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THORLABS GmbH

Bergkirchen (formerly: Dachau)

Annual financial statements for the financial year from January 1st, 2019 to December 31st, 2019

Balance sheet as of December 31, 2019

assets

	As of 12/31/2019	As of 12/31/2018
	EUR	kEUR
A. Fixed assets		
I. Intangible assets		
Purchased industrial property rights and similar rights	1,413,740.73	39
II. Tangible assets		
operating and office equipment	2,323,762.28	1.117
III. financial assets		
1. Holdings	4,700.00	5
2. Loans to companies in which an investment is held	1,970,000.00	1,970

	As of 12/31/2019	As of 12/31/2018
	EUR	kEUR
	1,974,700.00	1,975
B. Current Assets		
I. Inventories		
1. Raw, auxiliary and operating materials	4,034,049.33	4,842
2. Work in progress	679,874.74	717
3. Finished Goods and Merchandise	15,867,291.89	11,425
	20,581,215.96	16,984
II. Receivables and other assets		
1. Trade accounts receivable	7,720,324.56	7,042
2. Receivables from affiliated companies	10,162,934.48	12,626
3. Other Assets	5,073,994.22	4,132
	22,957,253.26	23,800
III. Cash and cash equivalents	13,936,096.16	7,319
C. Prepaid expenses	155,954.73	166
	63,342,723.12	51,400

liabilities

	As of 12/31/2019	As of 12/31/2018
	EUR	kEUR
A. Equity		
I. Drawn capital	26,000.00	26
II. Capital Reserve	5,657,210.56	5,657
III. retained profit	45,460,033.13	40,367
	51,143,243.69	46,050
B. Provisions		
1. Provisions for taxes	157,900.00	157
2. Other provisions	4,214,003.13	2,030
	4,371,903.13	2,187
C. Liabilities		
1. Trade accounts payable	3,013,797.58	2,311
2. Liabilities to affiliated companies	3,076,550.16	154
3. Other Liabilities	1,697,274.56	677

	As of 12/31/2019	As of 12/31/2018
	EUR	kEUR
		7,787,622.30
D. Deferred tax liability	39,954.00	21
	63,342,723.12	51,400

Profit and Loss Account for the period from January 1st to December 31st 2019

	2019	2018
	EUR	kEUR
1. Revenue	155,630,538.43	142,497
2. Increase / decrease in inventories of finished goods and work in progress	647,890.95	-249
3. Other operating income	360,567.83	643
	156,638,997.21	142,891
4. Cost of Materials		
a) Expenses for raw materials, auxiliary materials and supplies and for purchased goods	116,844,964.42	102,979
b) Expenses for purchased services	59,708.64	306
	116,904,673.06	103,285
5. Personnel expenses		
a) Wages and salaries	14,327,386.41	12,364
b) Social security contributions and pension expenses	2,659,939.34	2,242
	16,987,325.75	14,606
6. Depreciation of intangible assets and property, plant and equipment	1,052,620.96	516
7. Other Operating Expenses	9,393,554.78	8,858
	12,300,822.66	15,626
8. Other Interest and Similar Income	26,624.17	37
9. Interest and Similar Expenses	2,197.02	24
	24,427.15	13
10. Income taxes	3,532,226.59	4,509
11. Earnings after taxes	8,793,023.22	11,130
12. Other Taxes	0.00	0
13. Net Income	8,793,023.22	11,130
14. Profit carried forward from the previous year	36,667,009.91	29,237
15. Retained Earnings	45,460,033.13	40,367

Development of the fixed assets of Thorlabs GmbH, Bergkirchen, in the 2019 financial year

	Acquisition/manufacturing costs			
	As of 01/01/2019	additions	departures	As of 12/31/2019
	EUR	EUR	EUR	EUR
I. Intangible assets				
Purchased industrial property rights and similar rights	904,279.32	1,526,314.55	0.00	2,430,593.87
II. Tangible assets				
operating and office equipment	4,009,329.32	2,118,701.33	664,156.65	5,463,874.00
III. financial assets				
1. Holdings	4,700.00	0.00	0.00	4,700.00
2. Loans to companies in which an investment is held	1,970,000.00	0.00	0.00	1,970,000.00
	1,974,700.00	0.00	0.00	1,974,700.00
	6,888,308.64	3,645,015.88	664,156.65	9,869,167.87
	Accumulated depreciation			
	As of 01/01/2019	additions	departures	As of 12/31/2019
	EUR	EUR	EUR	EUR
I. Intangible assets				
Purchased industrial property rights and similar rights	865,354.81	151,498.33	0.00	1,016,853.14
II. Tangible assets				
operating and office equipment	2,891,891.39	901,122.63	652,902.30	3,140,111.72
III. financial assets				
1. Holdings	0.00	0.00	0.00	0.00
2. Loans to companies in which an investment is held	0.00	0.00	0.00	0.00
	0.00	0.00	0.00	0.00
	3,757,246.20	1,052,620.96	652,902.30	4,156,964.86
	book values			
	As of 12/31/2019		As of 12/31/2018	
	EUR		EUR	
I. Intangible assets				
Purchased industrial property rights and similar rights	1,413,740.73		38,924.51	
II. Tangible assets				
operating and office equipment	2,323,762.28		1,117,437.93	
III. financial assets				
1. Holdings	4,700.00		4,700.00	

	book values	
	As of 12/31/2019	As of 12/31/2018
	EUR	EUR
2. Loans to companies in which an investment is held	1,970,000.00	1,970,000.00
	1,974,700.00	1,974,700.00
	5,712,203.01	3,131,062.44

Notes for the 2019 financial year

A. General Disclosures

Thorlabs GmbH is based in Dachau (from January 3, 2020 business address: Bergkirchen). It is entered in the commercial register of the district court of Munich under HRB 85345.

These annual financial statements have been prepared in accordance with the provisions of the German Commercial Code (§§ 265 I 2, 266 ff. HGB) and the GmbH Act that apply to large corporations.

As of the balance sheet date, the company has the size characteristics of a large corporation within the meaning of Sections 264, 267 II HGB.

In the case of options in connection with notes, the information was provided in the notes to ensure clarity.

The structure of the balance sheet corresponds to the structure according to § 266 HGB i. in conjunction with § 42 GmbHG; the nature of expense method was retained for the income statement in accordance with Section 275 (2) HGB.

B. Accounting and valuation methods

Intangible assets acquired against payment were recognized at acquisition cost less accumulated scheduled depreciation. Depreciation is made on a straight-line basis over the usual useful life. Internally generated intangible assets are not capitalized.

Property, plant and equipment were stated at acquisition or production cost and reduced by scheduled depreciation. Depreciation took place over the usual useful life and was carried out using the straight-line method. For low-value depreciable movable items of property, plant and equipment, simplification rules apply, taking into account the materiality.

Financial assets are valued at the lower of cost or fair value.

Inventories are valued at the lower of acquisition or production cost or market price or fair value. In addition to the individual costs that can be allocated according to causation, the production costs also include proportionate overheads of the production area including depreciation, but no financing and administration overheads.

Write-downs for inventory risks resulting from the storage period and reduced marketability were made to an appropriate and sufficient extent.

Receivables and other assets were stated at their nominal values and valued taking all identifiable risks into account. For the general credit risk, a general allowance of 1% was made for trade receivables. Interest-free / low-interest-bearing receivables with a maturity of more than one year are stated at the discounted value.

Cash and cash equivalents include cash and bank balances and are stated at nominal values.

Deferred taxes are determined for temporary differences between the commercial law and tax valuations of assets, debts and prepaid expenses. Deferred taxes are determined on the basis of the combined income tax rate of Thorlabs GmbH, which is currently 28.635%. The combined income tax rate includes corporation tax, trade tax and the solidarity surcharge. Any resulting tax burden would be recognized as a deferred tax liability in the balance sheet. In the event of a tax relief, no use would be made of the corresponding capitalization option. In the fiscal year, there was a total of one deferred tax liability to be recognized.

The provisions take into account all recognizable risks and uncertain obligations and are valued at the settlement amount based on prudent business judgment in order to cover future payment obligations. Future price and cost increases are taken into account if there is sufficient objective evidence that they will occur. Provisions with a remaining term of more than one year are discounted at the average market interest rate for the past seven financial years that corresponds to their remaining term.

Liabilities were recognized at their settlement amount.

Receivables and liabilities in foreign currencies are valued using the limited market valuation method. For this purpose, foreign currency receivables and liabilities are valued at the average spot exchange rate on the balance sheet date.

Cash on hand and bank balances in foreign currencies are converted at the mean exchange rate on the balance sheet date.

C. Notes to the Balance Sheet and Profit and Loss Account

I. Balance sheet

1. Fixed assets

The separately presented development of fixed assets is an integral part of the notes. The protection clause according to § 286 paragraph 3 HGB is used.

2. Receivables and other assets

Receivables from affiliated companies include receivables from the shareholder of EUR 3,889 thousand (previous year: EUR 4,138 thousand). Receivables from affiliated companies are mainly trade receivables.

3. Balance sheet profit

The profit carried forward from the previous year i. H. of EUR 40,367 thousand, which was reduced by a profit distribution of EUR 3,700 thousand in the past financial year.

4. Provisions

The other provisions essentially include provisions for personnel costs including trade associations (EUR 651 thousand) and for outstanding invoices (EUR 3,429 thousand) and warranties (EUR 134 thousand).

5. Liabilities

Other liabilities include EUR 136 thousand with a remaining term of more than one year; all other reported liabilities have a remaining term of up to one year.

Customary retention of title to the delivered items applies to liabilities from deliveries and services.

Liabilities to affiliated companies result in full from trade payables.

Other liabilities break down as follows:

	12/31/2019	12/31/2018
	EUR	kEUR
Liabilities from taxes	413,708.29	433
Social security liabilities	5,664.64	6
Miscellaneous other liabilities	1,277,901.63	238
	1,697,274.56	677

6. Deferred tax liabilities

The deferred tax liabilities developed as follows:

	01.01. kEUR	consumption kEUR	resolution kEUR	Access kEUR	31.12. kEUR
	21	21	0	40	40

II. Profit and Loss Account

The profit and loss account was drawn up according to the nature of expense method (§ 275 II HGB).

Domestic sales accounted for 25.2% and abroad for 74.8%. Sales can be broken down into the business areas of in-house production at 35.1% and merchandise (European warehouse) at 64.9%.

Other operating income includes income from currency translation of EUR 271k (previous year: EUR 534k) and other operating expenses include expenses from currency translation of EUR 600k (previous year: EUR 697k). The currency translation reported in the income statement includes both realized and unrealized exchange rate differences.

There was income from other periods totaling EUR 54 thousand (previous year: EUR 48 thousand) and expenses relating to other periods totaling EUR 27 thousand (previous year: EUR 47 thousand).

Corporation tax, trade tax and the solidarity surcharge are reported under taxes on income. Deferred tax liabilities are included in tax expenses in the amount of EUR 19 thousand and mainly result from different valuations of foreign currency liabilities as of the balance sheet date. This amount was determined on the basis of a combined income tax rate of 28.635%.

D. Other Information

1. staff

The average number of employees during the financial year is 260.

2. Contingent Liabilities and Other Financial Obligations

There are no liability relationships within the meaning of § 251 HGB.

There are other financial obligations from rental and leasing contracts. The annual rental obligations amount to EUR 1,847 thousand. An obligation totaling EUR 23,700 thousand (previous year: EUR 441 thousand) results from future rental and leasing payments.

3. Auditor's fee

The total fee charged by the auditor for auditing services for the fiscal year is EUR 26 thousand plus reimbursement of expenses.

4. Events after the balance sheet date

Events occurred after the balance sheet date that are of material importance to Thorlabs and could lead to a different assessment of the course of business. On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. The first effects on the business development of Thorlabs have occurred. We expect that many of our customers' planned investments and purchasing decisions for the first half of 2020 will be postponed. The possible effects of the Corona crisis on the company's net assets, financial position and results of operations are reflected in an alternative short and medium-term plan with appropriate countermeasures. As part of our planning, we assume that the Asian market, which was first affected by the Corona crisis, will gradually begin to recover again in the second quarter of 2020. In Europe, we expect a recovery from the end of May combined with an increase in business activity.

Should the reluctance of our customers to invest continue beyond the third quarter of 2020 and the planned order intake should be postponed to a significant extent, a detailed assessment of the effects on Thorlabs is therefore currently not possible. On the basis of various scenarios, the management is constantly examining several measures to counteract and stabilize the asset, financial and earnings situation.

At the turn of the year 2019/2020, the new production and administration building in Bergkirchen was opened and put into operation.

No other events occurred after the December 31, 2019 reporting date that are material to Thorlabs.

5. Body of the company

Managing Director is:

dr Bruno Gross, Munich

According to Section 286 (4) HGB, the remuneration of the managing directors is not disclosed.

6. Group Affiliation

Thorlabs GmbH, Dachau, is a 100% subsidiary of the global Thorlabs Group. Thorlabs Inc., Newton NJ 07860, New Jersey/USA, prepares the consolidated financial statements for the largest group of companies in which Thorlabs GmbH, Dachau, is included. The consolidated financial statements are available at the registered office of the parent company.

E. Appropriation of Profits

At the suggestion of the management, the annual surplus of EUR 8,793,023.22 together with the existing profit carried forward of EUR 36,667,009.91 should be carried forward to new account.

Bergkirchen, May 2020

Thorlabs GmbH

Managing directors

dr Bruno Gross

Management report for the 2019 financial year

I. Company Fundamentals

business model of the company

We are active in the development, manufacture, trade and sale of optical and optoelectronic components and systems. Our customers include researchers and developers in universities, research institutions and in industry who deal with developments relating to lasers and their applications, as well as manufacturers of lasers and optical systems. The provision of research budgets at national and European level, the general further development of lasers and optical measuring methods in diagnosis and production as well as new fields of application in photonics influence our business development.

The most important sales channel is our online catalog with around 20,000 products. The vast majority of these products are designed and manufactured in-house or at one of Thorlabs' worldwide facilities. A high availability of the products, speed in the processing of inquiries and orders as well as a high level of service to customers are decisive for our success. Direct sales are used for complex products and systems and increasingly for OEM orders. Trade fairs and specialist conferences as well as personal exchange, especially in the system and industrial business, serve to ensure efficient customer care.

Lean production and consistent supplier partnerships as an integral part of our fast supply chain have been established for years and were able to guarantee a high level of delivery readiness with a controlled stock situation in 2019. We focus on value-added contributions that we keep in-house to secure the know-how and reduce the vertical integration for components that are technologically covered by partners.

We ensure our product quality through careful development processes, through intensive tests during the prototype phase, through a planned start of production and through secure procurement and production processes. Important key figures, which include order processing, production, quality and logistics, are analyzed and visualized on a daily basis. For permanent process optimization along the entire value chain, we use our processes, which are certified according to ISO9001:2015.

New research areas in photonics, the concrete implementation in new industrial applications, but also the continued clear political commitment to photonics as a growth area in Europe are an important basis for our long-term business. Global trends and developments affect our business as a company with a high export share both positively and negatively.

Research and Development

The product portfolio is constantly being expanded to underpin growth and ensure long-term business success. A large number of new products were developed and renewed in 2019 and our technology base was expanded. Of particular note in this context is the acquisition of CODA, a small technology company based in Moscow. The foundation stone for the development of a product range of Raman spectrometers was laid through the transfer of licenses, know-how and employees. The most important pillar of our innovative strength is our team of highly qualified employees, which we were able to expand and further qualify in 2019.

The number of employees in research and development and in the application area was increased to over 62 employees. In 2019, we also spent EUR 1,960 thousand on research and development; in the previous year the amount was EUR 1,128 thousand.

II. Economic report

Macroeconomic, industry-related framework conditions

Thorlabs Germany, with its headquarters in Bergkirchen near Munich and additional facilities in Lübeck and Mittweida, was able to hold its own well in the competitive environment in 2019, with all product families recording pleasing growth.

Markets performed positively overall, with Thorlabs growing faster than the market. Uncertainties in European financial, trade and economic policy only had an insignificant impact on the photonics market, as did BREXIT. The tariffs introduced between the USA and China in 2018 have increased our manufacturing costs. These were largely offset by adjustments to our supply chains and price increases.

Business development and position of the company

Sales in 2019 were again satisfactory in line with planned expectations. Sales increased by approximately 9%. The structural costs were around 6% higher than in the previous year. Significant absolute influencing factors are the increased expenses for personnel and sales as well as disproportionately higher material procurement costs due to price increases and unfavorable exchange rate effects. The operating result thus totaled EUR 13,214 thousand, which corresponds to a change of more than -18% compared to the previous year (EUR 16,169 thousand).

In 2019, we invested a total of EUR 3,645k in property, plant and equipment. Almost half of the investments were spent on software, measuring devices and prototyping in R&D; over 20% for the infrastructure and operational facilities in our new building and the rest for updating IT infrastructure and business equipment.

Inventories of components and goods used in the manufacture of our products, work in progress and finished goods increased, taking into account value adjustments, by EUR 3,597 thousand or 21% compared to the previous year; mainly influenced by new products that are held in our European warehouse for same-day delivery. Goods, which we mostly obtain from our parent company in the USA, Thorlabs Inc., Newton/USA, and from our sister company in China, were the main value drivers for the increased inventories compared to the previous year's reporting date.

Receivables from third-party customers are almost comparable to the previous year, taking into account the increased operating performance, and reflect the good and high payment behavior. On the other hand, trade accounts payable to third parties increased as part of the increased business activity to EUR 3,014 thousand. Receivables from our affiliated companies were reduced by EUR 2,463 thousand to a total of EUR 10,163 thousand.

As of the balance sheet date, the company still had a very satisfactory equity structure of almost 81%, despite the distribution to the parent company of EUR 3,700 thousand and the retained annual profit of EUR 8,793 thousand.

The cash flow from operating activities generated in the reporting year, based on the EUR 2,337 thousand lower operating result for the period, is essentially influenced by the change in working capital (EUR 7,059 thousand). The main factors here were the increase in inventories (EUR -2,597k) and the funds tied up by the increase in liabilities totaling EUR 4,665k. Supplemented essentially by the increase in provisions, the positive cash flow from operating activities for 2019 developed by EUR 9,090 thousand to EUR 13,962 thousand.

Investments in fixed assets (TEUR -3,645) could thus be fully financed from the cash flow generated in the reporting year.

Overall, we consider our economic situation to be very satisfactory. Our financial management is designed to always settle liabilities within the payment period and to collect receivables within the payment terms. In the year under review, we were able to realize cash discounts for most delivery obligations through short-term payments.

Highly motivated employees are particularly important for the successful further development of our business. Thorlabs stands for a performance and development-oriented corporate culture combined with pronounced social responsibility. We promote personal and cultural diversity in the company and attach particular importance to an attractive working environment, flexible working conditions and first-class training and further education opportunities. We offer attractive prospects and want to continue recruiting the best talent for the successful and sustainable development of our company.

An average of 260 people were employed in the year under review. The number of employees increased by an average of 39 in the reporting period. In the direct areas, these were mainly measures for the higher production output of our own product line. In the indirect areas, the focus continued to be on intensifying customer relationships, on strengthening our development department and the resulting increased sales requirements. Corresponding performance-based one-time payments were made to the employees in the financial year.

The new building at the Bergkirchen site was completed in December 2019 and fully occupied in two stages over the turn of the year. The old location in Dachau was thus given up at the beginning of 2020. With the modern, extended areas for logistics, production, development, sales and administration, we are excellently positioned and also equipped for future growth.

III. Branch office report

In addition to the headquarters in Bergkirchen, the company maintains branch offices in Mittweida and Lübeck. In total, we employ around 38 people outside of Bergkirchen.

IV. Forecast Report

The corona pandemic that broke out at the beginning of 2020 and the global recession expected with it have significantly changed the planning and forecasts for the development of Thorlabs GmbH. If at the end of 2019 we were still assuming further steady growth, this had to be corrected significantly downwards in view of the current situation.

Many of our customers, especially those from the public sector, were forced to significantly shut down their operations or temporarily shut them down completely due to the exit restrictions imposed, which was immediately noticeable in a drop in sales from mid-March. As a result, we immediately initiated a large number of measures to protect the health of our own employees and to keep our operations running, on the one hand, and to ensure the liquidity and profitability of the company on the other.

Depending on the duration of the restrictions and the subsequent recovery in demand, we have calculated various scenarios that predict a drop in sales of between 8% and 20% in 2020 compared to 2019. In all of these cases, we assume that we will continue to achieve a positive business result of between 5.5% and 3.5% in relation to sales through corresponding reductions on the cost side. Furthermore, we will ensure a positive cash flow from operating activities through a moderate reduction in our warehouse for finished goods. The number of employees will remain stable.

The global spread of the novel COVID-19 increased steadily in the first few months of the 2020 financial year. However, the forecasts and assessments made in this management report cannot yet comprehensively reflect the economic effects of the virus. Against this background, there are significant uncertainties with regard to the negative effects on future macroeconomic developments that will arise in the further course of the current financial year. In this respect, it cannot be ruled out that the further spread, should this pandemic not be contained in a timely manner,

We will always be able to meet our payment obligations on time in the future.

V. Risk and Opportunity Report

We check our sales development on a daily basis as well as other relevant operational key figures in comparison to the previous year and the updated planning. The earnings situation is analyzed monthly.

The management reports regularly to the parent company in writing and orally, whereby the flow of information about developments planned by the parent company is also ensured.

The managing directors of all Thorlabs companies meet at least once a year to review the policy and, if necessary, adjust the strategy. The aim of Thorlabs' financial and risk management is to protect against financial risks of any kind. In terms of financial management, the company pursues a thoroughly conservative risk policy.

These measures can be used to react to changes and threats relatively quickly. In 2019, there was no exceptional external impact that would have required a rapid response. With the onset of the corona pandemic at the beginning of 2020, measures adapted to the local situation were quickly decided and implemented at all Thorlabs locations worldwide.

As part of the certification according to ISO 9001:2015, the processes are continuously checked with the aim of ensuring sustainable quality at various levels and thus also addressing risks that become apparent in the specialist departments.

1. Risk Report

The risk factors and opportunities that have a significant impact on Thorlabs' net assets, financial position and results of operations and have a significant influence on the development of the company are described below. The description of risks and opportunities that follows the general presentation of the risk management system is broken down into categories based on the addressee of the financial statements. The individual risks presented correspond to the current assessment of the relative degree of risk for the company and thus the current importance of these risks in the internal risk management system.

risk management system

In our business processes, the weighing of opportunities and risks is the basis of our daily business decisions. We therefore regard opportunity and risk management as an integral part of our business management and consequently not as the task of a specific organizational unit. The starting points for our opportunity and risk management are our strategy and planning processes, from which relevant external and internal opportunities as well as challenges of an economic, ecological and social nature are derived. The identification is based on observations and analyzes of trends as well as macroeconomic, industry-specific, regional and local developments. In the next step, the opportunities and risks identified are evaluated and, in coordination with the parent company, transferred to strategic and operational frameworks for action. We try to avoid or reduce the risks by taking appropriate countermeasures or, if possible and economically justifiable, transfer them to third parties (e.g. insurance companies).

We consciously accept and bear risks that are manageable and controllable and are proportionate to the expected opportunities. Opportunities and risks are constantly monitored using key figures in order to identify changes early on, for example in the economic and legal environment, and to take appropriate measures if necessary.

Risk from the COVID-19 pandemic

The medium and long-term effects of the Covid-19 pandemic can hardly be assessed at this point in time. Economists are currently assuming the worst global recession since the end of the Second World War. Markets and sectors are affected to varying degrees. All travel around the world has come to a standstill for months. The movement of goods, which is so important for our company, was and is not restricted. Despite the so-called "lockdown" in almost all countries, all Thorlabs branches worldwide were able to maintain their operations. Our supply chains are intact. China, which was initially the hardest hit, is currently almost back to normal operations. In Germany, too, the situation is increasingly normalizing. The developments in the USA and in the European countries that were particularly hard hit by the pandemic (Great Britain, France, Italy, Spain) are risky. In general, it can currently be said that most of our customers and suppliers are less affected by the crisis than those in other sectors.

Political Risks

The departure of the UK from the European Union may have a negative impact on our direct delivery function through the European Distribution Center unless agreement is reached on future EU-UK trade relations by the end of 2020. It is currently difficult to predict whether further protectionist measures by individual countries, especially the USA and/or China, are to be expected in global trade as a result of the recession. However, we still consider the risk of noticeable trade restrictions for photonics products from Europe to be low.

Industry-Specific Risks

We continue to expect that the sector, with a fundamentally stable customer structure in the institutional and industrial sectors, will recover after the decline caused by Covid-19 and that it will continue to develop positively again by the end of 2020 or at the latest by the beginning of 2021. It can be assumed that adjustment effects will occur in the field of customers, competitors and suppliers. In individual cases, this could mean that important suppliers for us get into difficulties and we are confronted with delivery bottlenecks. We are monitoring this very carefully and are taking various measures to minimize the consequences. The probability of occurrence can be medium to high in individual cases.

Income-oriented risks

For 2020 we expect a decline in sales due to the global recession. The broadly diversified customer portfolio reduces this effect in comparison to other affected companies. The first two months of 2020 were pleasing in terms of sales and earnings. After a significant slump in March 2020, the situation has stabilized in April and our sales are increasing week by week. There remains the risk of another wave of infections and the associated closing of public facilities again. We are prepared for this case and would implement the measures to reduce costs and secure liquidity again. Exchange rate risks relate primarily to the US dollar.

Financial Risks

Due to the stable liquidity and equity situation of our company, no liquidity risks are currently discernible. The liquidity situation is very satisfactory; no bottlenecks are to be expected.

Company-Related Risks

Personnel risks arise in particular from the company's dependence on management, executives and highly qualified engineers. In addition to these key people, there is a general risk in the HR department of recruiting a sufficient number of well-trained employees. There is also the risk of staff turnover, particularly in the Munich area, which is characterized by low unemployment and strong competition.

These risks are countered by attractive, performance-oriented remuneration models, maintaining an open and participatory corporate culture and creating a good working atmosphere as well as attractive training and further education opportunities. The modern environment in the new building also has a positive effect on employee identification with the company. The extent of damage from personnel risks is rated as medium. Due to the very good working atmosphere and the high-quality training and further education opportunities, the probability of occurrence and the overall risk are rated as low.

So far, fluctuation has been limited despite the risks outlined above, and we have always succeeded in recruiting additional staff. In addition, as a result of the corona pandemic, an improved situation on the labor market can be assumed from the employer's point of view.

IT risks arise from the dependency of business processes on a high-performance IT infrastructure, especially in the areas of production, sales, merchandise management and logistics. Appropriate measures have been taken within the Group to ensure functionality and availability and to reduce the risk of system interruptions, data loss and unauthorized access; In particular, the constant development of our own IT department combined with the investment in a modern IT infrastructure in the new building, which also supports mobile work for large parts of the workforce, enables the consistent implementation of the group concept on site. In addition, there are access rights and access control systems as well as security and anti-virus concepts. The extent of damage from IT risks is rated as medium for Thorlabs. Due to the technical development of the systems, the probability of occurrence is rated as medium to low, as is the overall risk.

Data protection risks arise from the European Data Protection Regulation, which came into force in 2018. Appropriate measures have been taken both globally and country-specific within the company. Our external data protection officer has confirmed that Thorlabs GmbH is overall well positioned in this regard. The probability of occurrence is therefore rated as low.

There are no significant legal risks from legal disputes.

2. Opportunity Report

The very broad base of customers from various sectors, both public and private, widely distributed in Europe and around the world, give us great independence from local, national or sector-specific risks. This contributes to the security and stability of the company.

On the procurement side, we can fall back on a wide range of delivery options, especially from the group of companies. Core components and important technologies are available in-house. We enforce our high quality standards through quality controls both directly at our suppliers in the countries of origin and in our own laboratory located on our premises. The decline in our suppliers' order books caused by the recession gives us the opportunity to access existing external capacities more quickly and cheaply.

Increased partnerships with research groups at universities give rise to opportunities to occupy new fields of technology and to significantly expand the product portfolio. Photonics is becoming increasingly important, especially in the fields of medicine, pharmacy and analysis technology. With the investments made, for example in the field of spectroscopy, we are well positioned to participate in this development.

We will continue to meet the competition on the market through experience, innovation, reliability and a high level of quality. With the new company building and the larger, modern premises that are available as a result, we underline the feasibility of the opportunities.

3. Overall statement

We see risks of future development in the spread of a global recession, in a competitive environment that remains dynamic, possible currency effects or global political or economic turbulence and their unforeseeable effects. Against the background of our financial stability, we believe that we are well equipped to deal with future risks. The satisfactory liquidity position allows us to implement the necessary investment projects independently and in line with requirements, both in the current situation and in the future. There are currently no discernible risks that could jeopardize the continued existence of the company.

VI. Risk reporting on the use of financial instruments

The financial instruments in the company mainly include receivables, liabilities and bank balances.

The company has a solvent customer base. Bad debts are the absolute exception. In addition, there is a long-standing cooperation with the majority of customers.

Liabilities are paid within the agreed payment periods.

In the short-term area, the company finances itself primarily by means of supplier credits; Lines of credit from banks are currently still not required. If the recession caused by Covid-19 lasts for a very long time, government-backed loans could be used.

The aim of the company's financial and risk management is to safeguard the company's success against financial risks of any kind. The company pursues a conservative risk policy when managing its financial positions.

Appropriate value adjustments are made to the extent that default and creditworthiness risks are identified for financial assets. In order to minimize the risk of default, the company has an adequate accounts receivable management system. In addition, we always inform ourselves about the creditworthiness of our customers before entering into a new business relationship.

Overall, we classify these risks as low to moderate.

Bergkirchen, May 2020

Thorlabs GmbH

Managing directors

dr Bruno Gross

Auditor's Report

To Thorlabs GmbH:

audit opinions

We have the annual financial statements of Thorlabs GmbH, Dachau - consisting of the balance sheet as of December 31, 2019 and the income statement for the financial year from January 1 to December 31, 2019 and the notes, including the presentation of the accounting and valuation methods - checked. In addition, we have audited the management report of Thorlabs GmbH for the fiscal year from January 1 to December 31, 2019.

According to our assessment based on the knowledge gained during the audit

- The attached annual financial statements correspond in all material respects to the German commercial law regulations applicable to corporations and, in compliance with the German principles of proper accounting, convey a true and fair view of the assets and financial position of the company as of December 31, 2019 and its earnings position for the financial year from January 1 to December 31, 2019 and

- the attached management report as a whole provides an accurate picture of the company's position. In all material respects, this management report is consistent with the annual financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

In accordance with § 322 Para. 3 Sentence 1 HGB, we declare that our audit has not led to any objections to the regularity of the annual financial statements and the management report.

Basis for the test results

We conducted our audit of the annual financial statements and the management report in accordance with Section 317 of the German Commercial Code, taking into account the German generally accepted auditing principles established by the Institute of Public Auditors in Germany (IDW). Our responsibility under those requirements and standards is further described in the "Auditor's responsibility for the audit of the financial statements and management report" section of our auditor's report. We are independent of the company in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe

Responsibility of the legal representatives for the annual financial statements and the management report

The legal representatives are responsible for the preparation of the annual financial statements, which comply with the German commercial law provisions applicable to corporations in all material respects, and for the fact that the annual financial statements, in compliance with the German principles of proper accounting, give a true and fair view of the assets, financial - and results of operations of the company. Furthermore, the legal representatives are responsible for the internal controls which they have determined to be necessary in accordance with the German principles of proper accounting in order to enable the preparation of annual financial statements,

In preparing the annual financial statements, the legal representatives are responsible for assessing the company's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting, provided no actual or legal circumstances conflict therewith.

In addition, the legal representatives are responsible for preparing the management report, which as a whole provides a suitable view of the company's position and is consistent with the annual financial statements in all material respects, complies with German legal requirements and suitably presents the opportunities and risks of future development .

Furthermore, the legal representatives are responsible for the precautions and measures (systems) they have deemed necessary to enable the preparation of a management report in accordance with the applicable German statutory provisions and to be able to provide sufficient suitable evidence for the statements in the management report .

Auditor's responsibility for the audit of the annual financial statements and the management report

Our objective is to obtain reasonable assurance as to whether the annual financial statements as a whole are free from material - intentional or unintentional - misstatements and whether the management report as a whole provides a suitable view of the company's position and, in all material respects, with the annual financial statements and is consistent with the findings obtained in the audit, complies with German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report which contains our audit opinions on the annual financial statements and on the management report.

Adequate assurance is a high level of assurance, but is no guarantee that an audit conducted in accordance with Section 317 of the German Commercial Code, taking into account the German principles of proper auditing established by the Institut der Wirtschaftsprüfer (IDW) will always uncover a material misstatement. Misstatements may arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements and management report.

During the audit, we exercise professional judgment and maintain a critical attitude. Furthermore

- We identify and assess the risks of material - intentional or unintentional - misstatements in the annual financial statements and in the management report, plan and perform audit procedures in response to these risks, and obtain audit evidence that is sufficient and appropriate to serve as a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is greater than that arising from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls;
- We gain an understanding of the internal control system relevant to the audit of the annual financial statements and the precautions and measures relevant to the

audit of the management report in order to plan audit procedures that are appropriate in the given circumstances, but not with the aim of providing an audit opinion on the effectiveness of these give away systems of society;

- we evaluate the appropriateness of the accounting methods used by the legal representatives as well as the reasonableness of the estimated values and related disclosures presented by the legal representatives;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that cast significant doubt on the Company's ability to continue as a going concern can raise. If we conclude that there is a material uncertainty, we are required to draw attention to the related disclosures in the financial statements and management report in the auditor's report or, if such disclosures are inappropriate, to modify our respective audit opinion. We base our conclusions on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to be able to continue as a going concern;
- We assess the overall presentation, the structure and the content of the annual financial statements, including the disclosures, and whether the annual financial statements present the underlying transactions and events in such a way that the annual financial statements, in compliance with the German principles of proper accounting, give a true and fair view of the assets, financial and results of operations of the company conveyed;
- we assess the consistency of the management report with the annual financial statements, its compliance with the law and the view of the company's situation that it gives;
- we perform audit procedures on the future-oriented information presented by the legal representatives in the management report. On the basis of sufficient appropriate audit evidence, we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not provide a separate audit opinion on the future-oriented information and the underlying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Munich, May 12, 2020

acms GmbH
auditing company

Martin Schillinger, auditor

The financial statements for the fiscal year from January 1 to December 31, 2019 were adopted on August 4, 2020.

Thorlabs GmbH
Managing directors
dr Bruno Gross

