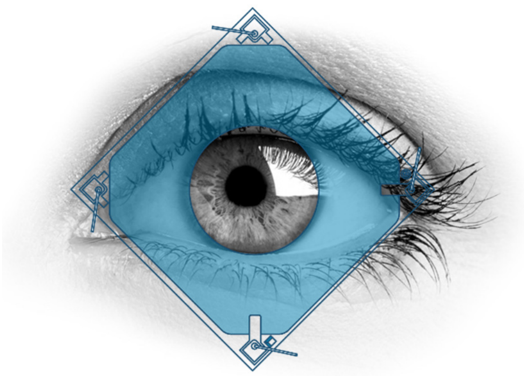
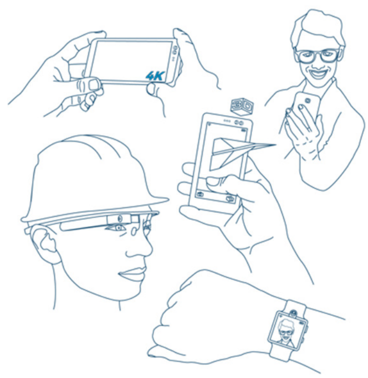
poLight® Annual Report 2017





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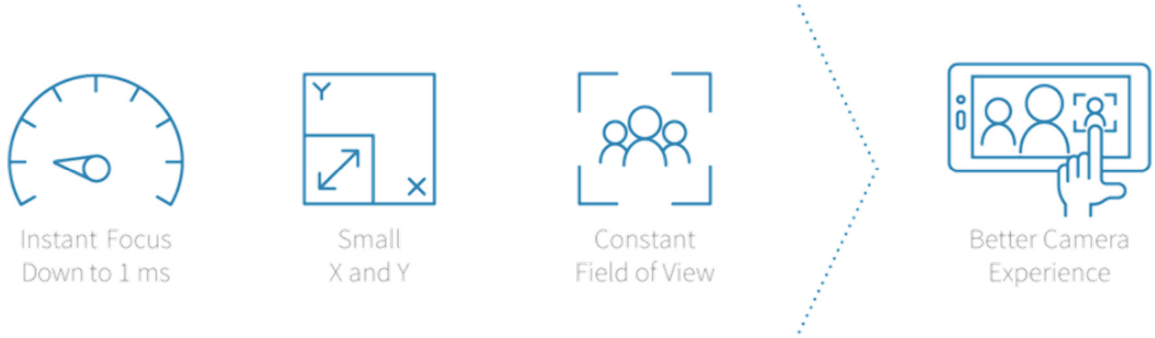
poLight AS is a Norwegian company, headquartered in Horten, which is about to introduce a unique photographic lens to the market for mobile devices and other applications. The new lens replicates the lens of the human eye, enabling new user experiences and ease the implementation of autofocus functions for various applications.

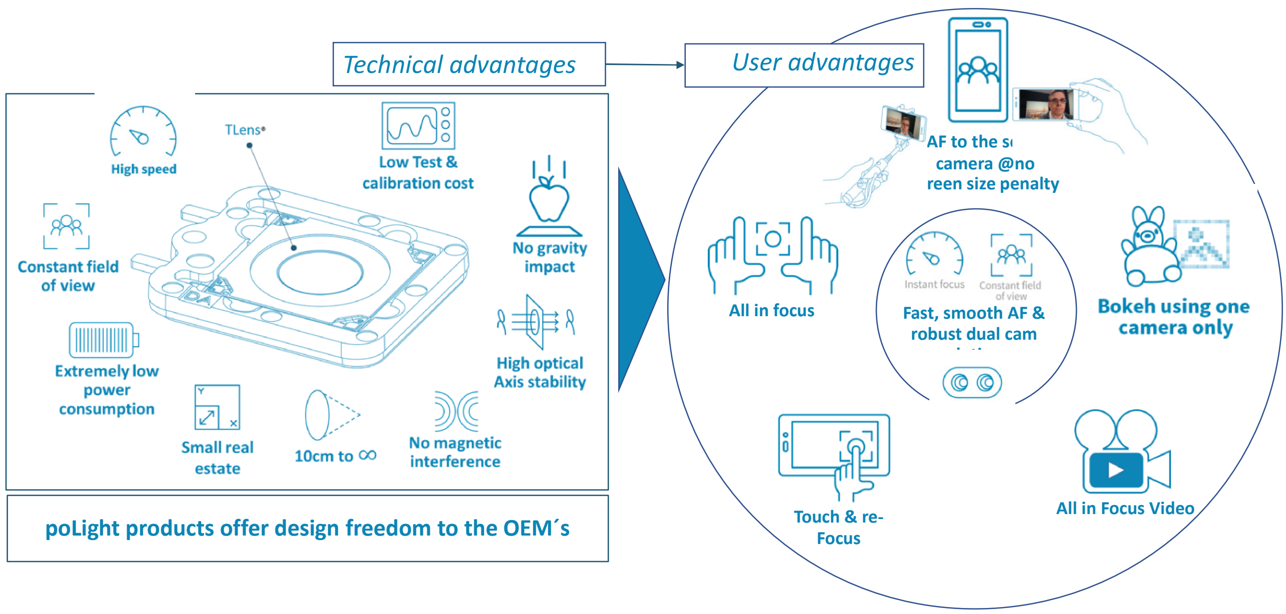
The patented, proprietary technology, offers the camera module market considerable benefits, such as extremely fast focus, compact xy-dimension, no electromagnetic interference, low power consumption, and constant field of view. These features will enable unique use cases both for single and multicamera implementations, front and back.



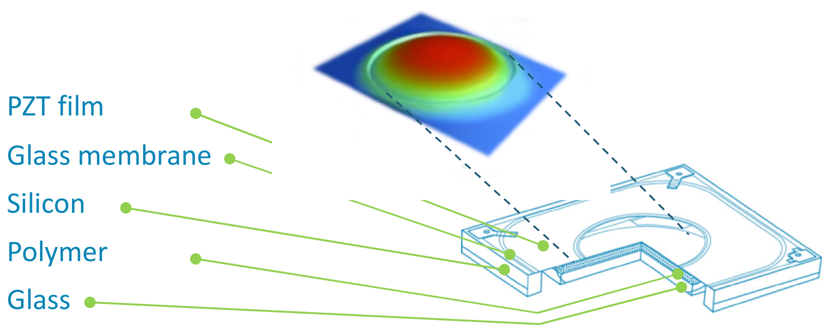
poLight has offices in Norway, Finland, China and France, and is also represented in Korea and Taiwan. The company was founded in 2005, and has since built world-class expertise in optics, polymers, and MEMS technology. The poLight team comprises world class researchers and developers, all aiming to develop the world's leading imaging technologies.

Technology

poLight offers the fastest focus actuator for use in future smartphones and other application. The company has developed and patented the Tunable Optical Lens, which outperforms today's standard Voice Coil Motor (VCM) lens in terms of instant focus, small footprint, lower power consumption, stable field of view and no magnetic interference. By combining the poLight lens with advanced image processing, new mobile applications can be created, such as: Instant Focus™, which instantaneously brings the image into focus; All in Focus™, which keeps all objects, from close to far, in focus; and full resolution focus after the fact, which enables the user to refocus the picture long after shooting it, without losing image quality.



The poLight lens is constructed around a piezo element (pzt film), which is placed on a thin glass membrane, and plays the role of an actuator. A patented polymer is sandwiched between two high quality glass layers.

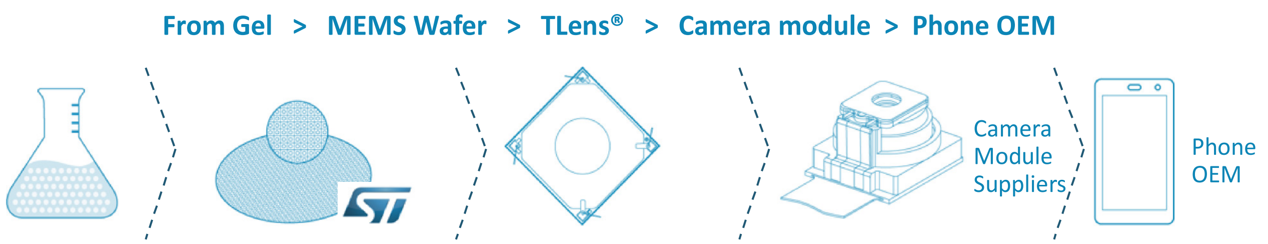


The piezo material on the thin glass membrane is designed to spherically deform the polymer when a voltage is applied to the piezo material. This structure offers a tuneable lens of high optical quality. When the piezo is in standby mode, no force is applied to the thin glass, and light passes through the two elements of glass, and the polymer, without deviation. When a voltage is applied, the piezo actuator will immediately force the thin glass membrane to bend accordingly. This generates a perfect lens, and an optical power, which focuses the light rays. Due to the optical matching between the glass membrane, the polymer and the supporting glass, and poLight's unique anti-reflective coating, the optical transmittance is optimised for the visible spectrum.

The characteristics of the piezo element induces a change of focus in the lens within 1 millisecond (mS). As the piezo element is controlled by the voltage (basically no current), power consumption is extremely low, compared with existing VCM based lenses.

Supply Chain

poLight is fabless and use partners for most manufacturing processes, except for the polymer, which is produced at the company headquarter in Norway. STMicroelectronics has been used for manufacturing of the MEMS actuator, utilizing their thin film piezo technology in an 8-inch fab in Italy. Polymer and wafers with actuators are shipped to the manufacturing partner in Taiwan, who assembles the complete product and ship to camera module vendor.

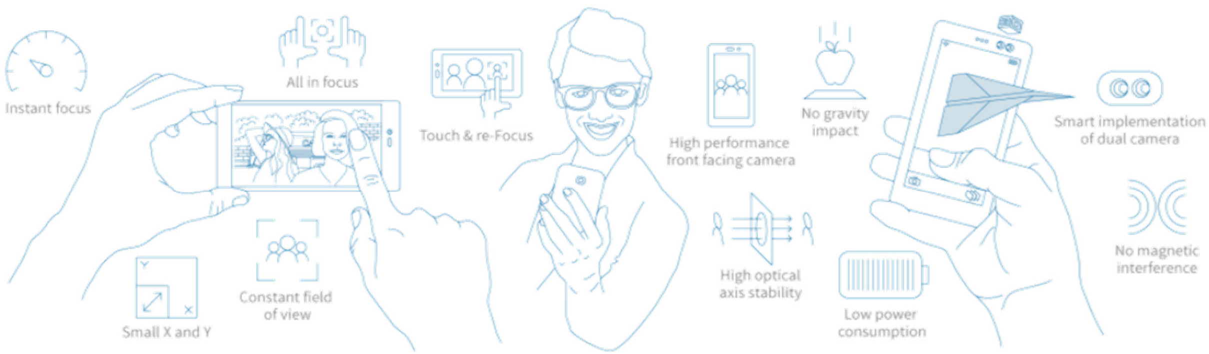


Market

poLight's TLens technology is suitable for application across multiple use-cases and equipment relying on compact, high-quality autofocus solutions. These include, but are not limited to, mobile phones, medical equipment, industrial scanners and readers, sports-action cameras, surveillance units, video conferencing systems, wearables and AR (augmented reality).

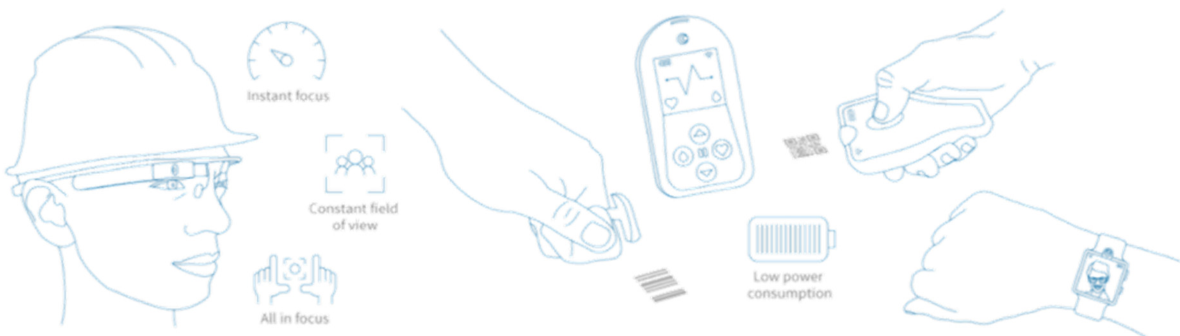
The global market for mobile phones with a camera comprised an estimated 1.9 billion units sold in 2016, an increase of 4% from 2015, according to data from TSR[1]. Of these, approximately 1.5 billion were categorised as smartphones, corresponding to a market share of 77%. Gartner, Inc. estimates that sales of smartphones grew by close to 3% in 2017 to nearly 1.54 billion units.

For most smartphone users, the camera is an important function. This assumption is supported by the uptake in the number of photos and videos recorded by mobile phones and smartphones distributed through globally leading social media applications such as Snapchat and YouTube. New technology which enhances the camera related user-experience is therefore a key area of innovation for the smartphone players.



While the smartphone market offers a vast volume potential, it also requires a long and rigors qualification process. Other markets demanding small high-end cameras offer a shorter time to market. On such example is barcode readers. There are multiple manufacturers of barcode reading equipment which increasingly require autofocus functionality to optimize their product portfolio. Annual volume demand in this segment for the various players are expected to be in the range of 0,1 million to 2 million units. Typically, product life time is from 5 to 10 years, as opposed to the smartphone market having product life time from 3 to 12 months.

Another emerging market is related to cameras used for AR (augmented reality) solutions.



[1] Techno System Research Co., Ltd

MESSAGE FROM THE CEO

In 2017, we passed several milestones on our journey to bring the next generation autofocus lenses to the market. We faced new challenges as we were increasingly exposed to extensive customer dialog and testing. These challenges were met and overcome by a highly competent poLight team and we started 2018 with all-time high customer activity in the smartphone segment and other promising markets.

I'd like to take the opportunity to thank the whole poLight team, and our partners, for their efforts and continued dedication to bringing our unique technology to the market. While we did not win our first customer contract in 2017, we made steady progress towards a commercial breakthrough.

We improved our product platform through the year, making it significantly more robust and applicable, and the TLens passed increasingly strict reliability test programs. We also expanded our product portfolio to meet market demand for bigger aperture size fitting larger sensor formats, higher mega pixel and higher light sensitivity.

An important market trend developing in 2017, was that smartphone makers gradually introduced higher mega pixel and more light-sensitivity solutions for front facing cameras which require auto focus to ensure good image quality. Adding to this, the use of “edgeless” screen challenges the use of the incumbent auto focus technology, opening for exploration of new technologies. As a result, our engagement with potential customers has accelerated, and reached a point where several Proof of Concept studies were initiated in early 2018.

Last year also proved that our product platform holds potential in other markets beyond the smartphone segment. One opportunity that has matured, is the barcode reader marked. A fast autofocus actuator is important to realise a cost-efficient portfolio of barcode readers in moving from 1D to 2D barcode, reading barcodes with the same unit from close to far. We are already engaged with two industrial players who are exploring to bring our TLens into their scan engine platform. Additionally, we are being evaluated by potential customers for potential inclusion in the next generation Augmented Reality (AR) glasses. This may represent a huge potential for poLight as AR glasses are seen to become the “next big thing” after the smartphone. However, I must caution that this is a market at a very early stage.

Through 2017 and into 2018, new areas of application for the TLens have emerged. These offer additional routes for monetizing our unique technology, widens our market potential and reduces our reliance on the smartphone market for commercial success.

The increased activity and interest for the TLens product portfolio across all market segments, strengthens our confidence in successful commercialisation of poLight's technology. We acknowledge that it has taken more time than we expected, and that there are still hurdles to pass. That said, the foundation we have built with respect to intellectual property, markets potential, human resources and shareholder base, make me confident that commercial use of poLight technology is not a question of if, it is only a question of when.

Dr. Øyvind Isaksen

CEO, poLight AS

BOARD OF DIRECTORS

Eivind Bergsmyr
Chair

Eivind Bergsmyr is Partner in Viking Venture since 2009, and holds board seats at several of the Viking Venture portfolio companies. He is currently chairman of Xait AS and former chairman of GasSecure AS (sold to Dräger in 2015). Bergsmyr was previously CEO of the Norwegian startup Nacre AS, sold in 2007 to Sperian Protection, and recognised as the Nordic Venture Exit of the Year. Prior to this, Mr. Bergsmyr acquired extensive industrial experience from Siemens. He holds a MSc degree in electronics engineering from NTNU.

Ann-Tove Kongsnes
Deputy chair

Ann-Tove Kongsnes is Investment Director at Investinor AS. She has 17 years' experience from active ownership in seed, early, and expansion stage investments, working mainly with high tech companies. Prior to this she worked 7 years with international marketing, and was formerly a Director of Marketing and Operations. Ms. Kongsnes has broad board experience and is today board member at Investinor's portfolio companies Numascale, Spinchip Diagnostics, Vitux and Pharmalink. She holds a MSc degree in Economics and Business Administration from HIB and the Advanced Program in Corporate Finance at NHH.

Per Anell
Board member

Per Anell is investment manager Technology in Industrifonden. He has almost 20 years of professional experience from senior positions in several growth companies. Prior to joining Industrifonden, Mr. Anell worked as an investment manager at Innovationsbron, and later at Almi Invest, focusing mainly on seed investments in high tech startups.

Arne Hans Tonning
Board member

Arne H. Tonning is Partner at Alliance Venture, is currently Investor in Residence at Nordic Innovation House in Silicon Valley, and has been a poLight board member since 2009. He has management consulting experience from CapGemini C4. Prior to this he worked for the Norwegian Trade Council in London and as a Research Scientist at SINTEF Telecom and Informatics. He holds BSc and MSc degrees in electrical engineering from Georgia Tech and an MBA from Edinburgh Business School, Heriot-Watt University.ann

Johan Paulsson
Board member, Independent

Johan Paulsson has been a member of poLight's board since 2010. He is Chief Technology Officer at Axis Communications. Prior to this, Mr. Paulsson was COO and Head of R&D at Ericsson Mobile Platform. He holds a Master of Science degree in Electrical Engineering from Lund University.

Deputy board members

- Jan-Erik Hæreid (Alliance Venture)
- Erik Hagen (Viking Venture)
- Otto Frøseth (Investinor)

Management

Øyvind Isaksen
Chief Executive Officer

Øyvind Isaksen has been CEO in poLight since August 2014. He has previously held several CEO positions, most recently in the publicly listed company Q-Free ASA, which he left in January 2014, after 7 years as CEO. Isaksen holds a Ph.D. in Applied Physics.

Pierre Craen
Chief Technology Officer

Pierre Craen has more than 20 years' experience in opto-mechanical system engineering. Prior to joining poLight, he managed product development teams at Varioptic, Barco and Motorola/Symbol. Craen holds a M.Sc. degree in optical engineering from Sup-Optic, and a M.Sc. degree in Applied Physics.

Alf Henning Bekkevik
Chief Financial Officer

Alf Henning Bekkevik has a background from Arthur Andersen (E&Y), Wallendahl, Fjord Line, Grenland Group, and, most recently, as VP Finance for Wood Group Norway AS. He holds a Master's Degree in Business & Economics (Siviløkonom) from NHH Norwegian School of Economics, and is a state authorized public accountant.

Marianne Sandal
Chief Operating Officer

Marianne Sandal has more than 15 years of experience heading worldwide operations in Nera ASA (telecommunications) and Q-Free ASA (intelligent transportation systems). Sandal holds a BSc Degree in Mechanical Engineering, in addition to courses in economics and management from BI Norwegian School of Management.

SHAREHOLDER OVERVIEW

poLight shareholders as at 31 December 2017	Ordinary shares	Share ownership	Voting rights
	Thousands	%	%
Investinor AS	1 268 327	23.4 %	23.4 %
Viking Venture III AS	1 078 066	19.9 %	19.9 %
Industrifonden AB	747 653	13.8 %	13.8 %
Alliance Venture Polaris AS	380 851	7.0 %	7.0 %
Arctic Funds PLC	243 920	4.5 %	4.5 %
TD Veen A/S	186 414	3.4 %	3.4 %
Sintef Venture III AS	173 559	3.2 %	3.2 %
Åstveit Invest AS	131 875	2.4 %	2.4 %
OP-Europe Rising Stars Fund	124 458	2.3 %	2.3 %
Verdipapirfondet Pareto	124 458	2.3 %	2.3 %
MP Pensjon PK	122 970	2.3 %	2.3 %
Storebrand Vekst JP Morgan Europe Ltd	103 297	1.9 %	1.9 %
Verdipapirfondet DNB	71 119	1.3 %	1.3 %
Total	4 756 967	87.7 %	87.7 %
Other (less than 1% ownership)	665 844	12.3 %	12.3 %
Total number of shares	5 422 810	100.0 %	100.0 %

poLight shares are not listed on a stock exchange or other recognised and regulated market place. poLight had a total of 124 shareholders as of 31 December 2017.

BOARD OF DIRECTORS' REPORT

In 2017, poLight made significant progress towards commercialization of its unique autofocus lens. The TLens passed quality and durability tests imposed by the mobile phone industry, and the company experienced increased interest from potential customers representing sectors that rely on high-quality optical lenses for imaging from the mobile phone- and various other segments.

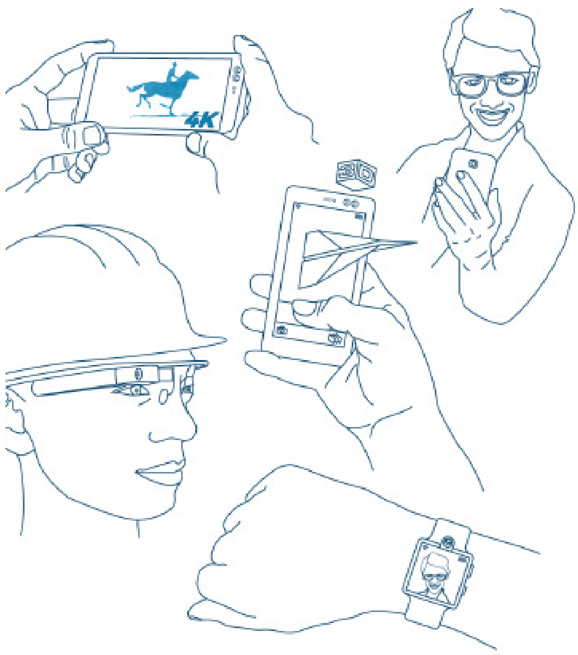
Customer projects progressed to a point where poLight at year end supported Proof-of-Concept (PoC) projects with recognised mobile phone makers and two manufacturers of bar code readers. These were important steps towards securing a first design win for the TLens technology.

Corporate events in 2017

poLight accelerated marketing activities in 2017. Early in the year, poLight showcased its technology at the Mobile World Congress (MWC) in Barcelona, Spain, where a team, headed by Øyvind Isaksen, CEO, met with potential clients and presented updated results from the product development- and qualification programs, and discussed the usage of the TLens in different camera module systems. In June, the CTO, Pierre Craen, gave a speech at the Transducers 2017 conference in Kaohsuing, Tawian, focused on the company's TLens technology getting into mass production stage.

The company established a subsidiary in Shenzhen, China, which became formally operational in early 2018, to offer local customer support and marketing activities, mainly directed at camera module makers and mobile phone vendors.

poLight became ISO 9001:2015 certified in 2017. The standard is an international recognition given to organizations who implement an effective quality management system based on a number of quality management principles including a strong customer focus, the motivation and implication of top management, the process approach and continual improvement. poLight was audited by DNV L GL.



Manufacturing and operations

poLight works primarily with two sub-contractors – STMicroelectronics (ST), and Tong Hsing Electronic Industries, Ltd. (THEIL). ST produces the actuator, and THEIL assembles the complete product.

The ramp-up of the production process progressed well in 2017 with focus on tuning of various processes and increased wafer and production predictability output at ST. poLight has held back on the ramp-up of material and capacity to minimise cash burn and risk. Only a minimum of material is produced for debugging the manufacturing line, enabling customer sampling and to be prepared for a first design-win. The year-end manufacturing capacity was at just below 1 million lenses unyielded per month.

In late 2017, ST focused on processing the upgraded Silver wafers, Silver Premium, with bigger aperture size. Wafers for assembly and testing were available from ST at the end of first quarter of 2018. poLight plans to start customer sampling early in the second quarter of the year. The first TLens Platinum wafer was delivered in the fourth quarter of 2017.

THEIL, the assembly partner in Taiwan, successfully implemented new production steps to increase the TLens' reliability and durability after input from potential customer's product qualification programs. THEIL, also focused on adapting the assembly and final test process to cater for various TLens variants. At poLight a new setup for production of polymer was established.

As a general observation, all production ramp-up processes are subject to risk of delay. With the new technology TLens represents, this is even more relevant. The yield potential has been proven and poLight is prepared to start delivering volumes when a design win has been secured.

Product development

External testing and qualification of the TLens Silver product in the first half of 2017 identified a need to improve the lens packing to meet customer reliability requirements. The required design changes were implemented and enabled TLens Silver to meet various tests with one camera module vendor.

Passing industry reliability tests led to increased interest from camera module makers to ramp-up promotion of poLight technology. This included bringing the TLens into their design, and preparing demonstration cameras for various phone makers. poLight continues to have an active dialogue with several camera module vendors and supporting several qualification processes.

In 2017, poLight initiated development of TLens Silver Premium, which is an evolution of the TLens Silver product with bigger aperture in response to current market demand. TLens Silver Premium has an aperture diameter of 1.9 mm, compared with the 1.55 mm for TLens Silver, and is targeted to meet demand in the front-facing camera market. The first wafer was delivered from ST in early 2018. poLight's plans is to sample customer with TLens Silver Premium from early second quarter 2018 and ramp-up production from mid-2018.

The TLens Platinum development project continued through 2017. It was started in 2016 after qualification of the basic technology through the TLens Silver. TLens Platinum is made for larger sensor formats than Silver Premium can support. The development project continued through 2017, but with lower priority than Silver Premium. The product is expected to be ready for market release early 2019, depending on Silver Premium progress. One PoC is underway with one mobile phone and camera-module vendor based on the Platinum design. The initial results from this project are expected around mid-2018.

Development of the new ASIC driver, which controls the TLens through supplying voltage, continued in 2017. Extensive testing towards the end of the year identified the need for some adjustments. The malfunctions were resolved in the first quarter of 2018 and improvements implemented. A new version will be delivered from the sub supplier in the second quarter. The targeted market release remains mid-2018.

In 2017, poLight started a new project, funded by the Norwegian Research Council, to develop the basis for new actuator technology which may form the basis for bigger aperture devices (bigger than Platinum) and/or Optical Image Stabilization solutions. This is a long-term project, and it is not expected to lead to any product release over the next few years.

Market

Market activity increased throughout the year. Camera module makers and mobile phone manufacturers in China and Taiwan remained the key discussion partners. However, the company also has dialogues with other smart phone market participants. poLight also experienced increased interest from other segments such as the barcode and AR/VR markets.

In the mobile phone segment, the main market driver at the moment for poLight is that front-facing cameras are starting to use higher mega pixel sensors and use higher light sensitivity solutions. This trend implies that Auto Focus (AF) is needed for image quality reasons. Furthermore, the shift towards "edgeless screens", implies that the use of the incumbent technology (VCM) will be very challenging compared to a very compact (xy) size (small footprint) TLens solution.

poLight has experienced increased interest on the back of these trends and successful TLens reliability tests. In late 2017 and early 2018, activity related to maturing new camera module vendors was at the all-time high, and the company was supporting PoC projects with three well recognised mobile phone makers through two different camera module vendors. In the PoC projects, the mobile phone vendors evaluate the use of a new front-facing camera-concept based on the TLens. The ongoing PoC-projects will likely take 6-12 months to conclude, implying that ongoing POC projects are expected to conclude between second half of 2018 and mid-2019.

Two of the POC projects have developed according to plan in the first quarter of 2018, while one POC study was halted as the mobile phone maker decided to prioritize the active screen-size, which made the xy-footprint of an AF front facing camera too large for the specific smartphone model.

The company is in dialog with other mobile phone vendors, supported by various camera module vendors, to start evaluation of TLens for front facing camera.

poLight also experienced continued inbound interest from various sectors relying on high quality cameras which have recognized the benefits of the TLens technology. This includes autofocus for scan engines used in barcode readers. By end of March 2018, two barcode reader manufacturers had initiated POC studies based on TLens Silver. In addition to the ongoing technical PoCs, poLight was discussing commercial terms with both companies.

The company may sign a MSA (Master Supply Agreement) with a barcode customer in the second half of 2018, with end products starting to ship in the third quarter of 2019. A barcode product may last for 5-10 years with a potential annual volume of up to 0.5 to 2 million units per case. For poLight, the financial potential from this market segment has become more promising, compared with earlier assessments. A successful entry to this market may yield revenue and cash flow which could cover a significant part of the company's cost base.

Discussions are also ongoing for potential applications in markets for face-id systems and for artificial- and virtual reality (AR/VR) devices. As for potential barcode customers, the company has sold evaluation kits[2] in the AR space.

poLight has made significant progress towards securing the first customer commitment in 2017 and into 2018. The maturity of the TLens technology, production ramp-up, and customer activity support the possibility of securing a design-win in 2018. Still, the timeframe for securing customer commitment remains uncertain, and that there is no guarantee that poLight will reach its target within the indicated time.

Organisation

poLight had 31 full-time and 2 part-time employees in 2017, up from 29 full-time and 2 part-time employees in 2016. In addition, 3 consultants are hired on a relatively long-term engagement. The employees were located in 5 (5) different countries, and represented 11 (14) different nationalities. 24 % (24%) of all employees were female. poLight is committed to being a healthy workplace, which provides opportunities for development to all employees, irrespective of gender, ethnicity, or other characteristics.

poLight is commitment to the health, safety, and welfare of its employees, their families, and its customers. Absence due to sickness in 2017 was 1.8%, compared with 3.3% in 2016. Absence due to sickness remains well below the national average of approximately 6.4% (2016: 5.4%). No work accidents caused personal injuries or material damage during 2017.

The company completed the implementation of a professional management system which was initiated late in 2016, to support the change from being an R&D focused company, to an operational company with commercial deliveries. The company achieved its ISO certification in August 2017.

The company is currently planning for a public listing during the second half of 2018. The timing will however be subject to continuous evaluation. Current available liquidity will likely fund the company until the end of 2018.

Financial development, poLight group

The 2017 group revenue was NOK 613,000, compared with NOK 216,000 in 2016. The revenue reflected sale of samples and evaluation kits, as the company is in a pre-commercial phase.

[2] A kit for evaluation of the basic principle and performance of the TLens

Cost of sales was NOK 7.4 million in 2017 and reflected a reduction in inventory value (NOK 3.4 million) and a provision for incurred and expected costs related to unused wafer fabrication capacity at STMicroelectronics (NOK 4 million). The reduction in inventory value was related to the risk of TLens Silver not meeting the requirements (i.e. aperture size) for the smartphone market. TLens Silver may be a good fit for the barcode market, and as such the inventory book value may be conservative. The company had zero cost of sales in 2016.

R&D expenses amounted to NOK 21.1 million, little changed from NOK 20.1 million in 2016. (see Note 5.3 for details).

Cost of sales and marketing was NOK 7.6 million, up from NOK 5.5 million in 2017, reflecting continued build-up of the sales and marketing organization and increased activities towards prospective clients. Administration expenses were NOK 12.2 million (NOK 9.5 million), while operational/supply chain costs were NOK 3.3 million (1.7).

Depreciation and amortisation amounted to NOK 1.2 million, an increase from NOK 0.8 million in 2016.

The group operating loss was NOK 52.1 million, compared with an operating loss of NOK 37.5 million in 2016.

Net financial items in 2017 were NOK 1.5 million (0.7 million), reflecting mainly interest on bank deposits. Tax expenses in 2017 were NOK 91,000 (37,000).

The group net loss amounted to NOK 50.7 million in 2017, compared with NOK 36.8 million in 2016. This represented a loss in 2017 of NOK 0.009 per share on a fully-diluted basis, compared with a loss of NOK 0.011 per share in 2016.

Financial position

Total assets at 31 December 2017 were NOK 171.1 million, compared with NOK 219.5 million at year-end 2016. The decrease in total assets for the year was mainly related to the net loss for the period. Total equity was NOK 150.0 million, compared with NOK 195 million at year-end 2016.

Intangible assets amounted to NOK 67.4 million at 31 December 2017 (42.5), reflecting capitalised R&D expenses over the year. Trade and other receivables were NOK 5.3 million (6.5 million), including recognised, not received governmental grants of NOK 4.4 million (5.4 million).

The cash position at 31 December 2017 was NOK 93.6 million, compared with NOK 167 million at the end of 2016. The change was mainly related to cash consumed by operating activities and investments made through the year.

Long-term liabilities were NOK 0.6 million (NOK 1.8 million). Total current liabilities at year-end 2017 were NOK 20.5 million, compared with NOK 22.7 million in 2016. The change reflected a reduction in trade and other payables, partly offset by an increase in provisions related mainly to unused capacity at STMicroelectronics.

Cash flow

Net cash flow used in operating activities was NOK 46.9 million in 2017, compared with NOK 30.8 million used in 2016. The 2017 net cash flow used in investing activities was NOK 25.2 million, compared with NOK 28.4 million used in 2016. The decrease was mainly due to lower R&D capital expenditures in the period. Net cash flow from financing of negative NOK 1.2 million in 2017 reflected repayment of debt. Net cash flow from financing activities was NOK 151.1 million in 2016, following the private placement raising new equity.

Financial development, parent company

Revenue in the parent company was NOK 1.1 million in 2017 (NOK 216,000). Operating loss was NOK 52.8 million, compared with a loss of NOK 37.2 million in 2016, after total operating expenses of NOK 46.5 million in 2017 (37.4 million).

Included in the operating expenses were employee benefit expenses, at NOK 27.3 million in 2017, compared with NOK 19.2 million in the preceding year. The parent company had on average 23.3 employees in 2017, compared with 20.5 in 2016. Other operating expenses net of capitalised R&D expense, amounted to NOK 18.3 million, compared with NOK 17.7 million in 2016. (see Note 3).

The net result for poLight AS in 2017 was a loss of NOK 50.3 million, compared with a loss of NOK 35.2 million in 2016.

The board proposes that NOK 45.3 million is transferred from share premium and NOK 5 million from retained earnings. The board does not propose to pay a dividend for 2017.

Share capital

As at 31 December 2017, poLight AS had share capital of NOK 542,281, consisting of 5,422,810,495 shares, with a nominal value of NOK 0.0001 each. The company's shares are not listed on a stock exchange or other recognised and regulated market place.

The shares may be transferred without approval from the board of directors. However, a person, company, or group of companies with operative business in the same value chain as poLight, may not without prior written approval from poLight's board of directors acquire shares in a number that would place such a person, company, or group of companies in a position of owning more than 5% of the shares in poLight. This restriction shall terminate, and no longer apply, when poLight's shares are listed on a stock exchange or other recognised and regulated market place.

poLight employees have been granted options to subscribe for shares under share options schemes. The board is authorised to issue employee options up to a maximum of 12% of the outstanding shares of the company. A total of 425,534,489 share options (7.8%) were issued as of 31 December 2017. The exercise price on all issued share options was NOK 0.1125 per share. The company also has issued 10,562,429 warrants to subscribe for new shares outstanding, at an exercise price of NOK 0.1125 per share (see note 14).

Risks and risk management

poLight's risk management is based on the principle that risk evaluation is an integral part of all business activities. As a technology company with global operations, poLight is exposed to risk factors of financial and operational nature, which may affect business activities, and the company's financial position. The board of poLight places high priority on managing risk, and has established routines and policies to limit overall risk exposure.

Market risk: poLight develops highly innovative technological autofocus lenses for mobile phones and smartphones, and related products. The markets of these products are undergoing rapid technological change. poLight's future success will depend on the company's ability to meet changing industry demands, develop new technologies that address prospective customers' increasingly sophisticated requirements, and to ensure high-quality and cost-effective mass production.

IPR related risk: poLight's technology is interlinked with the company's operations and business strategy. To protect the company's intellectual property rights (IPR), the company relies on a combination of copyright and trademark laws, trade secrets, confidentiality procedures, and contractual provisions. poLight actively seeks to protect its products and technologies in every market and geography. There is, however, inherent risk related to copyright protection of new products, potential challenges from third parties, and to how competing technological solutions may impair the company's ability to do business.

Foreign exchange risk: poLight is subject to certain financial risks associated with currency and interest rates. While the company has had limited revenue so far, it incurs costs in various currencies. No single large currency risk has been identified that may have significant impact on the company's net profit. Proceeds from share issues are saved in Norwegian kroner. poLight has not entered into any hedging agreements.

Liquidity risk: poLight operates at a loss. In 2016, the company raised new equity, with net proceeds of NOK 152 million. The company may seek to raise further capital to finance R&D activities and expansion plans.

Corporate governance

poLight has established guidelines and policies related to corporate governance, to enable the company to achieve its strategic targets, and, at the same time, protect corporate values and ethical guidelines. The board has approved guidelines governing operational and financial risk assumed by the company, as well as specifying the responsibilities of the board of directors and senior management. The company adheres to the principle of equal treatment of all shareholders. poLight has stated an intention to list its shares on the Oslo Stock Exchange. The timing of a listing will however depend on company developments and prevailing market conditions. The company will, in conjunction with an application to list, review its corporate governance policies in light of the most recent update to the Norwegian Code of Practice for Corporate Governance (NUES).

Corporate social responsibility

poLight aims to be a responsible company with a view to working conditions, human rights, the environment, and anti-corruption efforts. The company promotes a healthy, safe, and fair work environment in accordance with the applicable laws and regulations, including the UN Global Compact. poLight has established a policy for code of conduct as an initial step in developing formal guidelines, principles, procedures, or standards related to corporate social responsibility. poLight is not regulated by any environmental concessions, or administrative orders.

Going concern statement, and events in 2018

The board confirms that the financial statements of the company, as well as of the parent company, have been prepared under the going concern assumption. The board is confident that the company is well positioned to continue in operational existence, based on the current balance sheet, revenue forecast, and projected expenses.

Current cash deposits are expected to fund poLight's activities throughout 2018. The company plans, and has started to prepare for, a stock exchange listing in 2018. Based on meetings with the largest shareholders, it appears likely that poLight will manage to raise the minimum capital for a public listing, given no significant negative change in capital market sentiment.

Outlook

poLight continues to experience increased interest for its TLens technology from the mobile phone industry and from other sectors. The demand for Auto Focus (AF) in the front-facing camera strengthened through 2017 and into 2018. It remains a key driver for interest in poLight's solutions, which is reflected in a steady increase in the number of ongoing dialogues with potential customers.

The earliest potential design win in the mobile phone market could emerge in the second half of 2018. A few PoC projects are already ongoing, and new cases are being discussed.

Two PoC projects have been initiated in the barcode segment. The projects target designing in the TLens into scan engine platforms for use in several barcode products. These are expected to progress through 2018 with potential design wins late in the year and product release to the market in the second half of 2019. While, representing smaller volumes than the smart phone market, barcode readers offers more steady and predictable volumes. The products typically have a lifespan of 5-10 years per case as opposed to a smartphone case which often last only for 6-12 months. Success in the barcode market could finance a significant part of the of the fixed cost in the company.

The increased market activity and interest for the TLens products, both in- and outside the smartphone market, supports increased confidence in commercialization of poLight's technology.

The company is currently planning for a listing during 2018. The timing will however be subject to continuous evaluation. Current available liquidity will likely fund the company until the end of 2018.

Statement by the board of directors and the Chief Executive Officer

We confirm to the best of our knowledge that: the consolidated financial statements for 2017 have been prepared in accordance with IAS, as adopted by the EU, as well as additional information requirements in accordance with the Norwegian Accounting Act, and that the financial statements for the parent company for 2017 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements provides a true and fair view of the company's and the group's assets, liabilities, financial position, and results for the period viewed in their entirety, and that the board of directors' report provides a true and fair view of the development, performance, and financial position of the company and the group, and includes a description of the material risks that the board of directors, at the time of this report, deems to potentially have significant impact on the financial performance of the group.

poLight AS
Horten, 16 May 2018

Eivind Bergsmyr (sign) **Chair**	**Ann-Tove Kongsnes (sign)** **Deputy chair**	**Per Anell (sign)** **Board member**
Arne Hans Tonning (sign) **Board member**	**Johan Paulsson (sign)** **Board member, Independent**	**Øyvind Isaksen (sign)** **Chief Executive Officer**

GROUP FINANCIAL STATEMENTS

Consolidated statement of income
for the year ended 31 December 2017

(in NOK 000)	**Note**	**2017**	**2016**
Sale of goods	4	613	216
Revenue		**613**	**216**
Cost of sales	12	7 400	0
Gross profit		**-6 787**	**216**
Research and development expenses	5.3	-21 051	-20 118
Sales and marketing expenses	5.4	-7 610	-5 540
Administrative expenses	5.5	-12 174	-9 484
Operational / supply chain expenses	5.6	-3 322	-1 720
Depreciation, amortisation and net impairment losses	8,9	-1 163	-822
Operating profit		**-52 107**	**-37 468**
Net financial items	5.1,11.2	1 541	721
Profit before tax		**-50 566**	**-36 747**
Income tax expense	6	-91	-37
Profit for the year		**-50 657**	**-36 784**
Attributable to:			
Equity holders of the parent		-50 657	-36 784
Non-controlling interests		0	0
Earnings per share:			
Basic, attributable to ordinary equity holders of the parent (NOK)	7	-0,009	-0,011
Diluted, attributable to ordinary equity holders of the parent (NOK)	7	-0,009	-0,011

Consolidated statement of other comprehensive income for the year ended 31 December 2017

(in NOK 000)	**Note**	**2017**	**2016**
Profit for the year		**-50 657**	**-36 784**
Other comprehensive income			
Exchange differences on translation of foreign operations		592	-416
Income tax effect		0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**595**	**-416**
Total comprehensive income for the year, net of tax		**-50 065**	**-37 200**
Attributable to:			
Equity holders of the parent		-50 065	-37 200
Non-controlling interests		0	0

Consolidated statement of financial position as at 31 December 2017

(in NOK 000)	Note	2017	2016	2015
ASSETS				
Property, plant and equipment	8	1 874	2 710	1 566
Intangible assets	9	67 444	42 514	16 127
Total non-current assets		**69 318**	**45 224**	**17 693**
Inventories	12	1 781	0	0
Trade and other receivables	11.1	5 260	6 543	8 546
Other current assets		1 127	826	353
Cash and cash equivalents	13	93 647	166 953	75 097
Total current assets		**101 816**	**174 321**	**83 996**
Total assets		**171 134**	**219 545**	**101 689**
EQUITY AND LIABILITIES				
Issued capital	14	542	542	13 221
Share premium	14	148 036	193 312	50 351
Other equity		1 417	1 183	14 263
Equity attributable to equity holders of the parent		**149 996**	**195 037**	**77 835**
Non-controlling interests		0	0	0
Total equity		**149 996**	**195 037**	**77 835**
Interest-bearing loans and borrowings	11.2	600	1 800	3 000
Total non-current liabilities		**600**	**1 800**	**3 000**
Trade and other payables	11.2	13 690	21 471	11 036
Interest-bearing loans and borrowings	11.2	1 200	1 200	1 200
Income tax payable	6	135	37	0
Provisions	15	5 513	0	8 618
Total current liabilities		**20 538**	**22 708**	**20 855**
Total liabilities		**21 138**	**24 508**	**23 855**
Total equity and liabilities		**171 134**	**219 545**	**101 689**

Consolidated statement of changes in equity for the year ended 31 December 2017

		Attributable to equity holders of the parent						
(in NOK 000)	Note	Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
As at 1 January 2016		**13 221**	**50 351**	**13 446**	**817**	**77 835**	**0**	**77 835**
Profit for the period				-36 784		-36 784	0	-36 784
Other comprehensive income					-416	-416	0	-416
Total comprehensive income		0	0	-36 784	-416	-37 200	0	-37 200
Value of share option plan	5.2,17			2 132		2 132		2 132
Decrease of share capital	14	-13 089		13 089		0		0
Issue of share capital	14	410	159 858			160 268		160 268
Transaction costs	14		-7 998			-7 998		-7 998
Allocation to retained earnings	14		-8 898	8 898		0	0	0
At 31 December 2016		**542**	**193 312**	**782**	**401**	**195 037**	**0**	**195 037**
Profit for the period				-50 657		-50 218	0	-50 657
Other comprehensive income					592	592	0	592
Total comprehensive income		0	0	-50 657	592	-50 066	0	-50 066
Value of share option plan	5.2,18			5 024		5 024		5 024
Allocation to retained earnings	14		-45 276	45 276		0	0	0
At 31 December 2017		542	148 036	425	993	149 996	0	149 996

Consolidated statement of cash flows
for the year ended 31 December 2017

(in NOK 000)	Note	2017	2016
Operating activities			
Profit before tax		-50 566	-36 747
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment	8	1 124	773
Amortisation and impairment of intangible assets	9	38	49
Share option plan expense	18	5 024	2 132
Other items related to operating activities		-1 744	-792
Net foreign exchange differences		555	-375
Movements in provisions and government grants	15,16	6 524	-6 102
Working capital adjustments:			
Increase in trade and other receivables and prepayments		-30	-986
Increase in inventories	12	-1 781	0
Increase / decrease in trade and other payables		-7 683	10 472
Interest received	5.1	1 752	1 036
Interest paid	5.1	-152	-264
Net cash flows from operating activities		**-46 939**	**-30 803**
Investing activities			
Proceeds from sale of property, plant and equipment		0	0
Purchase of property, plant and equipment	8, 9	-305	-1 934
Development capital expenditures	5.3, 9	-26 021	-32 989
Receipt of government grants	16	1 123	6 553
Net cash flows used in investing activities		**-25 203**	**-28 369**
Financing activities			
Issue of share capital	14	0	160 268
Transaction costs on issue of shares	14	0	-7 998
Repayment of borrowings	11.2	-1 200	-1 200
Net cash flows from/(used in) financing activities		**-1 200**	**151 070**
Net increase in cash and cash equivalents		-73 341	91 897
Effect of exchange rate changes on cash and cash equivalents		36	-41
Cash and cash equivalents at 1 January	13	166 953	75 096
Cash and cash equivalents at 31 December	13	**93 648**	**166 953**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Corporate information

poLight AS is a limited company, founded in 2005, which is incorporated and domiciled in Norway. The address of its registered office is Kongeveien 77, N-3188 Horten, Norway.

poLight is principally a sub-supplier, which provides a tuneable lens to the camera module industry for mobile phones, and potentially to industry applications ranging from medical to retail. Information on the Group and related parties is presented in Note 20.

The consolidated financial statements of poLight AS and its subsidiaries (collectively, poLight or the Group) for the year ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 16 May 2018.

2 Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and adopted by the EU.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Norwegian kroner (NOK), and all values are rounded off to the nearest thousand (NOK 000), unless otherwise indicated.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that provide the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances when assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee, if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year, are included in the consolidated financial statements from the date the Group gains control, until the date the Group ceases to control the subsidiary.

Profit or loss, and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent, unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- Expected to be settled in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be settled within twelve months after the reporting period, or
- The Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period

The Group classifies all other liabilities as non-current.
Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Revenue recognition

Revenue is recognised, to the extent that it is probable that the economic benefits will flow to the Group, and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Revenue from the sale of goods is recognised, when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates. A liability for potential warranty claims is recognised at the time the product is sold.

For all financial instruments measured at amortised cost, and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument, or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

Foreign currencies

The Group's consolidated financial statements are presented in Norwegian kroner (NOK), which is also the parent company's functional currency. For each entity, the Group determines the functional currency, and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation, and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate, at the date the transaction first qualifies for recognition. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss, with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in OCI until the net investment is disposed of, at which time the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value, is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items which fair value gain or loss is recognised in OCI, or profit or loss, are also recognised in OCI, or profit or loss, respectively).

On consolidation, the assets and liabilities of foreign operations are translated into NOK at the rate of exchange prevailing at the reporting date, and their statement of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on the translation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in the statement of profit or loss.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received, and that all attached conditions will be complied with. When the grant relates to an expense item, it is deducted from the related expense on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognised as income over the useful life of the depreciable asset, by way of a reduced depreciation charge.

Taxes

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity, and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities, and their carrying amounts, for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled, and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for: all deductible temporary differences: the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences. The carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future, and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date, and are recognised, to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction, either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities, and the deferred taxes relate to the same taxable entity and the same taxation authority.

Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment. Repair and maintenance costs are recognised in the profit or loss as incurred. Refer to Significant accounting judgements, estimates and assumptions (Note 3).

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

- Leased building: The duration of the lease agreement
- Equipment: 3 to 5 years

An item of property, plant and equipment is derecognised upon disposal, or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Leases

A lease is an agreement where the lessor conveys the right to use an asset for an agreed period of time. Leases are classified as either financial lease or operational lease. A financial lease is a lease that transfers substantially all the risk and rewards incidental to the ownership of an asset. All other leases are classified as operational leases. The Group currently has only operating leases. Lease payment under operating leases are recognised as an expense on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Intangible assets

Intangible assets acquired separately, are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination, is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalised development costs, are not capitalised, and expenditure is recognised in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over their useful economic lives, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life, or the expected pattern of consumption of future economic benefits embodied in the asset, are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in the statement of profit or loss when the asset is derecognised.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset, so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset
- The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the cost model is applied, requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

Patents and licences

The Group made upfront payments to purchase patents and licences. The patents have been granted for a period of 20 years by the relevant government agency, with the option of renewal at the end of this period. Licences for the use of intellectual property are granted for periods ranging between three and five years, depending on the specific licence.

A summary of the policies applied to the Group's intangible assets is as follows:

	Licences	**Patents**	**Development costs**
Useful lives	Finite (3-5 years)	Finite (20 years)	Finite (10 years)
Amortisation method used	Amortised on a straight-line basis over the lives of the licences	Amortised on a straight-line basis over the period of expected future sales from the related project	Amortised on a straight-line basis over the period of expected future sales from the related project
Internally generated or acquired	Acquired	Acquired	Internally generated

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity, and a financial liability or equity instrument of another entity.

i) Financial assets

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss or loans and receivables, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognised initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The subsequent measurement of financial assets depends on their classification.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost, using the effective interest rate (EIR) method, less impairment. The losses arising from impairment are recognised in the statement of profit.

ii) Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset, or a group of financial assets, is impaired. An impairment exists if one or more events that have occurred since the initial recognition of the asset (an incurred 'loss event'), has an impact on the estimated future cash flows of the financial asset, or the group of financial assets that can be reliably estimated. Evidence of impairment may include; indications that the debtors, or a group of debtors, is experiencing significant financial difficulty, default or delinquency in interest or principal payments; the probability that they will enter bankruptcy or other financial reorganisation; and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears, or economic conditions that correlate with defaults.

iii) Financial liabilities

Financial liabilities are classified, at initial recognition, as appropriate, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge.

The Group's financial liabilities include trade and other payables, loans and borrowings. The financial liabilities are recognised initially at fair value, and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortised cost using the effective interest rate method.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition, are accounted for as follows:

Raw materials:

- Purchase cost on a first-in, first-out basis

Finished goods and work in progress:

- Cost of direct materials and labour, and a proportion of manufacturing overheads, based on normal operating capacity, but excluding borrowing costs

Initial cost of raw materials includes the transfer of gains and losses on qualifying cash flow hedges, recognised in other comprehensive income.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

Impairment of non-financial assets

Disclosures relating to impairment of non-financial assets are summarised in the following notes:

- Accounting policy disclosures Note 2.3
- Disclosures for significant assumptions Note 3
- Property, plant and equipment Note 8
- Intangible assets Note 9
- Research and development costs Note 10

The Group assesses at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets, or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired, and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Group's CGUs to which individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss.

Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand, and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts, as they are considered an integral part of the Group's cash management.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss, net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted, using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Pensions and other post-employment benefits

The Group operates one defined contribution plan. Contributions are recognised in the statement of income in the period in which the contribution amounts are earned by the employee.

Share option plans

Employees (including senior executives) of the Group have received remuneration in the form of share options in poLight AS (equity-settled transactions).

The cost of equity-settled transactions is recognised in employee benefits expense (Note 5.2), together with a corresponding increase in equity (other equity) over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date, reflects the extent to which the vesting period has expired, and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense, or credit, in the statement of profit or loss for a period, represents the movement in cumulative expense recognised as at the beginning and end of that period.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 7).

3 Significant accounting judgements, estimates and assumptions

Impairment of non-financial assets

An impairment exists, when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets, or observable market prices, less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years, and do not include restructuring activities that the Group is not yet committed to, or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model, as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Share option plans

Estimating fair value for share option plans transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model, including the expected life of the share option or appreciation right, volatility and dividend yield, and assumptions about the inputs.

For determining the fair value of equity-settled transactions with employees at the grant date, the Group uses the Black-Scholes option pricing model. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 5 Employee benefits expense, in the financial statement of the parent company, poLight AS.

Development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's assessment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone, according to an established project management model. Cost of material used in manufacturing line until status "mass production" is achieved is recognised as development costs to the extent that it is not sellable parts. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied, and the expected period of benefits. At 31 December 2017, the carrying amount of capitalised development costs was NOK 67.3 million (2016: NOK 42.4 million, 2015: NOK 16.1 million).

4 Segment information

For management purposes, poLight is organised into one operational business unit.

poLight's product TLens® may be used in cameras for smartphones, wearables (such as watches & glasses), and industrial applications ranging from medical to retail.

Geographical distribution	**Machinery & equipment**	
(in NOK 000)	**2017**	**2016**
Norway	1 076	1 591
France	565	752
Finland	57	56
Taiwan	176	311
Total	**1 874**	**2 710**

poLight has R&D entities in Norway, France and Finland. All patents and most of the economic IP (intellectual property) is built in Norway. Sales office is established in China, with a parent holding company in Hong Kong.

5 Other income/expenses and adjustments

5.1 Financial items

(in NOK 000)	**2017**	**2016**
Net foreign exchange gain (losses)	-59	-51
Interest income	1 752	1 036
Interest expense on debts and borrowings	-120	-187
Finance expenses	-32	-77
Net financial items	**1 541**	**721**

5.2 Employee benefits expense

(in NOK 000)	**2017**	**2016**
Included in Research and development expenses:		
Wages and salaries	15 168	12 503
Social security costs	2 520	2006
Pension costs (Note 17)	642	755
Other benefits and social costs	697	435
Value of share option plan (Note 18)	1 455	775
Grants	-1 999	-5 475
Internal development of intangible assets	-7 946	-6 997
Included in Sales and marketing expenses:		
Wages and salaries	3 630	2 194
Social security costs	603	352
Pension costs (Note 17)	154	132
Other benefits and social costs	167	76
Value of share option plan (Note 18)	496	207
Included in Administrative expenses:		
Wages and salaries	6 024	5 954
Social security costs	1 001	955
Pension costs (Note 17)	255	359
Other benefits and social costs	277	207
Value of share option plan (Note 18)	2 575	979
Included in Operational/supply chain expenses:		
Wages and salaries	1 014	799
Social security costs	168	128
Pension costs (Note 17)	43	48
Other benefits and social costs	47	28
Value of share option plan (Note 18)	499	171
Total employee benefits expense	**27 489**	**16 593**
Average number of employees (full time employee)	32	25

5.3 Research and development expenses

(in NOK 000)	**2017**	**2016**
Employee benefits expense	20 483	16 474
Other operating expenses	33 347	41 823
Grants	-7 880	-11 854
Capitalised	-24 898	-26 326
Total Research and development expenses	**21 052**	**20 118**

Research and development costs that are not eligible for capitalisation have been expensed in the period incurred, and are recognised as Research and development expenses. Projects that have been eligible for capitalisation, include the development of TLens® Silver and TLens® Platinum.

R&D costs that are expensed, includes R&D management, patents, research on improvements of the TLens (see Note 15 Government grants) and software applications and integration.

5.4 Sales and marketing expenses

(in NOK 000)	2017	2016
Employee benefits expense	5 050	2 962
Other operating expenses	2 561	2 579
Total Sales and marketing expenses	**7 610**	**5 540**

5.5 Administrative expenses

(in NOK 000)	2017	2016
Employee benefits expense	10 132	8 455
Other operating expenses	2 042	1 029
Total Administrative expenses	**12 174**	**9 484**

5.6 Operational/supply chain expenses

(in NOK 000)	2017	2016
Employee benefits expense	1 771	1 174
Other operating expenses	1 551	546
Total Operational/supply chain expenses	**3 322**	**1 720**

5.7 Auditor's remuneration

(in NOK 000)	2017	2016
Audit fee	299	151
Audit related fee	30	148
Tax fee	147	447
Other service fee	80	50
Total Auditor's remuneration *(excluding VAT)*	**556**	**796**

6 Income tax

The significant components of income tax expense are:

(in NOK 000)	2017	2016
Consolidated statement of profit or loss		
Current income tax expense	91	37
Adjustments in respect of current income tax of previous year	0	0
Deferred tax:		
Relating to origination and reversal of temporary differences	0	0
Income tax expense reported in the statement of profit or loss	**91**	**37**

A reconciliation between tax expense and the product of accounting profit multiplied by Norway's domestic tax rate, is as follows:

(in NOK 000)	**2017**	**2016**
Calculated income tax at statutory rate of 24% (2016: 25%)	-12 136	-9 187
Government grants exempt from tax	-699	-915
Tax effect of permanent differences	1 516	-1 443
Change in unrecognised deferred tax assets	7 785	6 046
Change in tax rate	4 157	5 060
Effect of different tax rates compared with Norwegian tax rate	3	29
Effect on items recognised in OCI	-535	323
Other items	0	124
Income tax expense	**91**	**37**
Effective tax rate	**0.2 %**	**0.1 %**

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			**Consolidated statement of income**	
(in NOK 000)	**2017**	**2016**	**2015**	**2017**	**2016**
Non-current assets	1 975	1 845	1 603	-130	-241
Current assets	1 693	0	0	-1 693	0
Group receivables	-1 030	-540	-885	490	-345
Provisions and other liabilities	1 437	0	2 577	-1 437	2 577
Losses available for offsetting against future taxable income *)	92 655	87 640	79 603	-5 016	-8 037
Deferred tax expense/(income)				**-7 785**	**-6 046**
Net deferred tax assets/(liabilities)	**96 729**	**88 944**	**82 898**		

Reflected in the statement of financial position as follows:

Deferred tax assets	97 760	89 484	83 783
Deferred tax liabilities	-1 030	-540	-885
Unrecognised deferred tax assets net	-96 729	-88 944	-82 898
Deferred tax liabilities net	0	0	0

Total unrecognised deferred tax assets relate to

(in NOK 000)	**2017**	**2016**
Norway	90 070	82 210
France	7 690	7 274
Total	**97 760**	**89 484**

7 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit for the year attributable to ordinary equity holders of the parent, by the weighted average number of shares outstanding during the year.

The following table reflects the income and share data used in the basic and diluted EPS computations:

Thousands	2017	2016
Weighted average number of ordinary shares for basic EPS	5 422 810	3 372 457

There have been no other transactions involving ordinary shares, or potential ordinary shares, between the reporting date and the date of authorisation of these financial statements.

(in NOK)	2017	2016
Earnings per share for income attributable to equity holders of poLight:		
Basic	-0,009	-0,011
Diluted	-0,009	-0,011

Existing share options and warrants have no dilution effect on EPS computations, because this would have decreased loss per share.

8 Property, plant and equipment

(in NOK 000)	Building	Equipment	Total
Cost at 1 January 2016	0	12 238	12 238
Additions	287	1 647	1 934
Disposals at cost	0	0	0
Effect of changes in foreign exchange	0	-105	-105
Cost at 31 December 2016	**287**	**13 780**	**14 067**
Accumulated depreciation and impairment losses at 1 January 2016	0	-10 672	-10 672
Depreciation	0	-773	-773
Impairment losses	0	0	0
Accumulated depreciation and impairment losses disposals	0	0	0
Effect of changes in foreign exchange	0	88	88
Accumulated depreciation and impairment losses at 31 December 2016	**0**	**-11 357**	**-11 357**
Net book value at 31 December 2016	**287**	**2 423**	**2 710**

(in NOK 000)	Building	Equipment	Total
Cost at 1 January 2017	287	13 780	14 067
Additions	0	234	234
Disposals at cost	0	0	0
Effect of changes in foreign exchange	0	174	174
Cost at 31 December 2017	**287**	**14 189**	**14 475**
Accumulated depreciation and impairment losses at 1 January 2017	0	-11 357	-11 357
Depreciation	-181	-943	-1 124
Impairment losses	0	0	0
Accumulated depreciation and impairment losses disposals	0	0	0
Effect of changes in foreign exchange	0	-120	-120
Accumulated depreciation and impairment losses at 31 December 2017	**-181**	**-12 420**	**-12 601**
Net book value at 31 December 2017	**106**	**1 768**	**1 874**
Estimated useful lives (years)	**1)**	**3-7**	

1) Modifications and upgrades in leased premises are depreciated over the leasing period.

9 Intangible assets

(in NOK 000)	Development costs and TLens patents	Other patents	Software licence	Total
Cost at 1 January 2016	16 112	10 261	61	26 434
Additions — internal development	6 699	0	0	6 699
Additions	19 626	0	110	19 736
Cost at 31 December 2016	**42 438**	**10 261**	**171**	**52 870**
Accumulated amortisation and impairment losses at 1 January 2016	0	-10 261	-46	-10 307
Amortisation	0	0	-49	-49
Impairment losses	0	0	0	0
Accumulated amortisation and impairment losses at 31 December 2016	**0**	**-10 261**	**-95**	**-10 356**
Net book value at 31 December 2016	**42 438**	**0**	**76**	**42 514**

(in NOK 000)	Development costs and TLens patents	Other patents	Software licence	Total
Cost at 1 January 2017	42 438	10 261	171	52 870
Additions — internal development	7 946	0	0	7 946
Additions	16 951	0	71	17 022
Disposals	0	-10 261	0	-10 261
Cost at 31 December 2017	**67 336**	**0**	**242**	**67 577**
Accumulated amortisation and impairment losses at 1 January 2017	0	-10 261	-95	-10 356
Amortisation	0	0	-38	-38
Impairment losses	0	0	0	0
Disposals	0	10 261	0	10 261
Accumulated amortisation and impairment losses at 31 December 2017	**0**	**0**	**-133**	**-133**
Net book value at 31 December 2017	**67 336**	**0**	**108**	**67 444**

Intangible assets with finite useful lives, are amortised systematically over their estimated economic lives, ranging between 3 and 10 years.

In 2008/2009, poLight acquired the core patents of the TLens® technology for NOK 5 million. The patents were granted in 10 different countries in 2006. poLight has since invested substantial resources in research and product development of the TLens®.

In 2017 and 2016, respectively, NOK 24.9 million and NOK 26.3 million were capitalised related to product development of TLens Silver & Platinum.

Research and development costs that are not eligible for capitalisation have been expensed in the period incurred, and are recognised in Research and development expenses. In 2017 some patents were abandoned, related to the display business transferred from Ignis at the start-up of the company.

10 Research and development costs

The part of poLight's IP (intellectual property) that is recognised as an intangible asset, is the fundamental TLens® technology, which can become a component in smartphones, wearables and other products.

(in NOK 000)	Carrying amount before impairment	Carrying amount after impairment	Net impairment loss
CGU: TLens®			
At 31 December 2015	16 112	16 112	0
At 31 December 2016	42 438	42 438	0
At 31 December 2017	67 336	67 336	0

The TLens ® technology is poLight's major asset. Since the company was founded in 2005, it has raised NOK 529 million in equity, and received significant governmental grants to develop the TLens® technology from its patents.

The first product, TLens Silver, passed an internal defined qualification program early 2016, triggering extensive test/qualification activity with potential customer and production ramp-up in order to prepare and secure the first commercial order. ST Microelectronics (ST) showed strong commitment to establish the new production processes involved in manufacturing the TLens actuator. The key ramp-up milestones were passed in late 2016, and the responsibility for producing the wafers was transferred from the R&D department to Operation at ST. In Q2 2018 an important milestone was achieved, passing the first customer reliability testing program.

poLight is in dialogue with various mobile phone and camera vendors with regards to potential applications. Two Proof of Concept projects are ongoing and additional two are set to start in the second quarter 2018, aiming for a design-win in 2018/2019. poLight is addressing a large market, so even a small market share will generate high revenue. The interest in new smartphone camera improvements is high, and constitutes an important differentiator in a very competitive market. The process of achieving a design-win is demanding. Introducing new technology to the market has always an element of risk, however, the judgement as of today is still that it is a matter of effort and time before the product has shown maturity for design-win in the smart-phone market.

Other markets like the autofocus for scan engines used in barcode readers matured further in 2017 and into 2018. Two POC studies based on TLens Silver are ongoing that might result in shipments late 2019. The financial potential from this market segment has become more promising compared with earlier assessments, that could cover a significant part of the company's cost base.

When reviewing indicators of impairment of the TLens ® technology, one of the factors poLight considers, is the relationship between its market capitalisation and its book value. In July 2016, poLight raised a gross NOK 160 million in new equity capital, through an oversubscribed private placement directed at new investors and existing shareholders, to finance the ramp-up plan and R&D programs. The price of the new shares was set, based on a pre-money valuation of the company of NOK 450 million.

The company plans, and has started to prepare for, a stock exchange listing in 2018. Based on meetings with the largest shareholders, it appears likely that poLight will manage to raise the minimum capital for a public listing, given no significant negative change in capital market sentiment. The valuation of poLight remains subject to a number of factors including timing of commercialization of the TLens technology. The share price range indicated in the feedback from these meetings will imply a market capitalisation that is significant higher than the book value of its equity, thus showing no indication of potential impairment.

11 Financial assets and financial liabilities

poLight's principal financial liabilities comprise loans, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. poLight's principal financial assets include trade and other receivables, and cash.

poLight is exposed to foreign currency risk, credit risk and liquidity risk.

Foreign currency risk

Trade; poLight's contracts with the suppliers of the actuator and the assembly of the TLens®, are in USD. Foreign currency risk will be mitigated by entering sales contracts in USD, or using hedging instruments. The group had not entered into any hedging instruments as at 31 December 2017.

Research and development ("R&D"); a significant part of the R&D expenses is in foreign currency. Services from subsidiaries are invoiced in EUR and development programs at manufacturing partners are invoiced in USD. These activities have not been hedged as of today.

Credit risk

As at 31 December 2017, most of the receivables consisted of VAT and government grants with low credit risk.

Liquidity risk

At year-end, poLight had a significant cash reserve, with adequate liquidity to operate throughout 2018 without additional funding.

11.1 Financial assets

(in NOK 000)	2017	2016	2015
Financial assets at amortised cost:			
Trade receivables	334	0	147
Grants recognised, not received	4 394	5 405	7 921
Other receivables	532	1 138	478
Total financial assets	**5 260**	**6 543**	**8 546**
Total current	5 260	6 543	8 546
Total non-current	0	0	0

Trade receivables are non-interest bearing, and are generally on 30-90 day terms.

As at 31 December, the ageing analysis of the receivables is as follows:

			Past due but not impaired				
(in NOK 000)	**Total**	**Neither past due nor impaired**	**< 30 days**	**30–60 days**	**61–90 days**	**91–120 days**	**> 120 days**
2017	5 260	5 260	0	0	0	0	0
2016	6 543	6 543	0	0	0	0	0
2015	8 546	8 399	0	0	0	0	147

11.2 Financial liabilities

(in NOK 000)	2017	2016	2015
Financial liabilities at amortised cost, other than interest-bearing loans and borrowings:			
Trade payables	5 372	9 391	3 654
Other payables	8 453	12 080	7 383
Provisions	5 513	0	8 618
Total	**19 338**	**21 471**	**19 655**
Total current	19 338	21 295	19 655
Total non-current	0	176	0

Terms and conditions of the above financial liabilities

- Trade payables are non-interest bearing, and are settled on 15–45 day terms
- Other payables are non-interest bearing, and have an average term of four months

(in NOK 000)	Interest rate	Maturity	2017	2016	2015
Current interest-bearing loans and borrowings:					
Secured loan, Innovation Norway	5%	< 1 year	1 200	1 200	1 200
Total			**1 200**	**1 200**	**1 200**

Maturity analysis

The maturity analysis below shows the remaining contractual maturity of financial liability. The analysis shows contractual undiscounted cash-flows (i.e., includes interest), and thus differs from the amounts recognised in the statement of financial position.

(in NOK 000)	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 December 2017					
Interest-bearing loans	0	1 271	621	0	1 892
Trade and payables	11 995	1 830	0	0	13 825
	11 995	3 101	621	0	15 717

(in NOK 000)	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 December 2016					
Interest-bearing loans	0	1 333	1 896	0	3 230
Trade and payables	19 716	1 617	176	0	21 508
	19 716	2 950	2 072	0	24 738

Capital Management

The primary objective of the Group’s capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure in a pre-revenue faze, the Group may issue new shares.

The Group monitors cash monthly towards 5-year budgets and forecasts.

(in NOK 000)	2017	2016	2015
Interest-bearing loans	1 800	3 000	4 200
Trade and other payables	19 338	21 471	19 655
Less: cash and short-term deposits	-93 647	-166 953	-75 097
Net debt	-72 509	-142 482	-51 242

The Group's capital structure is primarily based on deposits. Current deposits will likely fund the Group until end of 2018.

12 Inventories

(in NOK 000)	2017	2016	2015
Work in progress (at cost)	*9 140*	*0*	*0*
Work in progress (expensed as cost of sales)	*-7 360*	*0*	*0*
Work in progress (net realisable value)	1 781	0	0
Finished goods	0	0	0
Total inventories at the lower of cost and net realisable value	**1 781**	**0**	**0**

During 2017, NOK 7.4 million (2016: 0) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. Materials used in test production is recognised as intangible assets.

13 Cash and short-term deposits

(in NOK 000)	2017	2016	2015
Cash at banks and on hand	92 550	165 663	73 989
Restricted cash, taxes withheld	841	1 035	859
Restricted cash, deposits	257	255	249
Cash and short-term deposits	**93 647**	**166 953**	**75 097**

Cash at banks earns interest at floating rates based on daily bank deposit rates.

14 Issued capital and reserves

(In thousands)	2017	2016	2015
Ordinary shares	5 422 810	5 422 810	56 854
Preference A-shares			140 766
Preference B-shares			1 124 482
Total shares	**5 422 810**	**5 422 810**	**1 322 103**

The shareholders are presented in Note 17 Share capital and shareholder information, in the financial statement of the parent company, poLight AS.

Collapse in preference shares structure

All preference shares issued were converted into ordinary shares at the extraordinary general meeting held 1 July 2016. In the event of an IPO or sale of all shares, a shareholders' agreement had stipulated how the outcome of a liquidation/sale would be shared among each share class. This "liquidation preference" was used as a basis for the calculation of each shareholder's new portion of equity. To achieve this portion, new "compensation" shares were issued with a subscription price per share at par value NOK 0.0001.

Transferability of shares

The shares may be transferred without approval from the board of directors. However, a person, company or group of companies with operative business in the same values chain as poLight, may not without the prior written approval of poLight's board, acquire shares in a number that results in such person, company or group of companies owning more than 5% of the shares in poLight. This restriction shall terminate and no longer apply, upon listing of poLight's shares on a stock exchange, or other recognised and regulated market place.

Shares issued and fully paid	Number of shares (Thousands)	Issued capital (in NOK 000)
At 1 January 2016 of NOK 0.01 each	1 322 103	13 221
Decrease in par value on 17 June 2016 from NOK 0.01 to 0.0001 per share	0	-13 089
Private placement 1 July 2016 of ordinary shares of NOK 0.0001 each	1 422 377	142
Private placement 1 July 2016 of ordinary shares of NOK 0.0001 each, compensation for collapse in preference shares structure	2 678 331	268
At 31 December 2017	**5 422 810**	**542**

(in NOK 000)	Share premium
At 1 January 2016	50 351
Private placement 1 July 2016	159 858
Decrease due to transaction costs for issued share capital	-7 998
Allocated to retained earnings	-8 898
At 31 December 2016	**193 312**
Allocated to retained earnings	-45 276
At 31 December 2017	**148 036**

Share option schemes

The board is authorised to issue employee options up to a maximum of 12% of the outstanding shares of the company. The exercise price on all issued share options is NOK 0.1125 per share at 31 December 2017. The company's share option schemes, with the opportunity to subscribe for shares in poLight, have been offered all employees (Note 18).

Warrants

Finisar Sweden Holding AB owns 10,562,429 warrants, at an exercise price of NOK 0.1125 per share.

15 Provisions

(in NOK 000)	NRE	Liability	Claims	Total
At 1 January 2016	0	0	8 618	8 618
Utilised	0	0	-8 618	-8 618
At 31 December 2016	**0**	**0**	**0**	**0**
New or increased provisions	2 380	4 000	0	6 380
Utilised	0	-867	0	-867
At 31 December 2017	**2 380**	**3 133**	**0**	**5 513**

Expected timing of cash flow

(in NOK 000)	NRE	Liability	Claims	Total
Current, < 1 year	2 380	3 133	0	5 513
Non-current	0	0	0	0
At 31 December 2017	**2 380**	**3 133**	**0**	**5 513**

Non-recurring engineering (NRE)

Some of the non-recurring product development cost (NOK 2.4 million) associated with the latest TLens driver have been agreed to be added as an additional cost price element. It is expected that this NRE will be paid during the first year of purchases.

Liability

In conjunction with dedicated CAPX investments of USD 4.8 million at the company's wafer manufacturer STMicroelectronics, the company signed on a CAPEX letter giving the company an obligation to pay an amount equal to one-year depreciation of unused capacity. During the one-year period from Q2-2017 to Q1-2018 the liability is estimated to be NOK 4 million, and will be paid as a price addition on wafer purchases in 2017 and 2018.

Claims

In 2015, poLight received a claim from the French Tax Authorities, after a tax audit of poLight France SAS, a wholly owned subsidiary. The French Tax Authorities did not accept the related transactions, and requested the received tax grants repaid. The tax claim was paid in 2016.

16 Government grants

(in NOK 000)	**2017**	**2016**
At 1 January	5 405	7 921
Received during the year	-8 891	-13 765
Capitalised	1 123	6 553
Released to the statement of profit or loss	6 757	4 696
At 31 December	**4 394**	**5 405**

poLight has received grants for research related to a TLens with increased aperture size and improved actuator that increases the optical power of the TLens®. The company has also received grants for development of an optical image stabilisation solution with TLens® technology. In 2017, poLight's application for cost refund of up to NOK 9 million in a new 3-year project on "microfails" was approved. This project, which starts in 2018, will partly finance analyses and testing activities to understand better relations between micro failure in optical components and mechanical, physical and electric testing.

(in NOK 000)	**2017**	**2016**	**2015**
Current	4 394	5 405	7 921
Non-current	0	0	0
Total	**4 394**	**5 405**	**7 921**

17 Pensions

poLight AS (the Group's Norwegian company) is subject to the requirements of the Mandatory Occupational Pensions Act, and the company's pension scheme follows the requirements of the Act. As the subsidiaries in France and Finland are not subject to mandatory pension schemes in addition to the national insurance schemes, no pension scheme has been established there.

The pension scheme in Norway is based on a defined contribution plan, and the premium is calculated on the basis of the employees' income. In 2017 5.55% of the income between 1G and 7.1G, and 8% of the income between 7.1G and 12G is calculated. The period's contributions are recognised in the Consolidated statement of income as pension cost for the period.

(in NOK 000)	**2017**	**2016**
Defined contribution plan	1 045	1 041
Social security	147	147
Total pension cost	**1 193**	**1 188**

18 Share option plans

Share options in the parent company are granted to all employees. The exercise price of the share options is equal to, or higher than, the market price of the underlying shares on the date of grant. The share options are vested in equal parts, with 1/36 each month over 3 years, at the expiry of each calendar month, starting at the date of grant, and conditional on the employee's continued employment in poLight.

The share options can be exercised up to two years after the three-year vesting period. Vested options may be exercised and shares issued once a year in conjunction with the annual Ordinary General Meeting in poLight AS.

The board is authorised to issue employee options up to a maximum of 12% of the outstanding shares of the company.

	2017		2016	
	Thousands	WAEP	Thousands	WAEP
Outstanding at 1 January	456 302	0,1125	115 839	0.2686
Granted during the year	43 883	0,1125	456 302	0.1125
Forfeited during the year	-25 667	0,1125	-108 545	0.2686
Exercised during the year	0		0	
Expired during the year	-48 984	0,1125	-7 294	0.2927
Outstanding at 31 December	**425 534**	0,1125	**456 302**	0.1125
In % of outstanding shares	**7,85%**		**8,41%**	
Exercisable at 31 December	221 385	0,1125	136 466	0,1125

Due to the issuing of new shares to share preference holders at par value in 2016, as a compensation for the collapse of share classes, the number of shares increased significantly (Note 14). New and amended share option agreements were granted, replacing the existing agreements. The exercise price on all share options was set to NOK 0.1125, which is marginally higher than the subscription price in the private placement that took place 1 July 2016.

The weighted average share price (WAEP) for the share options outstanding as at 31 December 2017, was NOK 0.1125 (2016: NOK 0.1125). At the end of the year, like the end of 2016, the exercise price was NOK 0.1125 on all outstanding options.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2017 is 3.08 years (2016: 3.63 years).

Share option valuation

The fair value of the options granted in the period has been calculated to NOK 1.4 million, by using the Black-Scholes option pricing model. The basis for the valuation model comprises several factors that affect the calculated fair value of granted options. The assumptions used in the calculation are:

	2017	2016
Price at grant date	NOK 0.1125	NOK 0.1125
Exercise price	NOK 0.1125	NOK 0.1125
Option life	5 years	5 years
Risk-free interest rate	1.05%	0.84%
Volatility	40%	40%

Expected vesting is estimated based on employee turnover, and volatility is estimated based on comparable companies listed on the Oslo Stock Exchange.

19 Commitments and contingencies

Operating lease commitments

poLight has entered into commercial leases with regards to premises and office equipment. In Norway, the company leases lab facilities, including a clean room, and offices are leased in Norway, France, Finland and China. The premises in Norway comprises 1080 square meters, and the contract is renewed annually, with twelve months' notice.

Future minimum rentals payable under non-cancellable operating leases are as follows:

(in NOK 000)	**2017**	**2016**	**2015**
Within one year	1 514	1 575	439
After one year, but not more than five years	827	807	320
More than five years	0	0	0
Future minimum rentals payable	2 341	2 382	759

Lease payments recognised as an expense in the period:

(in NOK 000)	**2017**	**2016**
Minimum lease payments	1 732	959
Contingent rents	0	0
Total lease expenses	1 732	959

20 Related parties

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table:

Name	**Principal activities**	**Country of incorporation**	**2017**	**2016**	**2015**
poLight AS	R&D, Sales and management	Norway	100%	100%	100%
poLight France SAS	R&D	France	100%	100%	100%
poLight Finland Oy	R&D	Finland	100%	100%	
poLight Hong Kong Limited *)	Holding company	HK, China	100%		
poLight (Shenzhen) Technical Service Company Limited *)	Sales	China	100%		

*) No activity in 2017.

The entity in China was operational from February 1st 2018 with two employees.

poLight AS is the ultimate parent. None of the shareholders of poLight AS has control of the company. As of 31 December 2017, the largest shareholder is Investinor AS, with an ownership of 23.4%.

Transactions between group companies

Intercompany agreements are entered with all the subsidiaries in the Group. All sales in the subsidiaries are made with parent company. All transactions are considered to be on an arm's length basis.

	Currency	**2017**	**2016**	**2015**
Subordinated loan agreement	EUR	2 900 000	3 000 000	0

A subordinated loan agreement of EUR 3,000,000 was concluded on 29 December 2016, replacing all intercompany balance between poLight AS and poLight France SAS. Only the part that exceeds a prudent level, with regards to both equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual. For the financial year 2017, the entire principal is considered as equity, and not interest-bearing. Since the loan is considered to be a part of the net investment in France, the currency translation effect is recognised in OCI.

Transactions with other related parties

No transactions have been made with other related parties for the relevant financial years.

Compensation with key management personnel

Related party transactions with management are presented in Note 5 Employee benefits expense, in the financial statement of the parent company, poLight AS.

21 Events after the balance sheet date

The parent company, poLight AS, have been registered in the VAT register since the foundation of the company. On 20 February 2018 the company received a letter notifying that VAT that have been refunded since 2013 has to be repaid, totally NOK 11.6 million. The tax authorities claim that the company should not have been registered in the VAT register in the first place and therefore not eligible VAT refunds. The tax authorities' argument is that the business is not capable of having profits, and therefore not a business in VAT perspective. The tax authorities are basing their argument on historic accounting results.

poLight do not agree in this assessment, especially since significant milestones have been passed to commercialize the TLens technology. The notification is answered within due date, and documentation substantiating poLight's view is expected to be accepted by the tax authorities. No provision is made at 31.12.2017.

22 Standards issued, but not yet effective

Relevant standards and interpretations that are issued, but not yet effective up to the date of issuance of the Group's financial statements, are disclosed below. The Group intends to adopt these standards when they become effective.

- *IFRS 16 Leases*
  IFRS 16 was issued in January 2016, and replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for all leases under a single, on-balance sheet model, similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers), and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability), and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

  IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard, using either a full retrospective, or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  poLight has entered into commercial leases with regards to premises and office equipment. Non-cancellable rentals payable after one year amounts to NOK 0.8 million at 31.12.2017 (Note 19). The potential effect on the consolidated financial statement is assessed to be insignificant due to the duration of the lease agreements that varies from 3 months up to 2 years.

Other issued new standards and amendments are either not applicable for the Group, or are not considered to have a significant impact on the financial statements.

POLIGHT AS FINANCIAL STATEMENTS

Statement of income poLight AS – NGAAP
for the year ended 31 December 2017

(in NOK 000)	**Note**	**2017**	**2016**
Sale of goods	2	1 107	216
Revenue		**1 107**	**216**
Cost of sales	12	7 400	0
Gross profit		**-6 293**	**216**
Research and development expenses		-22 595	-20 105
Sales and marketing expenses		-7 610	-5 540
Administrative expenses		-12 081	-9 484
Operational / supply chain expenses		-3 322	-1 720
Depreciation, amortisation and net impairment losses	9,10	-909	-571
Operating profit		**-52 811**	**-37 205**
Net financial items	7,14	2 511	1 974
Profit before tax		**-50 300**	**-35 231**
Income tax expense	8	0	0
Profit for the year		**-50 300**	**-35 231**

Attributable to:			
Share premium	18	-45 276	-8 898
Retained earnings	18	-5 024	-26 333
Profit for the year		**-50 300**	**-35 231**

Balance Sheet poLight AS – NGAAP
as at 31 December 2017

(in NOK 000)	Note	2017	2016
ASSETS			
Property, plant and equipment	9	1 252	1 902
Intangible assets	10	67 375	42 514
Investments in subsidiaries	11	116	23
Total non-current assets		**68 743**	**44 439**
Inventories	12	1 781	0
Trade receivables	13	392	0
Other receivables	13	5 967	7 564
Cash and cash equivalents	16	93 210	166 087
Total current assets		**101 349**	**173 651**
Total assets		**170 092**	**218 090**
EQUITY AND LIABILITIES			
Issued capital	17,18	542	542
Share premium	18	148 036	193 312
Total owners' equity		**148 578**	**193 854**
Retained earnings	18	0	0
Total equity		**148 578**	**193 854**
Interest-bearing loans and borrowings	14	1 800	3 000
Total non-current liabilities		**1 800**	**3 000**
Trade payables	13	7 171	9 428
Public duties payable		1 092	1 675
Other payables	13	11 450	10 133
Total current liabilities		**19 714**	**21 236**
Total liabilities		**21 514**	**24 236**
Total equity and liabilities		**170 092**	**218 090**

Statement of cash flows poLight AS – NGAAP for the year ended 31 December 2017

(in NOK 000)	Note	2017	2016
Operating activities			
Profit before tax		-50 300	-35 231
Depreciation and amortisation expenses	9,10	909	571
Changes in inventories, accounts receivables and accounts payable		-4 430	6 268
Changes in other accruals		7 264	-2 382
Net cash flows from operating activities		**-46 557**	**-30 775**
Investing activities			
Purchase of property, plant and equipment	9	-223	-1 848
Development capital expenditures	10	-26 021	-32 989
Receipt of government grants	4	1 123	6 553
Foundation of a subsidiary	11	0	-23
Net cash flows used in investing activities		**-25 121**	**-28 307**
Financing activities			
Issue of share capital	18	0	160 268
Transaction costs on issue of shares	18	0	-7 998
Repayment of borrowings	14	-1 200	-1 200
Net cash flows from/(used in) financing activities		**-1 200**	**151 070**
Net increase in cash and cash equivalents		-72 878	91 988
Cash and cash equivalents at 1 January	16	166 087	74 099
Cash and cash equivalents at 31 December	16	**93 210**	**166 087**

NOTES TO THE FINANCIAL STATEMENT POLIGHT AS

1 Significant accounting policies

The financial statements have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway.

Subsidiaries

The Group's consolidated financial statements comprise poLight AS, and companies in which poLight AS has a controlling interest. A controlling interest is normally obtained when the Group owns more than 50% of the shares in the company, and can exercise control over the company. Minority interests are included in the Group's equity. Transactions between group companies have been eliminated in the consolidated financial statement.

The purchase method is applied when accounting for business combinations. Companies which have been bought or sold during the year, are included in the consolidated financial statements from the date when control is achieved, until the date when control ceases.

Use of estimates

The management has used estimates and assumptions that have affected assets, liabilities, incomes, expenses and information about potential liabilities in accordance with generally accepted accounting principles in Norway.

Foreign currency translation

Transactions in foreign currency are translated at the rate applicable on the transaction date. Monetary items in a foreign currency are translated into NOK, using the exchange rate applicable on the balance sheet date. Non-monetary items that are measured at their historical price expressed in a foreign currency are translated into NOK, using the exchange rate applicable on the transaction date. Non-monetary items that are measured at their fair value expressed in a foreign currency are translated at the exchange rate applicable on the balance sheet date. Changes to exchange rates are recognised in the income statement as they occur during the accounting period.

Revenue recognition

Revenues from the sale of goods are recognised in the income statement, once delivery has taken place and most of the risk and return has been transferred.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received, and that all attached conditions will be complied with. When the grant relates to an expense item, it is deducted in the related expense on a systematic basis over the periods that the costs it is intended to compensate, are expensed. Where the grant relates to an asset, it reduces the carrying amount of the asset. The grant is then recognised as income over the useful life of the depreciable asset by way of a reduced depreciation charge.

Income tax

The tax expense comprises tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated as 23% of temporary differences and the tax effect of tax losses carried forward. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Taxes payable and deferred taxes are recognised directly in equity, to the extent that they relate to equity transactions.

Classification and valuation of balance sheet items

Current assets and short-term liabilities consist of receivables and payables due within one year, and items related to the inventory cycle. Other balance sheet items are classified as fixed assets/long-term liabilities.

Current assets are valued at the lower of cost and fair value. Short-term liabilities are recognised at nominal value.

Fixed assets are valued at cost, less depreciation and impairment losses. Long-term liabilities are recognised at nominal value.

Research and development

Development costs are capitalised, providing that a future economic benefit associated with development of the intangible asset can be established and costs can be measured reliably. Otherwise, the costs are expensed as incurred. Capitalised development cost is amortised linearly over its useful life. Research costs are expensed as incurred.

Fixed assets

Property, plant and equipment is capitalised and depreciated linearly over the estimated useful life. Significant fixed assets which consist of substantial components with dissimilar economic life, have been unbundled; depreciation of each component is based on the economic life of the component. Costs for maintenance are expensed as incurred, whereas costs for improving and upgrading property, plant and equipment are added to the acquisition cost and depreciated with the related asset. If carrying value of a non-current asset exceeds the estimated recoverable amount, the asset is written down to the recoverable amount. The recoverable amount is the greater of the net realisable value and value in use. In assessing value in use, the discounted estimated future cash flows from the asset are discounted.

Investments in subsidiaries

Subsidiaries and investments in associates are valued at cost in the company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses. An impairment loss is recognised if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a later period.

Dividends, group contributions and other distributions from subsidiaries are recognised in the same year as they are recognised in the financial statement of the provider. If dividends/group contribution exceeds withheld profits after the acquisition date, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the acquisition in the balance sheet for the parent company.

Inventory

Inventories are recognised at the lowest of cost and net selling price. The net selling price is the estimated selling price in the case of ordinary operations, minus the estimated completion, marketing and distribution costs. The cost is arrived at using the FIFO method, and includes the costs incurred in acquiring the goods and the costs of bringing the goods to their current state and location.

Receivables

Accounts receivable and other current receivables are recorded in the balance sheet at nominal value less provisions for doubtful accounts. Provisions for doubtful accounts are based on an individual assessment of the different receivables. For the remaining receivables, a general provision is estimated, based on expected loss.

Cash flow statement

The cash flow statement is presented using the indirect method. Cash and cash equivalents include cash, bank deposits and other short-term, highly liquid investments with maturities of three months or less.

2 Revenue

(in NOK 000)	2017	2016
By business area		
TLens® for Smartphone	613	216
Group revenue	494	0
Total	**1 107**	**216**
Geographical distribution		
USA	282	0
Asia	52	92
Europe	774	124
Total	**1 107**	**216**

3 Specification of operating expenses by nature

(in NOK 000)	Note	2017	2016
Capitalised intangible assets in progress	10	-24 898	-26 326
Employee benefits expense	5, 19	27 302	19 189
Depreciation, amortisation and net impairment losses	9, 10	909	571
Other operating expenses	6, 15	43 205	43 986
Total operating expenses		**46 518**	**37 421**

4 Government grants

(in NOK 000)	2017	2016
At 1 January	5 405	5 861
Received during the year	-8 053	-11 776
Capitalised	1 123	6 553
Released to the statement of profit or loss	5 920	4 766
At 31 December	**4 394**	**5 405**

poLight AS has received grants for reimbursement of expenses related to technology and product development and process improvement programs.

5 Employee benefits expense

(in NOK 000)	2017	2016
Wages and salaries	19 342	18 134
Social security costs	2 733	2 644
Pension costs (Note 18)	1 094	1 041
Other benefits and social costs	1 108	712
Value of share option plan	5 024	2 132
Grants	-1 999	-5 475
Internal development of intangible assets	-7 946	-6 997
Total employee benefits expense	**19 355**	**12 192**
Average number of employees	23	21

Management remuneration

(in NOK 000)	Salaries	Bonus	Pension costs	Other benefits	Total 2017	2016
Øyvind Isaksen – CEO	2 025	0	59	252	2 336	2 647
Pierre Craen – CTO	1 456	0	59	15	1 530	1 552
Alf Henning Bekkevik – CFO 1)	1 213	0	57	13	1 283	1 068
Joakim Nelson – VP Sales & BD 2)	886	0	48	9	942	1 097
Marianne Sandal – COO 3)	1 181	0	68	12	1 261	733

1) Alf Henning Bekkevik was appointed CFO on 1 February 2016.
2) Joakim Nelson acted as VP Sales & Business Development from 1 February 2016 to 30 September 2017. SEK 15,000 were acquired through his company Comnel AB in Lund, for the period 1.10-31.12.2017.
3) Marianne Sandal was appointed COO on 1 May 2016.

If the company terminates the CEO's employment, the CEO is entitled to nine months' salary, in addition to a three months' notice period.

The independent board member Johan Paulsson has a fixed remuneration of NOK 100,000 per year. The other board members do not receive any remuneration. The board member Johan Paulsson also holds 4 million share options. There are no loans from poLight to the management or members of the board.

Bonus and share options

All employees are included in a bonus programme, with identical bonus criteria for all, except the CEO, who has a separate bonus scheme. The bonus is calculated based on fixed salary, with maximum 20% for management and 10% for other employees.

The CEO's bonus scheme stipulates payments of NOK 750,000 for each of the following events; i) IPO, ii) first phone with TLens inside available commercially, and iii) each 100 million NOK in revenue until IPO or exit, given a gross margin of at least 40% (max NOK 500 million).

The board is authorised to issue employee options up to a maximum of 12% of the outstanding shares in the company. All employees have been granted options to subscribe for shares under poLight's share option scheme.

The share options are vested in equal parts, with 1/36 each month over three years upon the expiry of each calendar month, starting at the date of grant, and conditional on the employee's continued employment in poLight.

The fair value of the options granted in the period has been calculated to MNOK 1.4, using the Black-Scholes option pricing model. The basis for the valuation model comprises several factors that affect the calculated fair value of granted options. The assumptions used in the calculation are:

	2017	2016
Price at grant date	NOK 0.1125	NOK 0.1125
Exercise price	NOK 0.1125	NOK 0.1125
Option life	5 years	5 years
Risk-free interest rate	1.05%	0.84%
Volatility	40%	40%

Expected vesting is estimated based on employee turnover, and volatility is based on comparable companies listed on the Oslo Stock Exchange.

Below is an overview of share options granted to poLight's management:

(In thousands)	Opening balance	Expired options	Forfeited options	Granted options	Ending balance	Vested options
Øyvind Isaksen – CEO	162 420	-37 420	0	37 420	162 420	60 067
Pierre Craen – CTO	40 000	-1 113	0	1 113	40 000	25 494
Alf Henning Bekkevik – CFO	40 000	0	0	0	40 000	20 556
Joakim Nelson – VP S&BD	40 000	0	-22 778	0	17 222	17 222
Marianne Sandal – COO	40 000	0	0	0	40 000	19 722
	322 420	-38 533	-22 778	38 533	299 642	143 061

The exercise price on all issued share options at 31 December 2017, was NOK 0.1125 per share. No share options were exercised in 2017. In the case of a change in control that is not due to, or subsequent to, a listing of the company, all unvested options are immediate exercisable.

6 Auditor's remuneration

(in NOK 000)	**2017**	**2016**
Audit fee	273	126
Audit-related fee	30	148
Tax fee	147	447
Other service fee	80	50
Total *(excluding VAT)*	**530**	**771**

7 Financial items

Finance income

(in NOK 000)	**2017**	**2016**
Interest income from group companies *)	0	3 050
Other interest income	1 760	1 047
Agio on loan to group companies	2 229	0
Other financial income (agio)	515	263
Total finance income	**4 504**	**4 360**

*) The interest income from group companies relates to interest on a group loan for the period 1 January 2014–31 December 2015, invoiced to poLight France SAS in 2016. In 2016, a subordinated loan was concluded, where only the part that exceeds a prudent level, both equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual.

Finance expenses

(in NOK 000)	**2017**	**2016**
Other interest expenses	120	187
Agio on loan to group companies	0	1 291
Impairment of group loan	1 297	592
Other financial expenses (disagio)	576	317
Total finance expenses	**1 993**	**2 387**

8 Income tax

Income tax expense

(in NOK 000)	**2017**	**2016**
Current income tax expense	0	0
Adjustments in respect of current income tax of previous year	0	0
Changes in deferred tax	0	0
Total income tax expense	**0**	**0**

Tax base calculation

(in NOK 000)	**2017**	**2016**
Profit before income tax	-50 300	-35 231
Permanent differences	5 079	2 253
Transaction costs private placement	0	-7 998
Government grants exempt from tax	-2 911	-3 661
Temporary differences	13 574	-9 648
Tax base	-34 558	-54 286

Temporary differences:

(in NOK 000)	**2017**	**2016**
Receivables	0	0
Inventories	7 359	0
Fixed assets	3 172	3 396
Intangible assets	5 413	4 290
Group loan	24 057	24 990
Provisions	6 248	0
Tax losses carry forward	369 416	334 858
Net deferred tax assets/(liabilities)	415 665	367 533
23% / 24% deferred tax asset/(liability)	95 603	88 208

Reconciliation of nominal tax rate to effective tax rate:

(in NOK 000)	**2017**
Calculated income tax at statutory rate of 24%	-12 072
Tax effect of permanent differences	1 219
Government grants exempt from tax	-699
Change in unrecognised deferred tax assets	7 395
Change in tax rate from 24% to 23%	4 157
Income tax expense	**0**
Effective tax rate	**0,0%**

9 Property, plant and equipment

(in NOK 000)	Building	Equipment	Total
Cost at 1 January 2017	287	11 727	12 014
Additions	0	223	223
Cost at 31 December 2017	**287**	**11 950**	**12 237**
Accumulated depreciation	-181	-10 576	-10 757
Accumulated impairment losses	0	-229	-229
Accumulated depreciation and impairment losses at 31 December 2017	**-181**	**-10 804**	**-10 985**
Net book value at 31 December 2017	**106**	**1 146**	**1 252**
Depreciation for the year	**181**	**692**	**873**
Estimated useful lives (years)	1)	3-7	
Amortisation plan	Linear	Linear	

1) Modifications and upgrades in leased premises are depreciated over the leasing period.

10 Intangible assets

(in NOK 000)	Development costs and TLens patents	Other patents	Software licence	Total
Cost at 1 January 2017	42 438	10 261	171	52 870
Disposals	0	-10 261	0	-10 261
Additions	24 898	0	0	24 898
Cost at 31 December 2017	**67 336**	**0**	**171**	**67 507**
Accumulated amortisation	0	0	-131	-131
Accumulated impairment losses	0	0	0	0
Accumulated amortisation and impairment losses at 31 December 2017	**0**	**0**	**-131**	**-131**
Net book value at 31 December 2017	**67 336**	**0**	**40**	**67 375**
Depreciation for the year		**0**	**37**	**37**
Estimated useful lives (years)	10	10	3-7	
Amortisation plan	Linear	Linear	Linear	

In 2008/2009, poLight acquired the core patents of the TLens® technology for NOK 5 million. The patents were granted in 10 different countries in 2006. poLight has since invested substantial resources in research and product development of the TLens®.

In 2017 and 2016, respectively, NOK 24.9 million and NOK 26.3 million were capitalised, related to product development of TLens Silver & Platinum.

Research and development costs that are not eligible for capitalisation have been expensed in the period incurred, and are recognised in Research and development expenses. In 2017 some patents were abandoned, related to the display business transferred from Ignis at the start-up of the company.

11 Investment in subsidiaries

Company	Acquisition date	Location	Share ownership	Voting rights
poLight France SAS	01.01.2010	Lyon, France	100%	100%
poLight Finland Oy	15.09.2017	Tampere, Finland	100%	100%

Company	Share capital	Number of shares	Book value	Equity	Net profit 2017
	NOK 000		NOK 000	NOK 000	NOK 000
poLight France SAS	80	10 000	0	-24 693	509
poLight Finland Oy	23	100	23	568	354

Both subsidiaries deliver R&D services to poLight AS, Norway. A sales office is established in China in 2017, operational from February 1st 2018, with a parent holding company in Hong Kong. The share capital is not paid as of 31.12.2017.

12 Inventories

(in NOK 000)	2017	2016	2015
Work in progress (at cost)	*9 140*	*0*	*0*
Work in progress (expensed as cost of sales)	*-7 360*	*0*	*0*
Work in progress (net realisable value)	1 781	0	0
Finished goods	0	0	0
Total inventories at the lower of cost and net realisable value	**1 781**	**0**	**0**

During 2017, NOK 7.4 million (2016: 0) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. Materials used in test production is recognised as intangible assets.

13 Intercompany balances with group companies

Receivables

(in NOK 000)	2017	2016
Trade receivable	0	0
Other receivables	445	445
Total	**445**	**445**

Subordinated loan

(in NOK 000)	2017	2016
Non-current receivables	28 537	27 240
Impairment	-28 537	-27 240
Total	**0**	**0**

A subordinated loan agreement was concluded on 29 December 2016, replacing all intercompany balance. Because of limited activity in France, the loan has been subject to impairment.

Payables

(in NOK 000)	**2017**	**2016**
Trade payables	1 901	150
Other payables	0	708
Total	**1 901**	**858**

14 Financial liabilities

Current interest-bearing loans and borrowings:

(in NOK 000)	**Interest rate**	**2017**	**2016**
Secured loan, Innovation Norway	5 %	1 800	3 000
Total		**1 800**	**3 000**

The loan is repaid with NOK 600,000 every six months.

Pledged assets

(in NOK 000)	**2017**	**2016**
Accounts receivable	392	0
Inventories	1 781	0
Equipment	1 252	1 902
Intangible assets	67 375	42 514
Total	**70 800**	**44 416**

15 Operating lease commitments

poLight AS has entered into commercial leases on premises and office equipment. The premises (lab facilities and offices) comprise 1080 square meters, and the contract is renewed annually, with twelve months' notice.

Future minimum rentals payable under non-cancellable operating leases are as follows:

(in NOK 000)	**2017**	**2016**
Within one year	1 205	1 182
After one year but not more than five years	827	807
More than five years	0	0
Total	2 033	1 988

16 Cash and short-term deposits

(in NOK 000)	**2017**	**2016**
Cash at banks and on hand	92 112	164 797
Restricted cash, taxes withheld	841	1 035
Restricted cash, deposits	257	255
Cash and short-term deposits	**93 210**	**166 087**

17 Share capital and shareholder information

	Number of shares	Par value	Book value
	Thousands	NOK	NOK 000
Ordinary shares	5 422 810	0,0001	542

Shareholders of poLight as at December 31, 2017	Ordinary shares	Share ownership	Voting rights
	Thousands	%	%
Investinor AS	1 268 327	23,4 %	23,4 %
Viking Venture III AS	1 078 066	19,9 %	19,9 %
Industrifonden AB	747 653	13,8 %	13,8 %
Alliance Venture Polaris AS	380 851	7,0 %	7,0 %
Arctic Funds PLC	243 920	4,5 %	4,5 %
TD Veen A/S	186 414	3,4 %	3,4 %
Sintef Venture III AS	173 559	3,2 %	3,2 %
Åstveit Invest AS	131 875	2,4 %	2,4 %
OP-Europe Rising Stars Fund	124 458	2,3 %	2,3 %
Verdipapirfondet Pareto	124 458	2,3 %	2,3 %
MP Pensjon PK	122 970	2,3 %	2,3 %
Storebrand Vekst JP Morgan Europe Ltd	103 297	1,9 %	1,9 %
Verdipapirfondet DNB	71 119	1,3 %	1,3 %
Total	4 756 967	87,7 %	87,7 %
Other (less than 1% ownership)	665 844	12,3 %	12,3 %
Total number of shares	5 422 810	100,0 %	100,0 %

At 31 December 2017, Øyvind Isaksen, CEO, owned 24,855,208 shares (0.45%), through his company Oimacon AS.

18 Equity

(in NOK 000)	Issued capital	Share premium	Retained earnings	Total
Equity at 31 December 2016	542	193 312	0	193 854
Profit for the period			-50 300	-50 300
Value of share option plan			5 024	5 024
Allocation to retained earnings		-45 276	45 276	0
Equity at 31 December 2017	**542**	**148 036**	**0**	**148 579**

19 Pensions

PoLight AS is subject to the requirements in the Mandatory Occupational Pensions Act, and the company's pension scheme adheres to the stipulations of the Act.

The pension scheme is based on a defined contribution plan, and the premium is calculated on the basis of the employee's income. 5.5% of the income between 1 and 7.1G and 8% of the income between 7.1 and 12G is calculated. At 31 December 2017, 22 members were covered by the plans.

(in NOK 000)	**2017**	**2016**
Defined contribution plan	1 045	1 041
Social security	147	147
Total pension cost	**1 193**	**1 188**

20 Provisions

(in NOK 000)	**NRE**	**Liability**	**Total**
At 1 January 2017	0	0	0
New or increased provisions	2 380	4 000	6 380
Utilised	0	-867	-867
At 31 December 2017	**2 380**	**3 133**	**5 513**

Expected timing of cash flow

(in NOK 000)	**NRE**	**Liability**	**Total**
Current, < 1 year	2 380	3 133	5 513
Non-current	0	0	0
At 31 December 2017	**2 380**	**3 133**	**5 513**

Non-recurring engineering (NRE)

Some of the non-recurring product development cost (NOK 2.4 million) associated with the latest TLens driver have been agreed to be added as an additional cost price element. It is expected that this NRE will be paid during the first year of purchases.

Liability

In conjunction with dedicated CAPX investments of USD 4.8 million at the company's wafer manufacturer STMicroelectronics, the company signed on a CAPEX letter giving the company an obligation limited to one-year depreciation of unused capacity. During the one-year period from Q2-2017 to Q1-2018 the liability is estimated to be NOK 4 million, and will be paid as a price addition on wafer purchases in 2017 and 2018.

21 Related parties

poLight AS is the ultimate parent. None of the shareholders of poLight AS has control of the company. As of 31 December 2017, the largest shareholder is Investinor AS, with an ownership of 23.4%.

Transactions between group companies

Intercompany agreements are entered with all the subsidiaries in the group. All sales in the subsidiaries are made with the parent company. All transactions are considered to be on an arm's length basis.

A subordinated loan agreement (balance 31.12.2017: EUR 2,900,000) was concluded on 29 December 2016, replacing all intercompany balance between poLight AS and poLight France SAS. Only the part that exceeds a prudent level, with regards both to equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual. For the financial year 2017, the entire principal is considered as equity, and not interest-bearing.

Transactions with other related parties

No transactions were made with other related parties for the relevant financial years.

22 Events after the balance sheet date

The parent company, poLight AS, have been registered in the VAT register since the foundation of the company. On 20 February 2018 the company received a letter notifying that VAT that have been refunded since 2013 has to be repaid, totally NOK 11.6 million. The tax authorities claim that the company should not have been registered in the VAT register in the first place and therefore not eligible VAT refunds. The tax authorities' argument is that the business is not capable of having profits, and therefore not a business in VAT perspective. The tax authorities are basing their argument on historic accounting results.

poLight do not agree in this assessment, especially since significant milestones have been passed to commercialize the TLens technology. The notification is answered within due date, and documentation substantiating poLight's view is expected to be accepted by the tax authorities. No provision is made at 31.12.2017.

Horten, 16 May 2018
THE BOARD OF DIRECTORS OF POLIGHT AS

Eivind Bergsmyr (sign) **Chair**	**Ann-Tove Kongsnes (sign)** **Deputy chair**	**Per Anell (sign)** **Board member**
Arne Hans Tonning (sign) **Board member**	**Johan Paulsson (sign)** **Board member, Independent**	**Øyvind Isaksen (sign)** **Chief Executive Officer**

INDEPENDENT AUDITOR'S REPORT

Building a better working world

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Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of poLight AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of poLight AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the income statement, statements of other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Tønsberg, 16 May 2018
ERNST & YOUNG AS

Morten Mobråthen
State Authorized Public Accountant (Norway)

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