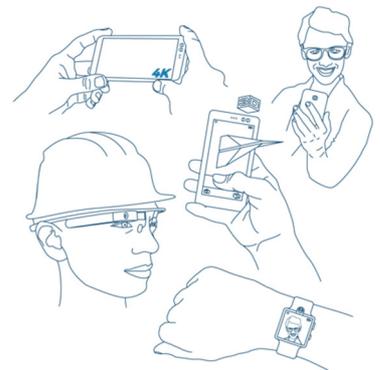
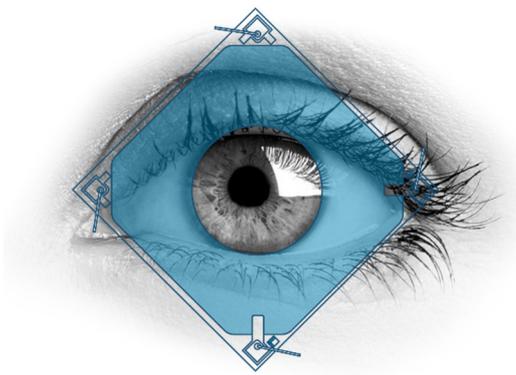




# poLight® Annual Report 2016



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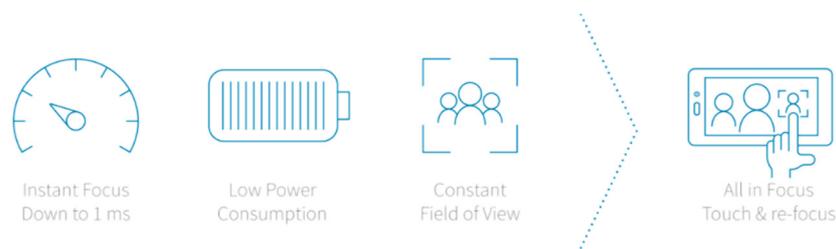
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## THIS IS POLIGHT

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

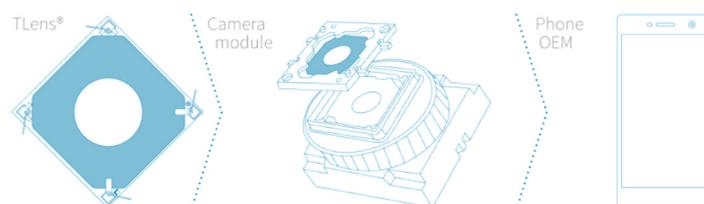
The patented, proprietary technology, which has been developed over more than ten years, enables production of wafer scale (MEMS), active optical components based on deformable polymers. The poLight TLens offers the camera module market considerable benefits, such as extremely fast focus, compact xy-dimension, no electromagnetic interference, low power consumption, and constant field of view. These features accommodate easy installation of single and multicamera implementations, while achieving high optical quality.



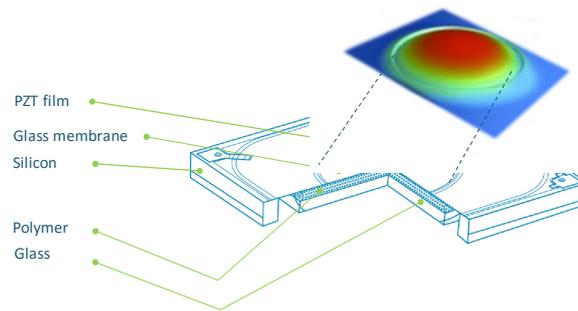
polight has offices in Norway, Finland, China and France, and is also represented in Korea, Taiwan and Japan. The company was founded in 2005, and has since built world-class expertise in optics, polymers, and MEMS technology. The poLight team **comprises** world class researchers and developers, all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

### Technology

poLight offers the fastest focus actuator for use in future smartphones. 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, and stable field of view, and has 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.

	TLens®	VCM
 Response time	1 mS	5 to 15 mS
 Power consumption	<5mW	220 mW
 Field of view	No AF pumping	AF pumping
 Smallest Footprint	6×6 mm	8,5×8,5 mm
 Magnetic Interference	No	Yes

### Market

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<sup>1</sup>. Of these, approximately 1.5 billion were categorised as smartphones, corresponding to a market share of 77%. 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.

The smartphone market is highly demanding and competitive, with regards to the speed at which new technology is introduced, as well as design, and height of innovation. Today's high-end smartphones may have more processing capacity than household PCs, and image and video capabilities are developing rapidly. Consumers tend to buy new smartphones more frequently than any other device. This increases the volume of units sold, and accelerates the introduction of new technology, when compared with other devices.

Consumers expect enhanced functionality, excellent battery capacity, attractive design, and high product quality, all bundled in a small and portable form-factor. The emerging and rapidly growing "smartwear" market places similar requirements on technology innovation. Key development trends are:

- Higher image and video quality
- Front camera (selfies). Excellent, in-focus images are crucial for the user experience
- Dual camera solutions (both front & back)
- Improved picture quality with different camera characteristics (low light etc.)
- Depth map for new applications and/or 3D
- Wearable devices with miniature camera

polight's technology addresses all the above trends, as well as related market and product demands, rendering the polight lens future-proof.

<sup>1</sup> Techno System Research Co., Ltd

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## MESSAGE FROM THE CEO

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**Developing the next generation autofocus lenses, to be used in billions of smartphones, is like running a marathon. It's a lengthy, arduous process, and, to finish with success, you need truly unique technological solutions, excellent performance and quality, and outstanding execution.**

poLight's marathon started more than a decade ago, with the idea of creating a unique lens by mimicking the human eye. Our race has since progressed, with the development of the TLens product platform, and its related manufacturing processes. At the same time, we have been working to attract the human and financial capital needed to take us to the finish line – and onwards to the next leg of our journey.

Before letting us inside their next handheld device, our clients expect to experience maturity and reliability. Extensive testing at component and systems level is required, as well as evidence of maturity, and manufacturing capacity.

During 2016, we made significant progress in maturing our technology, and strengthening the company. We completed internal qualification of the technology platform, thereby significantly reducing technology risk. We passed major milestones on the way to establishing mass-production capacity, in which our strategic partners, STMicroelectronics and Tong Hsing Electronic Industries, Ltd, played important roles.

We also professionalised the organisation by consolidating the team in every part of the value chain, and expanded our skill-set to include systems competencies, through experts with experience from Nokia and Microsoft.

Our technology addresses several of the challenges facing smartphone producers: Our lens has a smaller footprint, no magnetic interference, high speed, offers constant field of view, and uses less power, as well as other key design features. Interestingly, there has been a notable shift in the mobile camera market towards dual cameras and selfie-driven demand for higher-quality front-facing cameras. Our technology is well positioned to address this trend.

We accelerated customer activities throughout 2016, and provided internally qualified samples to camera module and smartphone makers for testing. We focus our marketing on China, where we see the fastest uptake of new technological solutions, and where we have established local presence. That said, we are also active in Korea, Japan and Taiwan. Our lenses are attracting strong interest from potential customers, and we participate in several qualification programs. These are challenging, iterative, and lengthy processes, which expose us to different, tough test regimes that seek to optimise the solution and system integration.

We maintain our target of a first design-win in 2017. But even as we are now progressing down the homestretch, there are no guarantees. Behind the next hill there may be more hills to climb before we reach the goal. To ensure that we get there, we have assembled an unrivalled team, who shares the aim of developing the best imaging technologies ever seen – indeed, we aim to re-invent optics. I'd like to take this opportunity to thank the poLight team and external partners for their great efforts during 2016. We are also grateful for the strong backing from our existing and new investors in the oversubscribed capital raise, which was an important step towards our planned listing.

Looking towards 2017 and beyond, we have developed a promising technology platform, and we have the people and the partners needed to succeed. We will move forward, eager to reach the finish line – and to get ready for the next leg.

**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 Investor 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 Investor's portfolio companies Numascale, Spinchip Diagnostics, Vitux and Pharmedlink. 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 Tønning**  
Board member

Arne H. Tønning 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)
- Tommy Nilsson (Industrifonden)

## 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 Mustang. He holds a Master's Degree in Business & Economics (Siviløkonom) from NHH Norwegian School of Economics, and is a state authorized public accountant.



**Joakim Nelson**  
**VP Sales & BD**

Joakim Nelson has spent more than 25 years in the telecom/mobile industry in a variety of positions and companies, such as Telia, Ericsson, Sony Ericsson, Anoto, Zacco, and, most recently, Sony Mobile, where he held the position as VP External Innovations & Standardizations. Nelson holds a Master of Science Degree in Electronic Engineering.



**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 2016	Ordinary	Share	Voting rights
	shares	ownership	
	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	132 056	2.4 %	2.4 %
OP-Europe Equity 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 %
<b>Total</b>	<b>4 757 148</b>	<b>87.7 %</b>	<b>87.7 %</b>
Other (less than 1% ownership)	665 663	12.3 %	12.3 %
<b>Total number of shares</b>	<b>5 422 810</b>	<b>100.0 %</b>	<b>100.0 %</b>

poLight shares are not listed on a stock exchange or other recognised and regulated market place. poLight had a total of 123 shareholders as of 31 December 2016.

## BOARD OF DIRECTORS' REPORT

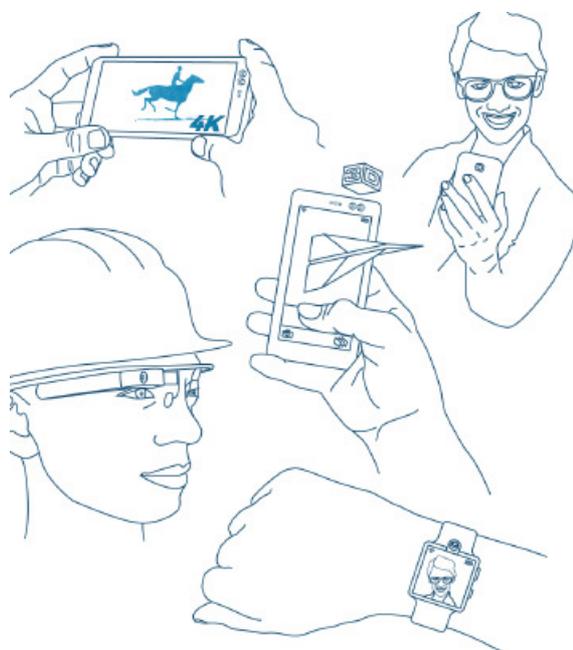
**Significant progress was made in 2016 towards bringing poLight's unique autofocus lens to the market. The first product, TLens Silver, was qualified by the company and its partners, and focus turned towards production ramp-up and dialogue with potential customers, in order to secure the first commercial order.**

### Corporate events in 2016

poLight was very active in 2016. Early in the year, the company's technology was showcased at the Mobile World Congress (MWC) in Barcelona, Spain, where a team, headed by Øyvind Isaksen, CEO, Joakim Nelson, VP sales, and Pierre Craen, CTO, met with potential clients. The team demonstrated TLens' performance on a smartphone, presented the results from the Product Qualification Program, and discussed usage of the TLens in different camera module systems. poLight also participated at other industry events during the year, such as the MEMS Summit in Stuttgart, Germany in September, organised by SEMI, the global industry association serving the manufacturing supply chain for the micro- and nano-electronics industries.

poLight raised a gross NOK 160 million in new equity capital through an oversubscribed private placement directed at new investors and existing shareholders. Several established Norwegian and international institutional investors participated in the equity issue, which was announced in August. Investinor, Viking Venture, and Industrifonden, the Swedish venture capital investor, were among the existing poLight shareholders that subscribed for approximately one third of the private placement.

In September, poLight established a competence centre in Tampere, Finland, based on senior resources from the former Nokia/Microsoft imaging team. The competence centre supports customer implementation of poLight's technology, and has further underpinned the company's ability to build system solutions around its proprietary TLens technology. The new competence centre was an important strategic move for poLight, bringing on board unique competence from the Nokia/Microsoft team, which, towards the end of the year, made good progress at developing applications that demonstrated TLens' advantages.



### 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 throughout 2016, albeit slower than planned. ST showed strong commitment to establish the new production processes involved in manufacturing the TLens actuator. The key ramp-up milestones were achieved, and the responsibility for producing the wafers at ST was transferred from the R&D department to Operation, indicating that the manufacturing process was considered mature enough for ramp-up.

THEIL, the assembly partner in Taiwan, was ready to receive increased wafer volumes from ST. It is expected that some tuning will be needed at THEIL during their ramp-up in 2017. Still, this is not expected to represent a major risk to establishing mass production capacity.

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. For TLens Silver specifically, the ramp-up has not uncovered any showstoppers related to the manufacturing process. The yield potential has been proven, although there are variations at the early stage. poLight should be able to start delivering moderate volumes in the end of 2017.

### **New product development**

The TLens Platinum project was started in 2016, after qualification of the basic technology through the TLens Silver qualification. TLens Platinum is similar to TLens Silver, but is made for larger sensor formats. The first TLens Platinum sample (Technical Sample (TS)) showed promising results. Further design work and processing optimization at ST is underway, to establish a more detailed schedule for release of the product. The ramp-up and debug of TLens Silver is prioritised both at ST and poLight. However, as TLens Silver is increasingly handled by ST's operational division, development of TLens Platinum will accelerate.

### **Market**

During 2016, poLight primarily focused its marketing towards the Chinese market. China's leading camera module makers have received test lenses, and were building cameras with poLight technology inside. The company is in dialogue with various mobile phone vendors for potential applications. poLight also targeted opportunities in Japan and Taiwan, and expects to increase activity in both countries in 2017.

Marketing became increasingly important during 2016, and activities accelerated in the second half of the year. The marketing activities were in part a response to the qualification of TLens Silver, and in part a result of increasing general interest for the poLight technology. One market development, which helped trigger interest, was the evolution of the specifications for front-facing cameras, from a less technically demanding, few-megapixels camera without autofocus, to a high-end camera with autofocus, and, in some cases, even a dual camera configuration. With its small footprint, and no electromagnetic components, TLens is well positioned to address these trends. The high-end trend for front-facing cameras is developing rapidly, and, with the resulting need for bigger apertures, TLens Platinum may find a market even in front-facing applications.

poLight maintains its target of achieving the first customer commitment in 2017, given the status of the technology, production ramp-up, and customer activity. Still, it should be emphasised that the timeframe for securing customer commitment is uncertain, and that there is no guarantee that poLight will reach its target within the indicated time.

### **Organisation**

poLight had 29 full-time and 2 part-time employees in 2016, up from 20 full-time employees in 2015. The employees were located in 5 different countries, and represented 14 different nationalities. 23.6% 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 committed to the health, safety, and welfare of its employees, their families, and its customers. Absence due to sickness in 2016 was 3.3%, compared with 2.0% in 2015. Absence due to sickness remains well below the national average of approximately 5.4% (2015: 5.4%). No work accidents caused personal injuries or material damage during 2016.

Alf Henning Bekkevik joined as CFO of the company in February 2016, while Marianne Sandal was appointed Chief Operating Officer in May 2016, and Joakim Nelson joined as VP Sales from February 2016. These additions strengthened poLight's senior management team, which also includes the CEO and CTO. poLight also established a system competence team in Finland, comprising former Nokia/Microsoft employees, and hired its first employee in China, to better support the customer qualification programs.

A process to establish a professional management system was initiated in the fourth quarter of 2016, in preparation of the conversion from an R&D focused company, to becoming operational, with commercial TLens deliveries. The company aims to achieve ISO certification during 2017. This is also a key component in the preparations for a planned Oslo Børs listing of the company in 2017. At the time of the 2016 private placement, poLight stated a goal of completing

listing within one year after the transaction. Preparations are underway to prepare for a potential IPO and listing in the beginning of 2018, being approximately 6 months later than estimated during pre-IPO. The timing of a transaction will, however, be evaluated on an ongoing basis, in relation to overall market conditions and the status of the commercialization of the company's technology.

### **Financial development, poLight group**

The 2016 group revenue was NOK 216,000, compared with NOK 162,000 in 2015. The revenue reflects sale of samples and evaluation kits, as the company is in a pre-commercial phase. As in the previous year, the company had zero cost of sales in 2016.

R&D expenses amounted to NOK 20.1 million, a decrease from NOK 35.4 million in 2015. The decrease mainly reflects higher capitalised R&D expenses (see Note 5.3 for details).

Cost of sales and marketing was NOK 5.5 million, up from NOK 0.8 million in 2015, reflecting a higher headcount in sales and marketing, and increased activities towards prospective clients, as the development of poLight's lenses neared completion. Administration expenses were NOK 9.5 million (NOK 11.6 million), while operational/supply chain costs were NOK 1.7 million (0).

Depreciation and amortisation amounted to NOK 0.8 million, a decrease from NOK 1.5 million in 2015.

The group operating loss was NOK 37.5 million, compared with an operating loss of NOK 49.2 million in 2015.

Net financial items in 2016 were NOK 0.7 million (-0.1 million), reflecting mainly interest on bank deposits. Tax expenses in 2016 were NOK 37,000 (0).

The group net loss amounted to NOK 36.8 million in 2016, compared with NOK 49.3 million in 2015. This represented a loss in 2016 of NOK 0.011 per share on a fully-diluted basis, compared with a loss of NOK 0.039 per share in 2015.

### **Financial position**

Total assets at 31 December 2016 were NOK 219.5 million, compared with NOK 101.7 million at year-end 2015. The increase in total assets for the year was mainly related to the 1 July 2016 private placement. Total equity was NOK 195 million, compared with NOK 77.8 million at year-end 2015.

Intangible assets amounted to NOK 42.5 million at 31 December 2016 (16.1), reflecting capitalised R&D expenses over the year. Trade and other receivables were NOK 6.5 million (8.5 million), reflecting recognised, not received governmental grants of NOK 5.4 million (7.9 million).

The cash position at 31 December 2016 was NOK 167 million, compared with NOK 75.1 million at the end of 2015. The change was mainly related to the private placement of new shares.

Long-term liabilities were NOK 1.8 million (NOK 3 million). Total current liabilities at year-end 2016 were NOK 22.7 million, compared with NOK 20.9 million in 2015. The change was mainly related to an increase in trade and other payables.

### **Cash flow**

Net cash flow used in operating activities was NOK 30.8 million in 2016, compared with NOK 33 million used in 2015. The 2016 net cash flow used in investing activities was NOK 28.4 million, compared with NOK 12.3 million used in 2015. The increase was mainly due to higher R&D capital expenditures in the period. Net cash flow from financing activities was NOK 151.1 million in 2016, following the private placement raising new equity. Net cash flow from financing in 2015 was NOK 105.2, million following an issue of new shares during that year.

### **Financial development, parent company**

Revenue in the parent company was NOK 216,000 in 2016 (NOK 162,000). Operating loss was NOK 37.2 million, compared with a loss of NOK 54.9 million in 2015, after total operating expenses of NOK 37.4 million in 2016 (55.1 million).

Included in the operating expenses were employee benefit expenses, at NOK 19.2 million in 2016, compared with NOK 15.9 million in the preceding year. The parent company had on average 20.5 employees in 2016, compared with 18 in 2015. Other operating expenses net of capitalised R&D expense, amounted to NOK 17.4 million, compared with NOK 37.9 million in 2015. The decrease is mainly related to increased capitalisation of R&D expenses and provisions included in the 2015 accounts for a tax claim in France (see Note 3).

The net result for poLight AS in 2016 was a loss of NOK 35.2 million, compared with a loss of NOK 56.1 million in 2015.

The board proposes that NOK 8.9 million is transferred from share premium and NOK 26.3 million from retained earnings. The board does not propose to pay a dividend for 2016.

### Share capital

As at 31 December 2016, poLight AS had share capital of NOK 542,000, consisting of 5,422,810,000 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.

poLight issued 1,422,377,000 new shares through a private placement at an extraordinary general meeting (EGM) on 1 July 2016. At the EGM, two classes of preference shares were converted into 2,678,331,000 new ordinary shares. poLight had one class of shares outstanding as of 31 December 2016 (see note 18).

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 421,420,118 share options (7.8%) were issued as of 31 December 2016. The exercise price on all issued share options was NOK 0.1125 per share. The company also has 10,562,429 warrants to subscribe for new shares outstanding, at an exercise price of NOK 0.1125 per share (see note 13).

### 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 Børs in 2017. 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 2017**

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.

In 2016, poLight raised NOK 152 million in net proceeds from issuing shares in a private placement. The proceeds are aimed at securing the company's working capital requirements going forward until IPO readiness.

### **Outlook**

At the end of 2016, poLight had established an internally qualified technology platform, and strengthened the company's organization and financial position. Going into 2017, priorities are to secure the first design-win for TLens Silver, to develop TLens Platinum as a second product, covering bigger sensor formats, and preparing for production ramp-up.

poLight maintains the ambition of securing the first design-win in 2017, but given the protracted nature of ongoing qualification programs with potential customers, the timing is uncertain, and may slip into 2018. The required company resources have been allocated to this process. A design-win will be proof-of-concept for the technology, providing support to sales and marketing directed at other potential customers. It will also trigger the start of revenue generation, and enable ramp-up of production at scale in the course of 2018. Additionally, it will free up resources to progress TLens Platinum for release in 2018.

poLight has a long-term ambition of achieving a market share of approximately 5% of the autofocus smartphone camera market.

**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 2016 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 2016 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, 26 April 2017**

**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 2016**

		<b>2016</b>	<b>2015</b>
	<b>Note</b>	NOK 000	NOK 000
Sale of goods	4	216	162
<b>Revenue</b>		<b>216</b>	<b>162</b>
Cost of sales		0	0
<b>Gross profit</b>		<b>216</b>	<b>162</b>
Research and development expenses	5.3	-20 118	-35 424
Sales and marketing expenses	5.4	-5 540	-843
Administrative expenses	5.5	-9 484	-11 645
Operational/supply chain expenses	5.6	-1 720	0
Depreciation, amortisation and net impairment losses	8,9	-822	-1 454
<b>Operating profit</b>		<b>-37 468</b>	<b>-49 205</b>
Net financial items	5.1, 11.2	721	-119
<b>Profit before tax</b>		<b>-36 747</b>	<b>-49 324</b>
Income tax expense	6	-37	0
<b>Profit for the year</b>		<b>-36 784</b>	<b>-49 324</b>
<b>Attributable to:</b>			
Equity holders of the parent		-36 784	-49 324
Non-controlling interests		0	0
Earnings per share:			
Basic, attributable to ordinary equity holders of the parent (NOK)	7	-0.011	-0.039
Diluted, attributable to ordinary equity holders of the parent (NOK)	7	-0.011	-0.039

**Consolidated statement of other comprehensive income  
for the year ended 31 December 2016**

	Note	<u>2016</u>	<u>2015</u>
		NOK 000	NOK 000
<b>Profit for the year</b>		<u>-36 784</u>	<u>-49 324</u>
<b>Other comprehensive income</b>			
Exchange differences on translation of foreign operations		-416	817
Income tax effect		<u>0</u>	<u>0</u>
<b>Net other comprehensive income to be reclassified to profit or loss in subsequent periods</b>		<u>-416</u>	<u>817</u>
<b>Total comprehensive income for the year, net of tax</b>		<u>-37 200</u>	<u>-48 507</u>
Attributable to:			
Equity holders of the parent		-37 200	-48 507
Non-controlling interests		0	0

**Consolidated statement of financial position  
as at 31 December 2016**

		<b>2016</b>	<b>2015</b>	<b>As at 1 January 2015</b>
	<b>Note</b>	NOK 000	NOK 000	NOK 000
<b>ASSETS</b>				
Property, plant and equipment	8	2 710	1 566	1 702
Intangible assets	9	42 514	16 127	5 036
<b>Total non-current assets</b>		<b>45 224</b>	<b>17 693</b>	<b>6 738</b>
Trade and other receivables	11.1	6 543	8 546	15 458
Other current assets		826	353	201
Cash and cash equivalents	12	166 953	75 097	15 138
<b>Total current assets</b>		<b>174 321</b>	<b>83 996</b>	<b>30 797</b>
<b>Total assets</b>		<b>219 545</b>	<b>101 689</b>	<b>37 535</b>
<b>EQUITY AND LIABILITIES</b>				
Issued capital	13	542	13 221	5 644
Share premium	13	193 312	50 351	0
Other equity		1 183	14 263	-25 752
<b>Equity attributable to equity holders of the parent</b>		<b>195 037</b>	<b>77 835</b>	<b>-20 107</b>
Non-controlling interests		0	0	0
<b>Total equity</b>		<b>195 037</b>	<b>77 835</b>	<b>-20 107</b>
Interest-bearing loans and borrowings	11.2	1 800	3 000	4 200
<b>Total non-current liabilities</b>		<b>1 800</b>	<b>3 000</b>	<b>4 200</b>
Trade and other payables	11.2	21 471	11 036	12 833
Interest-bearing loans and borrowings	11.2	1 200	1 200	40 609
Income tax payable	6	37	0	0
Provisions	14	0	8 618	0
<b>Total current liabilities</b>		<b>22 708</b>	<b>20 855</b>	<b>53 442</b>
<b>Total liabilities</b>		<b>24 508</b>	<b>23 855</b>	<b>57 642</b>
<b>Total equity and liabilities</b>		<b>219 545</b>	<b>101 689</b>	<b>37 535</b>

**Consolidated statement of changes in equity  
for the year ended 31 December 2016**

		Attributable to equity holders of the parent					Non-controlling interest	Total equity
		Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total		
Note		NOK 000	NOK 000	NOK 000	NOK 000	NOK 000	NOK 000	
	<b>As at 1 January 2015</b>	<b>5 644</b>	<b>0</b>	<b>-25 752</b>	<b>0</b>	<b>-20 107</b>	<b>0</b>	<b>-20 107</b>
	Profit for the period			-49 324		-49 324	0	-49 324
	Other comprehensive income				817	817	0	817
	<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>-49 324</b>	<b>817</b>	<b>-48 507</b>	<b>0</b>	<b>-48 507</b>
	Issue of share capital	7 577	139 208			146 784		146 784
	Transaction costs		-335			-335		-335
	Allocation to retained earnings		-88 522	88 522		0	0	0
	<b>At 31 December 2015</b>	<b>13 221</b>	<b>50 351</b>	<b>13 446</b>	<b>817</b>	<b>77 835</b>	<b>0</b>	<b>77 835</b>
	Profit for the period			-36 784		-36 784	0	-36 784
	Other comprehensive income				-416	-416	0	-416
	<b>Total comprehensive income</b>	<b>0</b>	<b>0</b>	<b>-36 784</b>	<b>-416</b>	<b>-37 200</b>	<b>0</b>	<b>-37 200</b>
	Value of share option plan			2 132		2 132		2 132
	Decrease of share capital	-13 089		13 089		0		0
	Issue of share capital	410	159 858			160 268		160 268
	Transaction costs		-7 998			-7 998		-7 998
	Allocation to retained earnings		-8 898	8 898		0	0	0
	<b>At 31 December 2016</b>	<b>542</b>	<b>193 312</b>	<b>782</b>	<b>401</b>	<b>195 037</b>	<b>0</b>	<b>195 037</b>

**Consolidated statement of cash flows  
for the year ended 31 December 2016**

		2016	2015
	Note	NOK 000	NOK 000
<b>Operating activities</b>			
Profit before tax		-36 747	-49 324
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment	8	773	1 433
Amortisation and impairment of intangible assets	9	49	20
Share option plan expense	17	2 132	0
Other items related to operating activities		-792	209
Net foreign exchange differences		-375	756
Movements in provisions and government grants	14, 15	-6 102	2 589
Working capital adjustments:			
Decrease in trade and other receivables and prepayments		-986	12 789
Increase in trade and other payables		10 472	-1 797
Interest received	5.1	1 036	1 337
Interest paid	5.1	-264	-986
<b>Net cash flows from operating activities</b>		<b>-30 803</b>	<b>-32 972</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	8	-1 934	-1 180
Development capital expenditures	5.3, 9	-32 989	-17 599
Receipt of government grants	15	6 553	6 487
<b>Net cash flows used in investing activities</b>		<b>-28 369</b>	<b>-12 292</b>
<b>Financing activities</b>			
Issue of share capital	13	160 268	124 203
Transaction costs on issue of shares	13	-7 998	-335
Repayment of borrowings	11.2	-1 200	-18 705
<b>Net cash flows from/(used in) financing activities</b>		<b>151 070</b>	<b>105 162</b>
Net increase in cash and cash equivalents		91 897	59 898
Effect of exchange rate changes on cash and cash equivalents		-41	60
Cash and cash equivalents at 1 January	12	75 096	15 138
<b>Cash and cash equivalents at 31 December</b>	12	<b>166 953</b>	<b>75 096</b>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 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 19.

The consolidated financial statements of poLight AS and its subsidiaries (collectively, poLight or the Group) for the year ended 31 December 2016 were authorised for issue in accordance with a resolution of the directors on 26 April 2017.

### 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. For all periods up to, and including, the year ended 31 December 2015, consolidated financial statement was excepted in accordance with Norwegian generally accepted accounting principles (NGAAP), and not prepared.

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 2016. 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 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

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:

	<b>Licences</b>	<b>Patents</b>	<b>Development costs</b>
<b>Useful lives</b>	Finite (3-5 years)	Finite (20 years)	Finite (10 years)
<b>Amortisation method used</b>	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
<b>Internally generated or acquired</b>	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

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).

#### **First-time adoption of IFRS**

These financial statements, for the year ended 31 December 2016, are the first the Group has prepared in accordance with IFRS. For all periods up to, and including, the year ended 31 December 2015, consolidated financial statements have not been prepared. This is in accordance with Norwegian generally accepted accounting principles (NGAAP) for small companies.

The main differences between IFRS and NGAAP for small companies, are capitalisation of intangible assets, and valuation of share option programs with recognition in the statement of income. However, these principles will not have effect on the statement of financial position as at 1 January 2015, because the recognition criteria for the intangible assets was assessed to be met in the beginning of 2015, and the value of the share options program was 0.

Accordingly, the Group has prepared financial statements that comply with IFRS, applicable as at 31 December 2016, together with the comparative period data for the year ended 31 December 2015, as described in the summary of significant accounting policies. In preparing the financial statements, the Group's opening statement of financial position was prepared as at 1 January 2015, the Group's date of transition to IFRS.

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS.

The Group has applied the following exemptions:

- Cumulative currency translation differences for all foreign operations are deemed to be zero as at 1 January 2015.

### 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. 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 2016, the carrying amount of capitalised development costs was NOK 37,438,000 (2015: NOK 11,112,000, 1 January 2015: 0).

### 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 (in NOK 000)	Machinery & equipment	
	2016	2015
Norway	1 591	548
France	752	990
Finland	56	0
Taiwan	311	28
<b>Total</b>	<b>2 710</b>	<b>1 566</b>

poLight has R&D entities in Norway, France and Finland. All patents and most of the economic IP (intellectual property) is built in Norway.

## 5 Other income/expenses and adjustments

### 5.1 Financial items

<i>(in NOK 000)</i>	2016	2015
Net foreign exchange gain (losses)	-51	207
Interest income	1 036	1 337
Interest expense on debts and borrowings	-187	-384
Interest expense on shareholder loans	0	-1 182
Finance expenses	-77	-98
<b>Net financial items</b>	<b>721</b>	<b>-119</b>

### 5.2 Employee benefits expense

<i>(in NOK 000)</i>	2016	2015
<i>Included in Research and development expenses:</i>		
Wages and salaries	12 503	15 860
Social security costs	2 006	2 815
Pension costs (Note 17)	755	734
Other benefits and social costs	435	692
Value of share option plan (Note 18)	775	0
Grants	-5 475	-5 489
Internal development of intangible assets	-6 997	-4 066
<i>Included in Sales and marketing expenses:</i>		
Wages and salaries	2 194	0
Social security costs	352	0
Pension costs (Note 17)	132	0
Other benefits and social costs	76	0
Value of share option plan (Note 18)	207	0
<i>Included in Administrative expenses:</i>		
Wages and salaries	5 954	6 625
Social security costs	955	1 176
Pension costs (Note 17)	359	306
Other benefits and social costs	207	289
Value of share option plan (Note 18)	979	0
<i>Included in Operational/supply chain expenses:</i>		
Wages and salaries	799	0
Social security costs	128	0
Pension costs (Note 17)	48	0
Other benefits and social costs	28	0
Value of share option plan (Note 18)	171	0
<b>Total employee benefits expense</b>	<b>16 593</b>	<b>18 943</b>
Average number of employees	25	20

### 5.3 Research and development expenses

<i>(in NOK 000)</i>	2016	2015
Employee benefits expense	16 474	20 101
Other operating expenses	41 823	37 158
Grants	-11 854	-10 722
Capitalised	-26 326	-11 112
<b>Total Research and development expenses</b>	<b>20 118</b>	<b>35 425</b>

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. The latest driver project, which started in 2016, and relates to applying voltage to the piezo to bend the glass membrane, is also capitalised. The prior version of the driver, developed in 2015, is expensed, since it did not meet poLight's target specification.

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

<i>(in NOK 000)</i>	2016	2015
Employee benefits expense	2 962	0
Other operating expenses	2 579	843
<b>Total Sales and marketing expenses</b>	<b>5 540</b>	<b>843</b>

### 5.5 Administrative expenses

<i>(in NOK 000)</i>	2016	2015
Employee benefits expense	8 455	8 396
Other operating expenses	1 029	3 249
<b>Total Administrative expenses</b>	<b>9 484</b>	<b>11 645</b>

### 5.6 Operational/supply chain expenses

<i>(in NOK 000)</i>	2016	2015
Employee benefits expense	1 174	0
Other operating expenses	546	0
<b>Total Operational/supply chain expenses</b>	<b>1 720</b>	<b>0</b>

### 5.7 Auditor's remuneration

<i>(in NOK 000)</i>	2016	2015
Audit fee	151	116
Audit related fee	148	75
Tax fee	447	393
Other service fee	50	21
<b>Total Auditor's remuneration (excluding VAT)</b>	<b>796</b>	<b>605</b>

## 6 Income tax

The significant components of income tax expense are:

<i>(in NOK 000)</i>	2016	2015
<b>Consolidated statement of profit or loss</b>		
Current income tax expense	37	0
Adjustments in respect of current income tax of previous year	0	0
<i>Deferred tax:</i>		
Relating to origination and reversal of temporary differences	0	0
<b>Income tax expense reported in the statement of profit or loss</b>	<b>37</b>	<b>0</b>

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

<i>(in NOK 000)</i>	2016	2015
Calculated income tax at statutory rate of 25% (2015: 27%)	-9 187	-13 317
Government grants exempt from tax	-915	-942
Tax effect of permanent differences	-1 443	-53
Change in unrecognised deferred tax assets	6 046	7 453
Change in tax rate	5 060	6 458
Effect of different tax rates compared with Norwegian tax rate	29	-446
Effect on items recognised in OCI	323	-286
Other items	124	1 132
<b>Income tax expense</b>	<b>37</b>	<b>0</b>
<b>Effective tax rate</b>	<b>0,1 %</b>	<b>0,0 %</b>

### Deferred tax

Deferred tax relates to the following:

<i>(in NOK 000)</i>	Consolidated statement of financial position			Consolidated statement of income	
	2016	2015	As at 1 January 2015	2016	2015
Non-current assets	1 845	1 603	1 162	-241	-442
Group receivables	-540	-885	-646	-345	239
Provisions and other	0	2 577	451	2 577	-2 126
Losses available for offsetting against future taxable income *)	87 640	79 603	74 478	-8 037	-5 125
<b>Deferred tax expense/(income)</b>				<b>-6 046</b>	<b>-7 453</b>
<b>Net deferred tax assets/(liabilities)</b>	<b>88 944</b>	<b>82 898</b>	<b>75 445</b>		

Reflected in the statement of financial position as follows:

Deferred tax assets	89 484	83 783	76 091
Deferred tax liabilities	-540	-885	-646
Unrecognised deferred tax assets net	-88 944	-82 898	-75 445
<b>Deferred tax liabilities net</b>	<b>0</b>	<b>0</b>	<b>0</b>

Total unrecognised deferred tax assets relate to

<i>(in NOK 000)</i>	2016	2015
Norway *)	82 210	74 324
France	7 274	9 460
<b>Total</b>	<b>89 484</b>	<b>83 783</b>

\*) Historically, a significant part of the development performed in Norway in the timeframe 2011–2014 was invoiced to the subsidiary in France, polight SAS. As a result of a tax audit performed by French tax authorities, these transactions have been rejected, and consequently, these transactions are reversed in the tax returns in the Norwegian company. Norwegian tax authorities have not concluded whether or not the reversed transactions should increase the losses carried forward. If Norwegian tax authorities were to conclude that the reversed transaction should not increase the tax loss carried forward, the deferred tax asset in Norway would be reduced by NOK 18 million, compared with the amount stated in the above table.

## 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:

<i>Thousands</i>	2016	2015
Weighted average number of ordinary shares for basic EPS	3 372 457	1 258 964

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.

<i>(in NOK)</i>	2016	2015
Earnings per share for income attributable to equity holders of polight:		
Basic	-0,011	-0,039
Diluted	-0,011	-0,039

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

<i>(in NOK 000)</i>	Building	Equipment	Total
Cost at 1 January 2015	0	10 882	10 882
Additions	0	1 180	1 180
Disposals at cost	0	-8	-8
Effect of changes in foreign exchange	0	184	184
<b>Cost at 31 December 2015</b>	<b>0</b>	<b>12 238</b>	<b>12 238</b>
Accumulated depreciation and impairment losses at 1 January 2015	0	-9 180	-9 180
Depreciation	0	-1 433	-1 433
Impairment losses	0	0	0
Accumulated depreciation and impairment losses disposals	0	8	8
Effect of changes in foreign exchange	0	-67	-67
<b>Accumulated depreciation and impairment losses at 31 December 2015</b>	<b>0</b>	<b>-10 672</b>	<b>-10 672</b>
<b>Net book value at 31 December 2015</b>	<b>0</b>	<b>1 565</b>	<b>1 565</b>

<i>(in NOK 000)</i>	<b>Building</b>	<b>Equipment</b>	<b>Total</b>
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
<b>Cost at 31 December 2016</b>	<b>287</b>	<b>13 780</b>	<b>14 067</b>
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
<b>Accumulated depreciation and impairment losses at 31 December 2016</b>	<b>0</b>	<b>-11 357</b>	<b>-11 357</b>
<b>Net book value at 31 December 2016</b>	<b>287</b>	<b>2 423</b>	<b>2 710</b>
<b>Estimated useful lives (years)</b>	<b>1)</b>	<b>3-7</b>	

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

## 9 Intangible assets

<i>(in NOK 000)</i>	<b>Development costs and TLens patents</b>	<b>Other patents</b>	<b>Software licence</b>	<b>Total</b>
Cost at 1 January 2015	5 000	10 261	61	15 322
Additions — internal development	4 066	0	0	4 066
Additions	7 047	0	0	7 047
<b>Cost at 31 December 2015</b>	<b>16 112</b>	<b>10 261</b>	<b>61</b>	<b>26 434</b>
Accumulated amortisation and impairment losses at 1 January 2015	0	-10 261	-26	-10 287
Amortisation	0	0	-20	-20
Impairment losses	0	0	0	0
<b>Accumulated amortisation and impairment losses at 31 December 2015</b>	<b>0</b>	<b>-10 261</b>	<b>-46</b>	<b>-10 307</b>
<b>Net book value at 31 December 2015</b>	<b>16 112</b>	<b>0</b>	<b>15</b>	<b>16 127</b>

<i>(in NOK 000)</i>	<b>Development costs and TLens patents</b>	<b>Other patents</b>	<b>Software licence</b>	<b>Total</b>
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
<b>Cost at 31 December 2016</b>	<b>42 438</b>	<b>10 261</b>	<b>171</b>	<b>52 870</b>
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
<b>Accumulated amortisation and impairment losses at 31 December 2016</b>	<b>0</b>	<b>-10 261</b>	<b>-95</b>	<b>-10 356</b>
<b>Net book value at 31 December 2016</b>	<b>42 438</b>	<b>0</b>	<b>76</b>	<b>42 514</b>

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 2015 and 2016, respectively, NOK 11.1 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.

## 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.

<i>(in NOK 000)</i>	<b>Carrying amount before impairment</b>	<b>Carrying amount after impairment</b>	<b>Net impairment loss</b>
<b>CGU: TLens®</b>			
At 1 January 2015	5 000	5 000	0
At 31 December 2015	16 112	16 112	0
At 31 December 2016	42 438	42 438	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 last two years have been very active for the company. In the beginning of 2015, poLight raised NOK 147 million in new equity, to qualify the first product, and start the ramp-up. In addition, new accounting tools were established, which enabled accurate project accounting. At that point, all recognition criteria were assessed to be met, including moderate technical and commercial risk, finance to take the product to the first potential customer and the establishment of adequate accounting tools for measurement.

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.

poLight is in dialogue with various mobile phone and camera vendors with regards to potential applications, aiming for a design-win in 2017. 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. The company is currently carrying out various tests and integration activities for different potential customers (customer qualifications programs). So far these activities have led to packaging and integration optimisation of the product to be able to pass the various tests the product is exposed to. Introducing new technology to the market has always an element of risk, however, the judgement as of today is that it is a matter of effort and time before the product has shown maturity for design-win in the smart-phone market.

When reviewing indicators of impairment of the TLens<sup>®</sup> 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. As at 31 December 2016, poLight's market capitalisation is considered to be 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

poLight's contracts with the suppliers of the actuator and the assembly of the TLens<sup>®</sup>, 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 2016.

### Credit risk

As at 31 December 2016, 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 for 1–2 more years without additional funding.

## 11.1 Financial assets

<i>(in NOK 000)</i>	2016	2015	As at 1 January 2015
<b>Financial assets at amortised cost:</b>			
Trade receivables	0	147	292
Grants recognised, not received	5 405	7 921	6 041
Other receivables	1 138	478	6 333
<b>Total financial assets</b>	<b>6 543</b>	<b>8 546</b>	<b>15 458</b>
Total current	6 543	8 546	15 458
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:

<i>(in NOK 000)</i>	Total	Neither past due nor impaired	Past due but not impaired				> 120 days
			< 30 days	30–60 days	61–90 days	91–120 days	
<b>2016</b>	6 543	6 543	0	0	0	0	0
<b>2015</b>	8 546	8 399	0	0	0	0	147
<b>As at 1 January 2015</b>	15 458	15 205	253	0	0	0	0

## 11.2 Financial liabilities

<i>(in NOK 000)</i>	2016	2015	As at 1 January 2015
<b>Financial liabilities at amortised cost, other than interest-bearing loans and borrowings:</b>			
Trade payables	9 391	3 654	4 359
Other payables	12 080	7 383	8 474
Provisions	0	8 618	0
<b>Total</b>	<b>21 471</b>	<b>19 655</b>	<b>12 833</b>
Total current	21 295	19 655	12 833
Total non-current	176	0	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

<i>(in NOK 000)</i>	Interest rate	Maturity	2016	2015	As at 1 January 2015
<b>Current interest-bearing loans and borrowings:</b>					
Shareholder subordinated loan	10%	Feb 2015	0	0	26 076
Loan, Finisar Sweden Holding AB	7.5%	Dec 2015	0	0	13 334
Secured loan, Innovation Norway	5%	< 1 year	1 200	1 200	1 200
<b>Total</b>			<b>1 200</b>	<b>1 200</b>	<b>40 609</b>

### 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.

<i>(in NOK 000)</i>	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
<b>As at 31 December 2016</b>					
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

<i>(in NOK 000)</i>	<b>&lt; 3 months</b>	<b>3 to 12 months</b>	<b>1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Total</b>
<b>As at 31 December 2015</b>					
Interest-bearing loans	0	1 388	3 230	0	4 618
Trade and payables	9 523	1 514	0	0	11 036
	9 523	2 902	3 230	0	15 654

## 12 Cash and short-term deposits

<i>(in NOK 000)</i>	<b>2016</b>	<b>2015</b>	<b>As at 1 January 2015</b>
Cash at banks and on hand	165 663	73 989	13 539
Restricted cash, taxes withheld	1 035	859	1 354
Restricted cash, deposits	255	249	247
<b>Cash and short-term deposits</b>	<b>166 953</b>	<b>75 097</b>	<b>15 140</b>

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

## 13 Issued capital and reserves

<i>(In thousands)</i>	<b>2016</b>	<b>2015</b>	<b>As at 1 January 2015</b>
Ordinary shares	5 422 810	56 854	56 854
Preference A-shares		140 766	140 766
Preference B-shares		1 124 482	366 816
<b>Total shares</b>	<b>5 422 810</b>	<b>1 322 103</b>	<b>564 437</b>

The shareholders are presented in Note 16 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 value 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	Thousands	NOK 000
At 1 January 2015 of NOK 0.01 each	564 437	5 644
Exercised warrants 2 February 2015 of preference B-shares of NOK 0.01 each	112 887	1 129
Private placement 2 February 2015 of preference B-shares of NOK 0.01 each	378 995	3 790
Private placement 2 February 2015 of preference B-shares of NOK 0.01 each, converting shareholder subordinated loan	99 962	1 000
Pre-emptive issue 2 February 2015 of preference B-shares of NOK 0.01 each	165 822	1 658
<b>At 31 December 2015</b>	<b>1 322 103</b>	<b>13 221</b>
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
<b>At 31 December 2016</b>	<b>5 422 810</b>	<b>542</b>

(in NOK 000)	Share premium
At 1 January 2015	0
Private placement 2 February 2015	81 825
Private placement 2 February 2015 of preference B-shares of NOK 0.01 each, converting shareholder subordinated loan	21 582
Pre-emptive issue 2 February 2015	35 801
Decrease due to transaction costs for issued share capital	-335
Allocated to retained earnings	-88 522
<b>At 31 December 2015</b>	<b>50 351</b>
Private placement 1 July 2016	159 858
Decrease due to transaction costs for issued share capital	-7 998
Allocated to retained earnings	-8 898
<b>At 31 December 2016</b>	<b>193 312</b>

### 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 2016. The company's share option schemes, with the opportunity to subscribe for shares in poLight, have been offered all employees (Note 17).

### Warrants

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

## 14 Provisions

(in NOK 000)	Claims	Total
At 1 January 2015	0	0
New or increased provisions	8 618	8 618
<b>At 31 December 2015</b>	<b>8 618</b>	<b>8 618</b>
New or increased provisions	0	0
Utilised	-8 618	-8 618
<b>At 31 December 2016</b>	<b>0</b>	<b>0</b>

### 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.

## 15 Government grants

<i>(in NOK 000)</i>	2016	2015
At 1 January	7 921	7 976
Received during the year	-13 765	-10 902
Capitalised	6 553	6 487
Released to the statement of profit or loss	4 696	4 360
<b>At 31 December</b>	<b>5 405</b>	<b>7 921</b>

poLight has received grants for research related to an improved actuator that increases the optical power of the TLens®, and grants for research on a more environmentally-friendly actuator. The company has also received grants for the purpose of increasing the refractive index of the polymer. poLight engages 4 PhD students in this work, and the programs continue into 2017/2018. In 2016, poLight's application for cost refund of up to NOK 9 million in a new 3-year project on Hybrid MemS, was approved. This project, which starts in 2017, will finance part of the planned project to develop an optical image stabilisation solution with TLens® technology.

<i>(in NOK 000)</i>	2016	2015	As at 1 January 2015
Current	5 405	7 921	7 976
Non-current	0	0	0
<b>Total</b>	<b>5 405</b>	<b>7 921</b>	<b>7 976</b>

## 16 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. 5% of the income between 1G and 6G, and 8% of the income between 6G and 12G is calculated. The period's contributions are recognised in the Consolidated statement of income as pension cost for the period.

<i>(in NOK 000)</i>	2016	2015
Defined contribution plan	1 041	885
Social security	147	125
<b>Total pension cost</b>	<b>1 188</b>	<b>1 010</b>

## 17 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.

	2016		2015	
	Thousands	WAEP	Thousands	WAEP
Outstanding at 1 January	115 839	0,2686	93 673	0,2786
Granted during the year	456 302	0,1125	23 000	0,2259
Forfeited during the year	-108 545	0,2686	-833	0,2107
Exercised during the year	0		0	
Expired during the year	-7 294	0,2927	0	
<b>Outstanding at 31 December</b>	<b>456 302</b>	<b>0,1125</b>	<b>115 839</b>	<b>0,2686</b>
<b>In % of outstanding shares</b>	<b>8,41%</b>		<b>8,76%</b>	
Exercisable at 31 December	136 466	0,1125	72 051	0,2932

Due to the issuing of new shares to share preference holders at par value, 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 2016, was NOK 0.1125 (2015: NOK 0.2686). At the end of the year, the exercise price was NOK 0.1125 on all outstanding options. The range of exercise prices for options outstanding at the end of 2015, was from NOK 0.2107 to NOK 0.6430.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2016 is 3.63 years (2015: 1.92 years).

#### Share option valuation

The fair value of the options granted in the period has been calculated to NOK 12.2 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:

	2016	2015
Price at grant date	NOK 0,1125	0
Exercise price	NOK 0,1125	0
Option life	5 years	0
Risk-free interest rate	0,84%	0
Volatility	40%	0

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

## 18 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:

<i>(in NOK 000)</i>	<b>2016</b>	<b>2015</b>	<b>As at 1 January 2015</b>
Within one year	1 575	439	454
After one year, but not more than five years	807	320	350
More than five years	0	0	0
	<b>2 382</b>	<b>759</b>	<b>804</b>

## 19 Related parties

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

<b>Name</b>	<b>Principal activities</b>	<b>Country of incorporation</b>	<b>2016</b>	<b>2015</b>	<b>As at 1 January 2015</b>
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%		

poLight AS is the ultimate parent. None of the shareholders of poLight AS has control of the company. As of 31 December 2016, 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.

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 2016, 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, with the exception of a shareholder loan.

<b>Subordinated loan from shareholders</b>		<b>Interest paid</b>	<b>Principal</b>
		NOK 000	NOK 000
Investinor AS (23.4%)	2016	0	0
	2015	329	0
	As at 1 January 2015		10 000
Shareholders < 20%	2016	0	0
	2015	529	0
	As at 1 January 2015		16 076

On 11 August 2014, the company entered into a subordinated intermediate short-term loan agreement to bridge the financing to the next share issue, which was planned to take place in late 2014, or early 2015. All shareholders were invited as lenders, and NOK 26.1 million was raised, at an interest rate of 10% per annum. In addition, 112,887,323 warrants were divided between the lenders with rights to subscribe shares at a price of NOK 0.01 per share.

#### **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.

## **20 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 9 Financial Instruments*  
In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement, and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments projects: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date. The Group expects no significant impact on its balance sheet and equity.
- *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. The Group plans to assess the potential effect of IFRS 16 on its consolidated financial statements during 2017.

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 2016**

		2016	2015
	Note	NOK 000	NOK 000
Sale of goods	2	216	162
<b>Revenue</b>		<b>216</b>	<b>162</b>
Cost of sales		0	0
<b>Gross profit</b>		<b>216</b>	<b>162</b>
Research and development expenses		-20 105	-41 276
Sales and marketing expenses		-5 540	-843
Administrative expenses		-9 484	-11 645
Operational/supply chain expenses		-1 720	0
Depreciation, amortisation, and net impairment losses	9, 10	-571	-1 294
<b>Operating profit</b>		<b>-37 205</b>	<b>-54 897</b>
Net financial items	7, 13	1 974	-1 179
<b>Profit before tax</b>		<b>-35 231</b>	<b>-56 076</b>
Income tax expense	8	0	0
<b>Profit for the year</b>		<b>-35 231</b>	<b>-56 076</b>
<b>Attributable to:</b>			
Share premium	17	-8 898	-88 522
Retained earnings	17	-26 333	32 446
<b>Profit for the year</b>		<b>-35 231</b>	<b>-56 076</b>

**Balance Sheet polight AS – NGAAP  
as at 31 December 2016**

		<b>2016</b>	<b>2015</b>
	<b>Note</b>	NOK 000	NOK 000
<b>ASSETS</b>			
Property, plant, and equipment	9	1 902	576
Intangible assets	10	42 514	5 015
Investments in subsidiaries	11	23	0
<b>Total non-current assets</b>		<b>44 439</b>	<b>5 591</b>
Trade receivables	12	0	126
Other receivables	12	7 564	6 687
Cash and cash equivalents	15	166 087	74 099
<b>Total current assets</b>		<b>173 651</b>	<b>80 912</b>
<b>Total assets</b>		<b>218 090</b>	<b>86 503</b>
<b>EQUITY AND LIABILITIES</b>			
Issued capital	16, 17	542	13 221
Share premium	17	193 312	50 351
<b>Total owners' equity</b>		<b>193 854</b>	<b>63 572</b>
Retained earnings	17	0	0
<b>Total equity</b>		<b>193 854</b>	<b>63 572</b>
Interest-bearing loans and borrowings	13	3 000	4 200
<b>Total non-current liabilities</b>		<b>3 000</b>	<b>4 200</b>
Trade payables	12	9 428	3 287
Public duties payable		1 675	1 369
Other payables	12	10 133	14 076
<b>Total current liabilities</b>		<b>21 236</b>	<b>18 732</b>
<b>Total liabilities</b>		<b>24 236</b>	<b>22 932</b>
<b>Total equity and liabilities</b>		<b>218 090</b>	<b>86 503</b>

**Statement of cash flows poLight AS – NGAAP  
for the year ended 31 December 2016**

		<b>2016</b>	<b>2015</b>
	<b>Note</b>	<b>NOK 000</b>	<b>NOK 000</b>
<b>Operating activities</b>			
Profit before tax		-35 231	-56 076
Depreciation and amortisation expenses	9, 10	571	1 294
Changes in inventories, accounts receivables, and accounts payable		6 268	219
Changes in other accruals		-2 382	9 052
<b>Net cash flows from operating activities</b>		<b>-30 775</b>	<b>-45 510</b>
<b>Investing activities</b>			
Purchase of property, plant, and equipment	9	-1 848	-224
Development capital expenditures	10	-32 989	0
Receipt of government grants	4	6 553	0
Foundation of a subsidiary	11	-23	0
<b>Net cash flows used in investing activities</b>		<b>-28 307</b>	<b>-224</b>
<b>Financing activities</b>			
Issue of share capital	17	160 268	124 203
Transaction costs on issue of shares	17	-7 998	-335
Repayment of borrowings	13	-1 200	-18 705
<b>Net cash flows from/(used in) financing activities</b>		<b>151 070</b>	<b>105 162</b>
Net increase in cash and cash equivalents		91 988	59 428
Cash and cash equivalents at 1 January	15	74 099	14 671
<b>Cash and cash equivalents at 31 December</b>	15	<b>166 087</b>	<b>74 099</b>

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## NOTES TO THE FINANCIAL STATEMENT POLIGHT AS

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### 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 24% 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 costs 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

<i>(in NOK 000)</i>	2016	2015
<b>By business area</b>		
TLens® for Smartphone	216	162
<b>Total</b>	<b>216</b>	<b>162</b>
<b>Geographical distribution</b>		
USA	0	162
Asia	92	0
Other	124	0
<b>Total</b>	<b>216</b>	<b>162</b>

### 3 Specification of operating expenses by nature

<i>(in NOK 000)</i>	Note	2016	2015
Capitalised intangible assets in progress	10	-26 326	0
Employee benefits expense	5, 18	19 189	15 907
Depreciation, amortisation and net impairment losses	9, 10	571	1 294
Other operating expenses	6, 14	43 986	37 857
<b>Total operating expenses</b>		<b>37 421</b>	<b>55 058</b>

### 4 Government grants

<i>(in NOK 000)</i>	2016	2015
At 1 January	5 861	6 041
Received during the year	-11 776	-10 902
Capitalised	6 553	6 487
Released to the statement of profit or loss	4 766	4 235
<b>At 31 December</b>	<b>5 405</b>	<b>5 861</b>

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

### 5 Employee benefits expense

<i>(in NOK 000)</i>	2016	2015
Wages and salaries	18 134	17 197
Social security costs	2 644	2 463
Pension costs (Note 18)	1 041	910
Other benefits and social costs	712	825
Value of share option plan	2 132	0
Grants	-5 475	-5 489
Internal development of intangible assets	-6 997	0
<b>Total employee benefits expense</b>	<b>12 192</b>	<b>15 907</b>

Average number of employees	21	17
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#### Management remuneration

<i>(in NOK 000)</i>	Salaries	Bonus	Pension costs	Other benefits	Total
Øyvind Isaksen – CEO	2 025	300	66	257	2 647
Pierre Craen – CTO	1 448	29	66	10	1 552
Alf Henning Bekkevik – CFO <sup>1)</sup>	1 000		60	8	1 068
Eskill Ahlgren – former CFO <sup>2)</sup>	999	28	4	37	1 068
Joakim Nelson – VP Sales & BD <sup>3)</sup>	884		60	153	1 097
Marianne Sandal – COO <sup>4)</sup>	685		44	5	733

- 1) Alf Henning Bekkevik was appointed CFO on 1 February 2016.
- 2) Eskill Ahlgren acted as CFO until 31 January 2016. Salaries include severance pay of NOK 700,000.
- 3) Joakim Nelson was appointed VP Sales & Business Development 1 February 2016. Prior to the appointment, services in the amount of SEK 128,000 were acquired through his company Comnel AB in Lund, for the period 1–31 January 2016.
- 4) 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 12.2, 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:

	2016	2015
Price at grant date	NOK 0.1125	0
Exercise price	NOK 0.1125	0
Option life	5 years	0
Risk-free interest rate	0.84%	0
Volatility	40%	0

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	Granted options	Forfeited options	Exercised options	Ending balance	Vested options
Øyvind Isaksen – CEO	37 420	125 000	0	0	162 420	47 505
Pierre Craen – CTO	18 513	21 487	0	0	40 000	14 414
Alf Henning Bekkevik – CFO		40 000	0	0	40 000	7 222
Eskill Ahlgren – former CFO	7 800	0	0	0	7 800	7 800
Joakim Nelson – VP S&BD		40 000	0	0	40 000	7 222
Marianne Sandal – COO		40 000	0	0	40 000	6 339
	63 733	266 487	0	0	330 220	90 502

The exercise price on all issued share options at 31 December 2016, was NOK 0.1125 per share. 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

<i>(in NOK 000)</i>	2016	2015
Audit fee	126	116
Audit-related fee	148	75
Tax fee	447	393
Other service fee	50	21
<b>Total (excluding VAT)</b>	<b>771</b>	<b>605</b>

## 7 Financial items

<b>Finance income</b> <i>(in NOK 000)</i>	2016	2015
Interest income from group companies *)	3 050	333
Other interest income	1 047	1 347
Agio on loan to group companies	0	1 058
Other financial income (agio)	263	207
<b>Total finance income</b>	<b>4 360</b>	<b>2 946</b>

\*) 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.

<b>Finance expenses</b> <i>(in NOK 000)</i>	2016	2015
Other interest expenses	187	1 566
Agio on loan to group companies	1 291	0
Impairment of group loan	592	2 559
Other financial expenses (disagio)	317	0
<b>Total finance expenses</b>	<b>2 387</b>	<b>4 125</b>

## 8 Income tax

<b>Income tax expense</b> <i>(in NOK 000)</i>	2016	2015
Current income tax expense	0	0
Adjustments in respect of current income tax of previous year	0	0
Changes in deferred tax	0	0
<b>Total income tax expense</b>	<b>0</b>	<b>0</b>

<b>Tax base calculation</b> <i>(in NOK 000)</i>	2016	2015
Profit before income tax	-35 231	-56 076
Permanent differences	2 253	159
Transaction costs private placement	-7 998	-335
Government grants exempt from tax	-3 661	-3 489
Temporary differences	-9 648	9 557
Tax return adjustments	0	13 205
<b>Tax base</b>	<b>-54 286</b>	<b>-36 979</b>

<b>Temporary differences:</b> <i>(in NOK 000)</i>	<b>2016</b>	<b>2015</b>
Receivables	0	1 691
Fixed assets	3 396	4 319
Intangible assets	4 290	13 205
Group loan	24 990	14 489
Provisions	0	8 618
Tax losses carry forward*)	334 858	280 572
<b>Net deferred tax assets/(liabilities)</b>	<b>367 533</b>	<b>322 895</b>
 24% / 25% deferred tax asset/(liability)	 88 208	 80 724

\*) Historically, a significant part of the development performed in Norway in the timeframe 2011–2014 was invoiced to the subsidiary in France, polight SAS. As a result of a tax audit performed by French tax authorities, these transactions have been rejected, and consequently, these transactions are reversed in the tax returns in the Norwegian company. Norwegian tax authorities have not concluded whether or not the reversed transactions should increase the losses carried forward. If Norwegian tax authorities were to conclude that the reversed transaction should not increase the tax loss carried forward, the deferred tax asset in Norway would be reduced by NOK 18 million, compared with the amount stated in the above table.

<b>Reconciliation of nominal tax rate to effective tax rate:</b> <i>(in NOK 000)</i>	<b>2016</b>
Calculated income tax at statutory rate of 25%	-8 808
Tax effect of permanent differences	-1 436
Government grants exempt from tax	-915
Change in unrecognised deferred tax assets	7 484
Change in tax rate from 25% to 24%	3 675
<b>Income tax expense</b>	<b>0</b>
<b>Effective tax rate</b>	<b>0,0%</b>

## 9 Property, plant and equipment

<i>(in NOK 000)</i>	<b>Building</b>	<b>Equipment</b>	<b>Total</b>
Cost at 1 January 2016	0	10 166	10 166
Additions	287	1 562	1 848
<b>Cost at 31 December 2016</b>	<b>287</b>	<b>11 727</b>	<b>12 014</b>
Accumulated depreciation	0	-9 884	-9 884
Accumulated impairment losses	0	-229	-229
<b>Accumulated depreciation and impairment losses at 31 December 2016</b>	<b>0</b>	<b>-10 112</b>	<b>-10 112</b>
 <b>Net book value at 31 December 2016</b>	 <b>287</b>	 <b>1 615</b>	 <b>1 902</b>
 <b>Depreciation for the year</b>	 <b>0</b>	 <b>522</b>	 <b>522</b>
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

<i>(in NOK 000)</i>	Development costs and TLens patents	Other patents	Software licence	Total
Cost at 1 January 2016	5 000	10 261	61	15 322
Additions, change of accounting principle	11 112	0	0	11 112
Additions	26 326	0	110	26 435
<b>Cost at 31 December 2016</b>	<b>42 438</b>	<b>10 261</b>	<b>171</b>	<b>52 870</b>
Accumulated amortisation	0	-10 261	-95	-10 356
Accumulated impairment losses	0	0	0	0
<b>Accumulated amortisation and impairment losses at 31 December 2016</b>	<b>0</b>	<b>-10 261</b>	<b>-95</b>	<b>-10 356</b>
<b>Net book value at 31 December 2016</b>	<b>42 438</b>	<b>0</b>	<b>76</b>	<b>42 514</b>
<b>Depreciation for the year</b>		<b>0</b>	<b>49</b>	<b>49</b>
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 2015 and 2016, respectively, NOK 11.1 million and NOK 26.3 million were capitalised, related to product development of TLens Silver & Platinum. Due to changes in NGAAP accounting principles for small companies, the development of TLens® has been capitalised with effect from 1 January 2015, when the recognition criteria were met. Information about the recognition criteria are presented in Note 10 *Research and development costs*, in the consolidated financial statements.

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.

## 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	15.09.2016	Tampere, Finland	100%	100%

Company	Share capital	Number of shares	Book value	Equity	Net profit 2016
	NOK 000		NOK 000	NOK 000	NOK 000
poLight France SAS	80	1 000	0	-26 227	66 851
poLight Finland Oy	23	1 000	23	172	149

Both subsidiaries deliver R&D services to poLight AS, Norway. The net profit for 2016 in poLight France SAS is influenced by invoicing of services from 2011–2015, in addition to reversal for internal transactions from poLight AS. See additional information in Note 8 Income tax.

## 12 Intercompany balances with group companies

<b>Receivables</b> <i>(in NOK 000)</i>	<b>2016</b>	<b>2015</b>
Accounts receivable	0	0
Other receivables	445	18 030
Impairment	0	-18 030
<b>Total</b>	<b>445</b>	<b>0</b>

<b>Subordinated loan</b> <i>(in NOK 000)</i>	<b>2016</b>	<b>2015</b>
Non-current receivables	27 240	0
Impairment	-27 240	0
<b>Total</b>	<b>0</b>	<b>0</b>

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.

<b>Payables</b> <i>(in NOK 000)</i>	<b>2016</b>	<b>2015</b>
Accounts payable	150	0
Other short-term payables	708	0
<b>Total</b>	<b>858</b>	<b>0</b>

## 13 Financial liabilities

<b>Current interest-bearing loans and borrowings:</b> <i>(in NOK 000)</i>	<b>Interest rate</b>	<b>2016</b>	<b>2015</b>
Secured loan, Innovation Norway	6%	3 000	4 200
<b>Total</b>		<b>3 000</b>	<b>4 200</b>

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

<b>Pledged assets</b> <i>(in NOK 000)</i>	<b>2016</b>	<b>2015</b>
Accounts receivable	0	126
Inventories	0	0
Equipment	1 902	576
Intangible assets	42 514	5 015
<b>Total</b>	<b>44 416</b>	<b>5 717</b>

#### 14 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:

<i>(in NOK 000)</i>	2016	2015
Within one year	1 182	420
After one year but not more than five years	807	320
More than five years	0	0
	<b>1 988</b>	<b>740</b>

#### 15 Cash and short-term deposits

<i>(in NOK 000)</i>	2016	2015
Cash at banks and on hand	164 797	72 991
Restricted cash, taxes withheld	1 035	859
Restricted cash, deposits	255	249
<b>Cash and short-term deposits</b>	<b>166 087</b>	<b>74 099</b>

#### 16 Share capital and shareholder information

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

<i>Shareholders of poLight as at 31 December 2016</i>	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	132 056	2.4%	2.4%
OP-Europe Equity 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	4 757 148	87.7%	87.7%
Other (less than 1% ownership)	665 663	12.3%	12.3%
Total number of shares	5 422 810	100.0%	100.0%

At 31 December 2016, Øyvind Isaksen, CEO, owned 24,855,208 shares (0.45%), through his company Oimacon AS.

## 17 Equity

<i>(in NOK 000)</i>	Issued capital	Share premium	Retained earnings	Total
Equity at 31 December 2015	13 221	50 351	0	63 572
Change of accounting principle			11 112	11 112
Equity at 1 January 2016	13 221	50 351	11 112	74 684
Profit for the period			-35 231	-35 231
Value of share option plan			2 132	2 132
Decrease of share capital	-13 089		13 089	0
Issue of share capital	410	159 858		160 268
Transaction costs		-7 998		-7 998
Allocation to retained earnings		-8 898	8 898	0
<b>Cost at 31 December 2016</b>	<b>542</b>	<b>193 312</b>	<b>0</b>	<b>193 854</b>

In 2015, NOK 11.1 million were recognised related to product development of TLens Silver & Platinum. Due to change in accounting principle from NGAAP for small companies, the development of TLens® has been capitalised with effect from 1 January 2015, when the recognition criteria of an intangible asset were met. See Note 10 Intangible assets for further details.

## 18 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% of the income between 1G and 6G, and 8% of the income between 6G and 12G is calculated. At 31 December 2016, 22 members were covered by the plans.

<i>(in NOK 000)</i>	2016	2015
Defined contribution plan	1 041	885
Social security	147	125
<b>Total pension cost</b>	<b>1 188</b>	<b>1 010</b>

## 19 Provisions

<i>(in NOK 000)</i>	Claims	Total
At 1 January 2016	8 618	8 618
New or increased provisions	0	0
Utilised	-8 618	-8 618
<b>At 31 December 2016</b>	<b>0</b>	<b>0</b>

### 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.

## 20 Related parties

poLight AS is the ultimate parent. None of the shareholders of poLight AS has control of the company. As of 31 December 2016, 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 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 both to equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual. For the financial year 2016, 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, with the exception of a shareholder loan.

#### Subordinated loan from shareholders

(in NOK 000)

		Interest paid	Principal
Investinor AS (23.4%)	2016	0	0
	2015	329	0
	As at 1 January		10 000
Shareholders < 20%	2016	0	0
	2015	529	0
	As at 1 January		16 076

On 11 August 2014, the company entered into a subordinated intermediate short-term loan agreement to bridge the financing to the next share issue, which was planned to take place late 2014, or early 2015. All shareholders were invited as lenders and NOK 26.1 million were raised at interest rate of 10% per annum. In addition, 112, 887,323 warrants were divided between the lenders, giving right to subscribe shares at a price of NOK 0.01 per share.

## Horten, 26 April 2017

### 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



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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 2016, 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 2016, 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 2016, and of its financial performance and its cash flows for the year 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 2016 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 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.



## **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, 22 May 2017  
ERNST & YOUNG AS

A handwritten signature in blue ink, appearing to read "Morten Mobråthen".

Morten Mobråthen  
State Authorized Public Accountant (Norway)

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## CONTACT DETAILS

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