had imposed on it that would restrict the body selecting the audit firm for the purpose of carrying out the statutory audit of the Group's financial statements to certain categories or lists of audit firms.

To carry out the audit of the annual financial statements and interim review the interim financial statements of the Group for the years 2021–2023, the Audit Committee recommended the audit 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 proposals 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 the audit firm, in particular whether any non-audit services are provided to the Group by the audit firm.

On 17 September 2020, the Supervisory Board selected the firm authorised to audit and perform an interim review of the financial statements for the years 2021, 2022 and 2023. The firm selected to perform this function was Mazars Audyt Spółka z ograniczoną odpowiedzialnością with its registered office in Warsaw, address: 00-549 Warszawa, 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 statutory auditor. On 15 March 2021, the Group entered into an agreement with Mazars Audyt sp. z o.o. to carry out an audit and an interim review of the consolidated financial statements. The agreement was signed for three years. It was amended by Annex 1 of 28 February 2022 by expanding its subject to include the audit and interim review of consolidated financial statements.

The remuneration of Mazars Audyt sp. z o.o. will be paid separately for:

- Audit of the standalone annual financial statements for 2021 – PLN 37,000.00, for 2022 – PLN 28,000.00 and for 2023 – PLN 28,000.00
- Audit of the consolidated annual financial statements for 2022 – PLN 10,000.00 and for 2023 – PLN 10,000.00.
- Interim review of the consolidated 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
- Interim review of the consolidated financial statements as at 30.06.2022 – PLN 6,000.00, as at 30.06.2023 – PLN 8,000.00
- Assurance service whereby the statutory auditor will assess the Group's Supervisory Board report on remuneration prepared for 2021 – PLN 5,000.00, for 2022 – PLN 5,000.00, for 2023 – PLN 5,000.00.

5.11 Group's main investments

In financial year 2022, the Group incurred capital expenditure on the purchase of tangible and intangible assets in the amount of PLN 36 million (in 2021: PLN 29.8 million).

The Group'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.

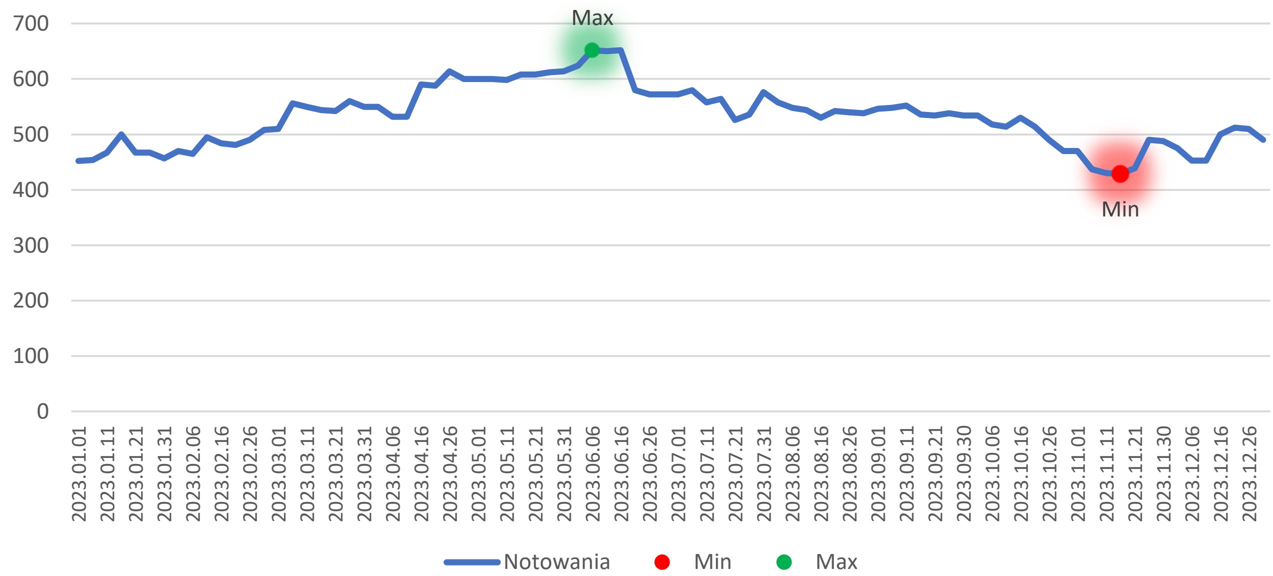
The Group incurred bank loans to finance 80% of the net investment, as described in detail in Section 4.2.9 of this Report.

5.11.1 Other disclosures

Other disclosures required by the Regulation of the Minister of Finance of 29 March 2018 on current and financial 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 4.10.2 of this report.

5.11.2 Stock quotations on the Warsaw Stock Exchange

Figure 8. The Group's share price on the WSE in 2023



According to the statistical data prepared by the Warsaw Stock Exchange, the rate of return on the Group's shares in 2023 was 8.41%, placing VIGO Photonics on 252nd position among 413 issuers listed at the end of 2023 on the WSE regulated market. During the indicated period the maximum price of the Group's shares was PLN 730.00 and the minimum price was PLN 416.00.

The capitalisation of VIGO Photonics at the end of 2023 was PLN 357.21 million, placing the Group in 146th place among domestic issuers listed on the regulated market of the WSE

https://www.gpw.pl/pub/GPW/statystyki/statystyki_roczne/2023_GPW.pdf

Adam Piotrowski	Łukasz Piekarski	Marcin Szrom
Management Board President	Management Board Member	Management Board Member

Ożarów Mazowiecki, 23 April 2024

6 Management Board's statements

STATEMENT

of the Management Board on compliance of the annual financial statements
and the Management Board's report on VIGO Photonics S.A. operations

Pursuant to the Regulation of the Minister of Finance of 29 March 2018 on current and financial information provided by issuers of securities (i.e. Journal of Laws of 2018, item 757, as amended), the Group's Management Board hereby declares that, to the best of its knowledge, these consolidated financial statements and comparative data have been prepared in accordance with the accounting policies applicable to VIGO Photonics S.A. and that they give a true, fair and clear view of the financial position of the Group as well as its financial result.

The Group's Management Board also declares that the report on the issuer's operations gives a true and fair view of the issuer's development, achievements and position, including a description of the main threats and risks.

These consolidated financial statements have been prepared in accordance with the accounting policies compliant with the International Financial Reporting Standards (IFRSs), including the International Accounting Standards (IASs) and Interpretations of the Standing Interpretations Committee (SIC) and the International Financial Reporting Interpretations Committee (IFRIC), 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 Regulation of the Minister of Finance of 29 March 2018 on current and financial information provided by issuers of securities (i.e. Journal of Laws of 2018, item 757, as amended).

The Group's Management Board declares that the statutory auditor responsible for audit of the annual financial statements of the Group was selected in accordance with the applicable laws, 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 laws and professional standards.

The Management Board of VIGO Photonics S.A.:

Adam Piotrowski	Łukasz Piekarski	Marcin Szrom
Management Board President	Management Board Member	Management Board Member

Ożarów Mazowiecki, 23 April 2024