



poLight ASA Annual Report



FOR BETTER EXPERIENCES

2019

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With technology that replicates the lens of the human eye, poLight® is now supplying products for consumer market, and getting ready for industrial applications

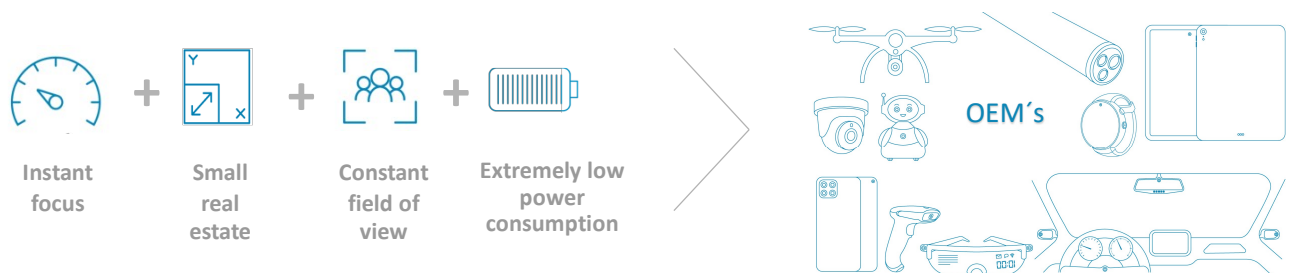


Xiaomi Mi Bunny Pro

THIS IS POLIGHT

poLight ASA is a Norwegian company, headquartered in Horten, which has introduced a unique optical lens to the market for both consumer devices and industrial applications. The new lens replicates the lens of the human eye, enabling new user experiences and ease the implementation of autofocus functions in various applications.

poLight's patented, proprietary technology offers considerable benefits, such as extremely fast focus, compact xy-dimension, no magnetic interference, low power consumption and constant field of view. These features, and others, open the way for its use in a multitude of as yet unimagined ways.



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

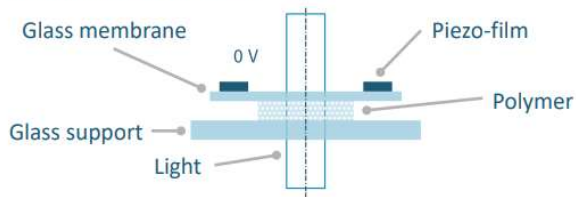


Technology

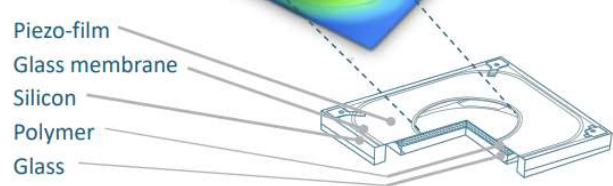
The company has developed and patented the Tunable Optical Lens, which outperforms today's standard Voice Coil Motor (VCM) lens in that it offers instant focus, small size, low power consumption, stable field of view and no magnetic interference.

The polLight 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.

Principle of operation



Implementation



The piezo material on the thin glass membrane is designed to spherically deform the polymer when a voltage is applied to it. 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 glass components, 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 polLight's unique anti-reflective coating, the optical transmittance is optimised for the visible spectrum. Other coatings can be applied to change the characteristics of the product. The TLens can either be used on top of a fixed-focus camera module (*i.e.* add-on concept) or integrated as part of the lens stack (*i.e.* add-in concept).

Product portfolio

Based on the TLens technology platform (see above), polLight has released its TLens Silver and TLens Silver Premium to the market, as well as the related ASIC driver (PDA 50), which controls the supply of variable voltage to all TLens products and makes them change focus. TLens Platinum will be the next product to be completed. TLens Platinum is currently on hold to prioritise the commercialisation of already released products. From an application perspective, the main difference between the various TLens products is that they can be used with different sensor formats (size of the image sensor) due to different aperture sizes (the transparent "opening" in the actuator). The TLens can be supplied as a "packaged" version to enable quick integration/testing.

The TLens Silver Premium is considered suitable for both consumer and industrial products, whereas the TLens Silver is best suited for industrial applications where optical range is important.

Supply Chain

poLight is fabless and uses partners for most manufacturing processes, except for the polymer, which is produced at the company's headquarters in Norway. STMicroelectronics is poLight's manufacturing partner for the MEMS actuator, utilising their thin film piezo technology in an 8-inch semiconductor fabrication plant in Italy. Polymer and wafers with actuators are shipped to a manufacturing partner in Taiwan, which assembles the complete TLens product and ships to camera module vendors.

From Gel > MEMS Wafer > TLens® > Camera module > OEM



Market

poLight's TLens technology is suitable for a wide variety of applications, for example, where there is a need for compact and high-quality autofocus solutions that benefit from high speed, small size and low power consumption. Such applications include, but are not limited to smartwatches, smartphones, AR (augmented reality) glasses, other wearables/IoT, industrial scanners, readers and sensors, and medical equipment.

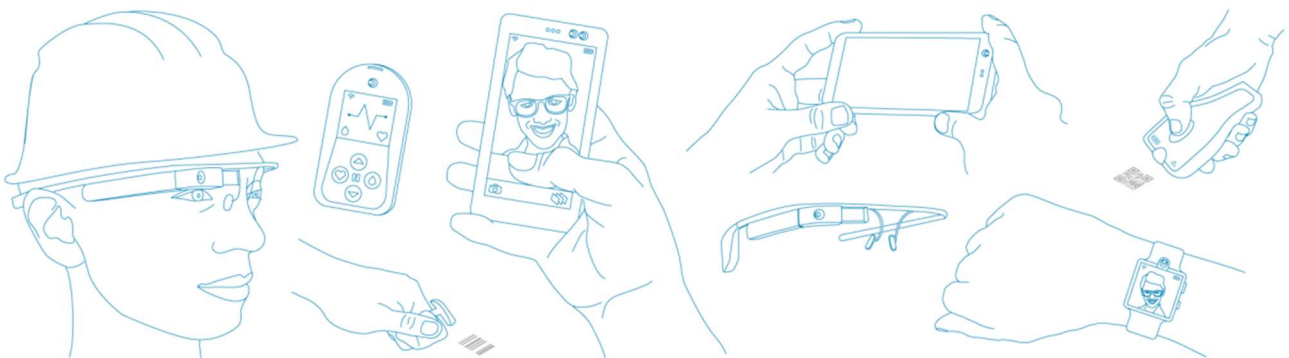
Smartphones represent the biggest market currently being explored. Virtually all current smartphones are shipped with both front-facing and rear-mounted cameras. Dual or multicamera solutions have also become increasingly common. The multicamera trend generates new requirements, like the need for non-magnetic actuation, high optical axis stability and more compact AF actuation solutions.

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 being distributed via leading global social media applications such as Snapchat and YouTube. The deployment of 5G is expected to reinforce this trend. New technology that enhances the camera-related user-experience is therefore a key area of innovation for smartphone manufacturers.

Another consumer market that is maturing is the wearable market, specifically smartwatches, and augmented reality glasses. poLight recently achieved a breakthrough in the smartwatch phone segment, and is now included in two smartwatch phones being sold in China. Smartwatch phones for various segments will develop new uses, and the camera function could quickly become very important. AR (augmented reality) solutions provide the ability to overlay a visual and audio experience onto a real-world environment, as viewed through a computer, mobile device or special hardware. There are many potential usecases for AR, ranging from pure entertainment, such as gaming, visiting places or seeing events, to real-world applications in medicine, education and the workplace.

For the wearable segment, power consumption and compactness will be essential. It is therefore a key market for poLight. The wearable segment has the potential to eventually become a new high-volume market for poLight.

There are other attractive market segments with different characteristics, such as longer product lifecycles, less cost pressure and lower volumes. Barcode readers constitute one such segment. Most of today's barcode readers make use of one-dimensional lasers. There is a growing demand for two-dimensional barcodes in several industries where direct part-marking is becoming crucial to the establishment of more efficient and better controlled supply chains. A key factor for success in this market is to provide a component which reduces the risk of scanning errors and secures high throughput (high-speed AF) and an extended working range (AF capability) for their products. Overall annual volume demand in this segment is expected to be in the range of some thousands to a few million units. Here, the typical product lifetime is several years, as opposed to the smartphone market where the product lifetime ranges from 3 to 12 months.



MESSAGE FROM THE CEO

Many years of hard work and persistence paid off when our TLens was chosen for inclusion in smartwatch phones for the Chinese market in early 2020. Initial market feedback is encouraging, and we are experiencing increased interest in TLens.

Commercial adoption is an important validation of our unique products, which enable new and durable applications in both industrial and consumer segments. The fact that we are now supplying components for a commercially available product is very helpful in our ongoing customer dialogues, and in many ways represents a new era for the company.

We are currently working to capitalise on the references we have established to win further contracts not only in the smartwatch market but also in the wider wearable market. This would provide a good volume platform for us in both the medium and long term, as well as a reference platform for entrance into the smartphone market.

While the consumer market will be important to establish volumes, and therefore achieve reduced-cost solutions, it will be important to tap into other, more industrial markets, in order to obtain better margins and more recurring revenue. In that respect, we are making good progress in the barcode market, and there are currently plans to use the TLens in products being developed by leading vendors.

In addition, we are involved in several other customer projects, for industrial and consumer markets, which are at the Proof of Concept (PoC) and early design stages. The progress we have made so far gives grounds for growing confidence in the continued commercialisation of poLight's technology and a diversified future revenue base, with TLens used in various market segments.

I'd like to take this opportunity to thank the whole poLight team, our partners and investors, for their efforts and continued dedication to bringing our unique technology to the market. We continue to attract increased attention both from new businesses which are evaluating TLens for high-value and very specialised applications to more consumer mass-market applications. In our view, this provides a foundation for significant long-term growth for the company.

Dr Øyvind Isaksen
CEO, poLight ASA

BOARD OF DIRECTORS



Eivind Bergsmyr
Chair, Independent (from March 2020)

Eivind Bergsmyr has been a partner at Viking Venture since 2009, and serves on the boards of several Viking Venture portfolio companies. He is the current chair of Xait AS, DinERP AS, Tamigo ApS, Flowbox AB, Humly Edtech AB and board member of Attensi AS. He is the former chair of GasSecure AS (sold to Dräger) and former board member of Nanoradio AB (sold to Samsung). Mr 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 during his time at Siemens. He holds an MSc in Electronic Engineering from NTNU.



Ann-Tove Kongsnes
Deputy chair

Ann-Tove Kongsnes is an Investment Director at Investinor AS. Kongsnes has over her career gained extensive experience from investments, development, M&A, IPO's and exits of technology companies. Prior to this, she worked for 7 years with international marketing, and was formerly a Director of Marketing and Operations. Kongsnes has extensive board experience, and currently serves on the boards of 6 of Investinor's portfolio companies in addition to 4 Chair/member seats in Nomination Committees. She holds an MSc in Economics and Business Administration from HIB and took the Advanced Program in Corporate Finance at NHH.



Grethe Viksaas
Board member, Independent

Grethe Viksaas has a long career from the Northern European managed service provider Basefarm AS. First as founder and CEO, and later as executive chair of the board of directors. Prior to Basefarm, Ms Viksaas served as CEO for SOL System AS and in several management positions in IT companies. She has experience from numerous board positions, including Zenitel Group and ICT Norway. She currently chairs the foundation Norsk Regnesentral and is a non-executive director on the boards of Telenor ASA and Crayon Group Holding ASA. She also serves on the boards of various start-up companies. Ms Viksaas has a master's degree in computer science from the University of Oslo.



Sverre-Tore Larsen
Board member, Independent

Mr. Larsen is an Electronic Engineer from the University of Strathclyde, UK. He was appointed Chief Executive Officer of Nordic Semiconductor in February 2002. Mr. Larsen has broad international experience in the semiconductor business, previously as Director for the Nordic region for Xilinx Inc. He has also been working at Philips Semiconductor.



Dr. Juha Alakarhu
Board member, Independent

Juha Alakarhu is the VP of Imaging at Axon in Tampere, Finland. He runs the Axon R&D office in Finland and is responsible for the imaging system for Axon camera products. Dr Alakarhu's entire career has been devoted to developing cameras. Before joining Axon in 2018, he worked for Nokia and Microsoft, where he developed several pioneering camera solutions, such as oversampling (the 41-megapixel camera), optical image stabiliser, and virtual reality technology. Juha Alakarhu holds a PhD from Tampere University of Technology.

MANAGEMENT



Dr Øyvind Isaksen
Chief Executive Officer

Øyvind Isaksen has been CEO of 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. Øyvind Isaksen holds a PhD in Applied Physics.



Pierre Craen
Chief Technology Officer

Pierre Craen has more than 20 years' experience in opto-mechanical systems engineering. Prior to joining poLight, he managed product development teams at Varioptic, Barco and Motorola/Symbol. Mr Craen holds an MSc in Optical Engineering from Sup-Optic, as well as an MSc in Applied Physics.



Alf Henning Bekkevik
Chief Financial Officer

Alf Henning Bekkevik has a background from Arthur Andersen (E&Y), Wallendahl, Fjord Line, Grenland Group, and, most recently, as VP Finance for Wood Group Norway AS. He holds a master's degree in business & economics (Siviløkonom) from NHH, and is a certified public accountant.



Marianne Sandal
Chief Operating Officer

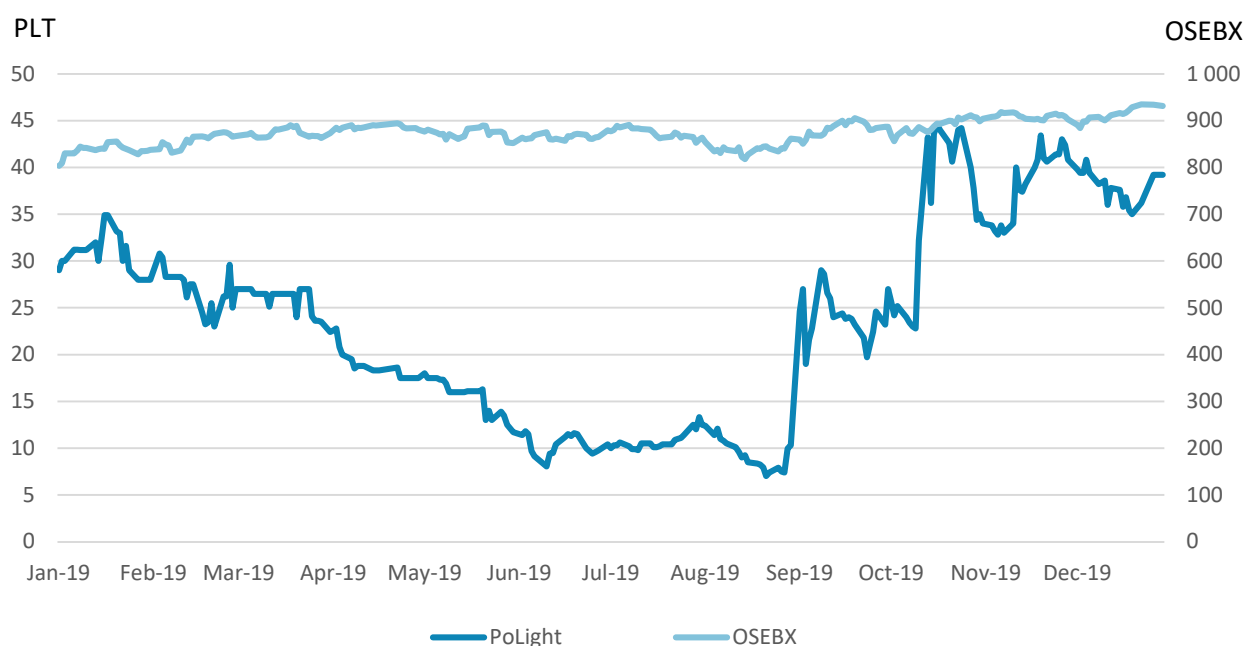
Marianne Sandal has more than 15 years' experience heading worldwide operations in Nera ASA (telecommunications) and Q-Free ASA (intelligent transportation systems). Ms Sandal holds a BSc in Mechanical Engineering, in addition to courses in economics and management from BI Norwegian School of Management.

INVESTOR INFORMATION

Share price development

poLight ASA has one class of shares. Its shares were listed on the Oslo Stock Exchange on 1 October 2018. The company had 8,116,592 shares outstanding at the close of 2019, each with a nominal value of NOK 0.20.

In 2019, the Group's shares traded for between NOK 6.60 and NOK 50.00 per share. In total, 13,765,140 shares were traded in 2019, equivalent to 170% of the shares outstanding.



Major shareholders and voting rights

poLight had 1,402 shareholders registered in the Norwegian Central Securities Depository (VPS) as at 31 December 2019. Shareholders owning 1% or more of the shares represented 69.9% of the share capital. Non-Norwegian shareholders owned 18.9% of the shares. All the shares registered by name carry equal voting rights. The shares are freely negotiable.

poLight shareholders as at 31 December 2019

	Ordinary shares	Share- holding	Voting rights
		%	%
Investinor AS	1 608 313	19.8%	19.8 %
Viking Venture III AS	1 358 053	16.7 %	16.7%
Stiftelsen Industrifonden	947 644	11.7%	11.7%
Alliance Venture Polaris AS	380 278	4.7%	4.7%
Nordnet Bank AB (nominee)	222 767	2.7%	2.7%
Sintef Venture III AS	174 129	2.1%	2.1%
T.D. Veen AS	166 415	2.1%	2.1%
KAS Bank N.V. (nominee)	156 000	1.9%	1.9%
VPF Nordea Avkastning	152 680	1.9%	1.9%
LHH AS	132 500	1.6%	1.6%
Åstveit Investor AS	131 875	1.6%	1.6%
VPF Pareto Investment	124 458	1.5%	1.5%
VPF Nordea Kapital	120 233	1.5%	1.5%
Total	5 675 345	69.9%	69.9%
Other (less than 1% shareholding)	2 441 247	30.1%	30.1%
Total number of shares	8 116 592	100.0%	100.0%

An overview of the 20 largest shareholders is available on the poLight website, updated each week.

Employee share programme

The Board is authorised to issue shares through share option schemes up to a total nominal value of NOK 137,982, equal to 689,910 shares. As at 31 December, 590,826 share options (equal to 7.3% of shares outstanding) were issued, all at a weighted average strike price of NOK 41.60/share.

Corporate actions/events

Date

Market making agreement with Norne Securities	26.03.2019
Receives first TLens purchase order for Product Verification Testing (PVT) for a wearable device	15.08.2019
Receives second purchase order for potential commercial use of TLens in a wearable device	11.10.2019
Receives third purchase order for potential commercial use of TLens in a wearable device	17.10.2019
Receives forth purchase order for a wearable device	12.11.2019

Dividends and dividend policy

poLight is focused on developing and commercialising its technology, and intends to retain any future earnings in the foreseeable future to finance development activities, operations and business growth. The company has not previously distributed any dividends to its shareholders and does not expect to do so in the foreseeable future. Any future decision to pay a dividend will depend on the company's financial position, operating profit and capital requirements.

Analyst coverage

Two analysts representing Norwegian and Nordic investment banks had active coverage of polLight in 2019. For contact details, please see the company website www.polight.com.

Financial calendar 2020

Date	Event
14 February 2020	Quarterly Report – Q4 2019
23 April 2020	Annual report 2019
15 May 2020	Quarterly Report – Q1 2020
28 May 2020	Annual General Meeting
21 August 2020	Half-yearly Report 2020
23 October 2020	Quarterly Report – Q3 2020
19 February 2021	Quarterly Report – Q4 2020

Further information can be found on the company's website www.polight.com and at www.newsweb.no. polLight's IR policy can be found at www.polight.com.

BOARD OF DIRECTORS' REPORT

Through 2019, poLight made significant progress towards commercialisation of its unique autofocus lens, and engagement with potential customers in the smartwatch phone, smartphone, barcode, AR and other segments increased in number and scope. The progress was reflected in a design awards at the start of 2020 and in ongoing Proof-of-Concept (PoC) projects supported by poLight across a wide range of markets that rely on small, high-quality cameras.



XUN Smartwatch Max Pro

Corporate events in 2019

The AGM held on 28 May, elected Dr Juha Alakarhu and Sverre-Tore Larsen as new board members, replacing Per Anell and Karl Johan Paulsson. Dr Alakarhu has an extensive background in camera development, while Mr Larsen has broad international experience in the semiconductor industry. The AGM also appointed Erik Hagen, Jan-Erik Hæreid and Thomas Wrede Holm to serve as the company's Nomination Committee.

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 undertakes final assembly of the complete TLens products. The polymer (*i.e.* lens material) is produced at poLight's own headquarters.

In 2019, activity at ST focused mainly on tuning various production processes to increase yield/performance. The buffer stock of wafers established during 2018 was sufficient to secure material for customer sampling and preparation for the first design-win. poLight continued to concentrate on cash burn and risk, limiting material produced to buffer stock. In early 2020, poLight has ordered new material from ST to meet the growing demand of existing customers and to supply new customers.

Through 2019, Theil continued to assemble finished TLens products based on wafers from buffer stock. These items were supplied to various Proof-of-Concept (PoC) projects for consumer, industrial and medical applications, as well as to the two smartwatch phone customers announced at the start of 2020.

The project to minimise supply chain risk and to establish redundancy in the assembly process progressed during 2019 and entered the last phase of qualification in early 2020. The assembly line is expected to become fully operational during the first half of 2020.

Product development

In 2019, development activity has focused primarily on system integration for various customer applications. TLens Silver, Silver Premium and the first version of the ASIC driver have completed internal qualification and are now ready for mass production. An improved ASIC driver, with reduced electromagnetic interference (EMI) and therefore easier TLens system integration, progressed during 2019 and is expected to undergo testing during the first half of 2020.

TLens Platinum is currently under development. Engineering samples have been produced and have already been tested by some potential customers. However, activity to prepare Platinum for mass production has been put on hold until the product is closer to the anticipated market breakthrough.

poLight continued discussions with smartphone-related vendors concerning new and advanced design concepts based on poLight technology. This also included the company's product platform for advanced front-facing autofocus applications at minimum screen size penalty, as well as advanced back-camera solutions and other applications not directly related to imaging.

Market

Marketing activities have continued at a high level through 2019 and into 2020.

poLight is actively engaged in several segments. This includes consumer market devices, such as smartphones, wearables and augmented reality, as well as a wide range of industrial applications, such as barcode readers and machine vision/sensor applications. Interest in our solutions remains high, and the company continues to make progress on several projects with potential customers in these segments. TLens

technology is increasingly being recognised by a broad range of potential customers. Over time, it is hoped that this will develop into a diversified revenue base for poLight.

Consumer market

The first smartwatch phone with advanced AF functionality based on poLight's TLens was launched on 7 January 2020 by the Chinese vendor Xiaomi. The watch targets a growing market for devices tailored to children in China. It comes with two cameras, and the main camera, which is used to take pictures, is based on the (AF) function delivered by poLight.

The second smartwatch phone with advanced AF using poLight's TLens was launched on 10 February 2020. The XUN Smartwatch Max Pro is aimed at children in the Chinese market. It has two cameras, one main camera used to take pictures, which includes an advanced autofocus (AF) function delivered by poLight, and one face camera without AF integrated in the screen.

In the second half of 2019, poLight received four purchase orders for a total of approximately 124,000 units of TLens Silver, and 120,000 ASIC drivers to support Product Verification Testing (PVT) and initial mass production (MP) of the product releases mentioned above. This was followed up by an order worth NOK 250,000 at the start of 2020.

The market momentum created by the release of the smartwatch phones using TLens has enabled poLight to establish dialogues with other relevant players in the same market.

TLens is also being considered in connection with the realisation of improved augmented reality (AR) glasses by several market participants. While the AR market is still at an early stage, with low volumes, it could potentially be the next "big thing" in the consumer mass market after the smartphone. TLens offers several advantages related to power consumption, speed, compactness and no gravity sensitivity. poLight is therefore well positioned for market entry at an early stage, without having to outcompete a long-established incumbent technology as in the smartphone market.

poLight continued to engage with the smartphone eco-system for various applications based on advanced new design concepts. This will continue into 2020, but it will probably take time before these discussions mature into concrete projects.

At the end of 2019, poLight's TLens was used in 12 PoC's related to the consumer market (7 ongoing and 5 completed). All ongoing and completed PoCs have reported overall positive performance results.

Industrial

At the end of 2019, a leading barcode maker had successfully progressed a real product project through the initial EVT (engineering verification test) phases. Product development continues, with a planned market release in mid-2020. In addition, five potential barcode customers continued to evaluate TLens for real product projects.

A barcode product may last for several years, with a potential annual volume ranging from some thousands of units up to a few million units per account. Revenue and cash flow generated from a successful entry to this market could cover a significant part of the company's cost base.

The company is also involved in other cases within the industrial segment, such as machine vision and sensors.

At the end of 2019, poLight's TLens was used in nine PoC's related to the industrial market (7 ongoing and 2 completed). All ongoing and completed PoCs have reported overall positive performance results.

Other applications

TLens technology continues to arouse interest in connection with other applications, such as medical equipment and iris scanning.

Organisation

poLight had 21 full-time employees and 1 part-time employee at the close of 2019, compared with 31 full-time and 2 part-time employees in 2018. The reduction in personnel is due to development projects being finalised and products made ready for mass production. poLight has therefore adjusted its organisation accordingly. In addition, 2 (2) consultants were hired on a long-term engagement. The employees were located in 4 (5) different countries and represented 6 (10) different nationalities. Women made up 23% (26%) of the workforce. poLight is committed to be a healthy workplace, which provides equal 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. Sickness absence came to 2.1% in 2019, compared with 3.7% in 2018. Sickness absence remains well below the national average of approximately 5.9% (2018: 5.8%). No work-related accidents caused personal injuries or material damage in 2019.

Financial development, poLight Group

The Group's consolidated revenue in 2019 totalled NOK 2,988,000, compared with NOK 1,038,000 in 2018. The revenue reflects sales of TLens, ASICs and evaluation kits to customers for market launch in the smartwatch phone segment, and for product testing in other segments.

Cost of sales totalled NOK 2.1 million in 2019, compared with NOK 1.5 million in 2018, net of inventory impairments and provisions. See Notes 12 and 15 to the financial statements for details.

R&D expenses amounted to NOK 19.9 million, down from NOK 28.9 million in 2018. The decrease was due to internal R&D resources being directed to customer support projects and supply chain-related tasks, in addition to lower external development activity compared with 2018. See Note 5.3 for details.

Sales and marketing expenses totalled NOK 8.7 million, up from NOK 7.6 million in 2018, reflecting the sales and marketing organisation's continued active engagement with prospective clients.

Administrative expenses totalled NOK 17.1 million, down from NOK 35.8 million. A provision of NOK 1.5 million was recognised in 2019 with respect to severance packages for 6 full-time equivalent employees, payable in 2020. Administrative expenses for 2018 included the VAT claim and related costs of NOK 16.9 million, IPO expenses of NOK 4.4 million and employee bonuses totalling NOK 1.2 million.

Operational/supply chain costs totalled NOK 8.2 million, up from NOK 3.4 million in 2018. This reflects an increase in related activities, including development of assembly redundancy.

Depreciation, amortisation and net impairment losses amounted to NOK 26.2 million, up from NOK 1.0 million in 2018. poLight started amortising previously capitalised development investments for TLens Silver and the related ASIC driver in the second quarter of 2019 as they became ready for commercial shipments.

The activity to prepare Platinum for mass production has been put on hold until the product is closer to the anticipated market breakthrough. In this situation the company are not able to demonstrate cash flow projections for Platinum on reasonable and supportable assumptions as required by the accounting standards and it has been concluded to recognize an impairment charge of NOK 18.3 million related to this product. The recognition of impairment for accounting purposes does not imply that the assets have no commercial value.

The Group made an operating loss of NOK 79.2 million in 2019, compared with an operating loss of NOK 77.1 million in 2018.

Net financial items in 2019 totalled NOK 1.4 million, up from NOK 0.2 million in 2018. This is attributable primarily to interest on bank deposits. Tax expenses in 2019 came to NOK 0.1 million, compared with NOK 0.2 million the year before.

The Group made a net loss of NOK 77.9 million in 2019, compared with a net loss of NOK 77.2 million in 2018. This represents a loss in 2019 of NOK 9.59 per share on a fully-diluted basis, compared with a loss of NOK 12.66 per share in 2018.

Financial position

As at 31 December 2019, total assets came to NOK 145.0 million, compared with NOK 219.5 million at year-end 2018. The decrease in total assets for the year reflects the net loss for the period and the amortisation and impairment losses of capitalised development investments. Total equity came to NOK 128.4 million, compared with NOK 201.5 million at year-end 2018.

Intangible assets amounted to NOK 53.9 million as at 31 December 2019, compared with NOK 75.8 million in 2018, reflecting amortisation and impairment losses over the year. Trade and other receivables totalled NOK 6.1 million (NOK 6.4 million in 2018), including recognised but not received government grants of NOK 4.7 million (NOK 5.8 million in 2018).

As at 31 December 2019, the company had cash and cash equivalents of NOK 73.5 million, compared with NOK 127.4 million at the close of 2018. The change was mainly a function of liquidity consumed by operating activities and investments made through the year.

Long-term liabilities totalled NOK 0.8 in 2019 (NOK 0.0 million in 2018). Total current liabilities at year-end 2019 totalled NOK 15.9 million, compared with NOK 18.1 million in 2018. The change reflects reduced trade and other payables, offset by an increase in recognised leasing liabilities due to implementation of IFRS 16.

Cash flow

Net cash flow used in operating activities totalled NOK 49.5 million in 2019, compared with NOK 79.9 million used in 2018. Net cash flow used in investing activities totalled NOK 2.7 million in 2019, compared with NOK 9.2 million used in 2018. The decrease was mainly due to lower R&D capital expenditures in the period. Net cash flow from financing activities totalled NOK -1.7 million in 2019 (NOK 122.8 million in 2018). The positive cash flow from financing activities in 2018 reflects the net proceeds from the IPO.

Financial development, parent company

In 2019, the parent company generated NOK 3.5 million in gross revenue, compared with NOK 1.6 million the year before. It made an operating loss of NOK 81.1 million in 2019, after total operating expenses of NOK 82.5 million. In 2018, the company made a loss of NOK 79.1 million, after total operating expenses of NOK 79.2 million.

Operating expenses in 2019 include employee benefit expenses of NOK 27.6 million, compared with NOK 28.3 million in the preceding year. The parent company had on average 22 employees in 2019, compared with 24 in 2018. In 2019, other operating expenses net of capitalised R&D expenses amounted to NOK 30.0 million, compared with NOK 50.0 million in 2018. (See Note 3.)

The net result for poLight ASA in 2019 was a loss of NOK 79.2 million, compared with a loss of NOK 76.9 million in 2018.

The Board proposes that NOK 74.4 million be transferred from the share premium fund and NOK 4.9 million from retained earnings. The Board does not propose payment of a dividend for 2019.

Share capital

As at 31 December 2019, poLight ASA had a share capital of NOK 1,623,318.40, consisting of 8,116,592 shares, with a nominal value of NOK 0.20 each.

poLight employees have been granted options to subscribe for shares under share options schemes. The Board is authorised to issue shares - in share option schemes - up to total nominal value of NOK 137,982 (689,910 shares at a nominal value of NOK 0.20). As at 31 December, 590,826 share options (equal to 7.3% of shares outstanding) had been issued, all at weighted average strike price of NOK 41.60/share.

Risks and risk management

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

Market risk: poLight develops highly innovative autofocus lenses for consumer and industrial products. The markets for these products are undergoing rapid technological changes. 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 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 patents, copyright and trademark laws, trade secrets, confidentiality procedures, and contractual provisions. poLight actively seeks to protect its products and technologies in every market and geographic region. There is, however, inherent risk related to copyright protection of new products, potential challenges from third parties, and the extent to which 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 does incur costs in various currencies. No single large currency risk that could have a significant impact on the company's net profit has been identified. Proceeds from share issues are kept in NOK. poLight has not entered into any hedging agreements.

Liquidity risk: poLight currently operates at a loss. In 2018, the company raised new equity through an initial public offering and subsequent listing on the Oslo Stock Exchange, with net proceeds of NOK 124 million. In April 2020, the company raised NOK 40 million in a private placement and announced a subsequent offering

of up to NOK 10 million at same subscription price. The company may in future seek to raise further capital to finance R&D activities and expansion plans.

Corporate governance

poLight aims to comply with the Code of Practice for Corporate Governance published by the Norwegian Corporate Governance Board (NUES) on 17 October 2018. A separate section of this annual report provides further details of the poLight Group's corporate governance.

Corporate social responsibility

poLight aims to be a responsible company with regard to working conditions, human rights, the environment and anti-corruption efforts. The company promotes a healthy, safe and fair working environment in accordance with applicable laws and regulations, including the UN Global Compact. poLight has established a 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 2020

The Board confirms that the financial statements of both the Group and the parent company have been prepared on the assumption that the undertaking is a going concern. The Board is confident that the company is well positioned to continue in operational existence, based on the current balance sheet, revenue forecast and projected expenses. Current cash deposits together with the successfully private placement that took place in April 2020 of NOK 40 million, could potentially fund group activities into 2022.

When the annual financial statements were prepared, the Covid-19 pandemic had not significantly affected the company's operations. All employees are at work, and none has been laid off. Activities at the company's assembly partners in Taiwan have progressed as planned, but some delays have occurred at the wafer manufacturing partner in Italy. The company has a significant number of wafers in stock and the delay is therefore unlikely to have a negative impact. Based on order receipts so far in 2020, however, the Covid-19 outbreak has probably had a negative impact on consumer sales of smartwatch phones using poLight's TLens. The outbreak may also have led to some delays in customer qualification programmes.

Outlook

poLight's TLens product is attracting growing attention from a wide range of industries representing multiple applications.

The design-win for smartwatch phone products in early 2020 validates poLight's unique polymer-based camera-lens solution and its supply chain. The smartwatch market is growing and will eventually represent a significant volume potential for poLight. In addition, it has created good overall market-momentum. Furthermore, it serves as a relevant reference for smartphone market. The company is involved in discussions related to several new and advanced design concepts based on poLight's technology and product platform with the objective to realise front-facing autofocus solutions at minimum screen-size penalty, as well as being a part of advanced back-camera solutions. The company is also discussing the use of the TLens in other applications not directly related to imaging.

poLight is also making good progress in the barcode market, and there are currently plans to use the TLens in products being, or planned, developed by leading vendors. The estimated earliest market launch for this segment is mid-2020.

In addition, poLight is supporting several other customer cases, for both industrial and consumer markets, at the PoC stage and at early design stage.

The progress described above gives grounds for growing confidence in the continued commercialisation of poLight's technology and diversified future revenue streams, based on the use of TLens technology in various market segments.

Statement by the Board of Directors and the CEO

We confirm that, to the best of our knowledge, the consolidated financial statements for 2019 have been prepared in accordance with IAS, as adopted by the EU, as well as additional information requirements set out in the Norwegian Accounting Act; and that the financial statements for the parent company for 2019 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 parent 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 parent company and the Group, and includes a description of the material risks that the Board of Directors, at the time of this report, considers could have a significant impact on the financial performance of the Group.

poLight ASA
Horten, 23 April 2020

Eivind Bergsmyr (sign)
Chair

Ann-Tove Kongsnes (sign)
Deputy chair

Grethe Viksaas (sign)
Board member, Independent

Svenn-Tore Larsen (sign)
Board member, Independent

Juha Alakarhu (sign)
Board member, Independent

Øyvind Isaksen (sign)
Chief Executive Officer

CORPORATE GOVERNANCE REPORT

1. Governance principles and objectives

poLight ASA (“poLight” or the “company”) seeks to create sustained shareholder value and pays due respect to the company’s various stakeholders. These include its shareholders, employees, business partners, society in general and the public authorities. poLight is committed to maintaining a high standard of corporate governance and has established principles and guidelines that define the roles and relationship between the shareholders, the Board of Directors (the “Board”) and the company’s executive management (“management”).

poLight is incorporated and registered in Norway and subject to Norwegian law. The company’s shares are listed on the Oslo Stock Exchange. As an issuer of shares, the company must comply with rules applicable to companies listed on the Oslo Stock Exchange and rules applicable to public limited companies in general.

The company observes the Norwegian Code of Practice for Corporate Governance, issued by the Norwegian Corporate Governance Board, most recently revised 17 October 2018 (the “**Code of Practice**”). The Code of Practice is available at www.nues.no.

Application of the Code of Practice is based on the “comply or explain” principle, which stipulates that any deviations from the code, should be explained. poLight seeks to follow the Code of Practice, and any deviation will be explained in the corporate governance report included in its annual report. poLight’s corporate governance policy is available on its website, www.polight.com, in accordance with the company’s IR policy.

Deviations from the Code of Practice:

- The majority of the Nomination Committee’s members are not independent of the company’s Board of Directors (section 7).
- The company has not adopted guidelines for management’s ability to engage the company’s auditor for non-auditing services (section 15).

The principles and implementation of corporate governance are subject to annual review by the company’s Board of Directors. The corporate governance policy was last reviewed and approved 20 June 2019.

2. Business

The operations of the company comply with the business objective set forth in its Articles of Association, which reads as follows:

“The company’s purpose is to develop and deliver optical components and all naturally related activities, including ownership of shares and other securities in other companies.”

The Board of Directors has established goals, strategies and a risk profile for the company within the definition of its business objective which are described in the Annual Report. These are subject to annual review by the Board.

poLight has adopted a set of ethical guidelines (code of conduct) which represents the foundation of poLight’s corporate culture. The guidelines define the core principles and ethical standards for the company’s operations, and the integration of stakeholder considerations and how these relate to the value creation by the company. The code of conduct applies to the members of the Board, all employees and representatives

of polight as well as direct business partners such as agents or re-sellers. The code is available at www.polight.com.

3. Equity and dividends

Capital adequacy

As at 31 December 2019, the company's consolidated equity totalled NOK 128.4 million, which is equivalent to 89% of total assets. Liabilities were mainly trade receivables and provisions. The Board of Directors is responsible for ensuring that polight is adequately capitalised relative to the company's goals, strategy and risk profile.

Dividend policy

polight has not previously distributed any dividends to its shareholders and does not expect to pay any dividend in the foreseeable future. The company is focused on developing and commercialising its technology and intends to retain any future earnings to finance development activities, operations and business growth. Any future decision to pay a dividend will depend on the company's financial position, operating profit and capital requirements.

Authorisations to the Board of Directors

On 28 May 2019, the annual general meeting (AGM) granted the Board of Directors an authorisation to issue new shares to holders of share options in polight who exercise their rights to subscribe for new shares. The authorisation to issue new shares at a nominal value NOK 0.20 each, up to the share capital equivalent of NOK 137,982, is valid until the date of the 2020 AGM, or 30 June 2020 at the latest.

The AGM on 28 May 2019 granted the Board a general authorisation to issue shares and to increase the share capital by a maximum of NOK 162,332. The authorisation is valid until the 2020 AGM, or 30 June 2020 at the latest. The authorisation had not been utilised as at 31 December 2019.

The AGM also granted the Board an authorisation to buy back shares equal to a share capital of NOK 162,332, or 10% of the outstanding share capital. The authorisation is valid until the 2020 AGM, or 30 June 2020 at the latest. The authorisation had not been utilised as at 31 December 2019.

4. Equal treatment of shareholders and transactions with close associates

Pre-emption rights to subscribe

In the event of an increase in share capital, the Board shall propose that existing shareholders be granted pre-emptive rights. If the Board decides to waive the pre-emptive rights of existing shareholders pursuant to an authorisation granted to the it by a general meeting of shareholders, the reason therefor shall be publicly disclosed in a stock exchange announcement. Except for the shares issued under the IPO over-allotment option, no new shares have been issued in polight after the IPO where shareholders pre-emption rights were set aside by existing board authorisations

Trading in treasury shares

Any trading carried out by the company in its own shares shall be carried out through the stock exchange, and always at prevailing stock exchange prices. If there is limited liquidity in the company's shares, other ways shall be considered to ensure that all shareholders are treated equally. There has been no trading in treasury shares after the IPO in 2018.

Approval of agreements with shareholders and close associates

In the event of not immaterial transactions between the company and its shareholders, a shareholder's parent company, members of the Board, executive personnel or close associates of any such party, the Board shall arrange for an independent third-party valuation. There were no transactions with close non-group associates in 2019. For further details see Note 20 to the financial statements in the Annual Report.

5. Shares and negotiability

poLight ASA has one class of shares and each share carries equal rights, including the right to participate in general meetings. All shareholders shall be treated equally, unless there is just cause for treating them differently. The company's shares are freely negotiable.

6. General meetings

The general meeting of shareholders is the company's highest decision-making body. The Board shall ensure that the general meeting is an effective forum for communication between the shareholders and the Board, and enable as many shareholders as possible to exercise their rights through their attendance. Extraordinary general meetings (EGM) may be called by the Board at any time, or by shareholders representing at least 5% of the shares.

Notification

The Board will ensure that proposed resolutions and any supporting material shall be sufficiently detailed and comprehensive to enable shareholders to understand and form an opinion on all matters to be considered at the general meeting.

Registration and proxies

Deadlines for shareholders to give notice of their attendance at the general meeting shall be set as close to the date of the general meeting as practically possible. Shareholders who cannot attend the general meeting may vote by proxy on each individual matter.

Agenda and execution

The agenda for the general meeting is set by the Board. The agenda shall include detailed information on the resolutions to be considered, as well as the Nomination Committee's recommendations. The shareholders attending may vote to determine who will chair the general meeting.

The Board and the general meeting's chair shall ensure that the shareholders are able to vote separately on each candidate nominated for election.

Representatives of the Board and the Nomination Committee's chair shall be present at general meetings. Although general meetings will normally be chaired by the Board's chair, the Board must also ensure that the general meeting can appoint an independent chairperson.

In 2019, poLight held its AGM on 28 May.

7. Nomination Committee

Composition

The company shall have a nomination committee consisting of two to three members, see section 7 of its Articles of Association. The general meeting elects the Nomination Committee's members and chair and determines their remuneration.

As at 31 December 2019, the Nomination Committee consisted of the following three members: Erik Hagen (Viking Venture), Thomas Wrede Holm (Investinor) and Jan Erik Hæreid (Alliance Venture). The committee's members were elected by the AGM for terms lasting until the company's AGM in 2020 or 2021.

None of the Nomination Committee's members are members of the Board or executive management. The majority of the Nomination Committee's members are not deemed to be independent of the company's Board and executive management.

Tasks

The Nomination Committee is responsible for recommending candidates for the election of board members and the Board's chair, and the remuneration payable to members of the Board and its sub-committees. It also recommends candidates for election to the Nomination Committee itself. The objectives, responsibilities and functions of the committees are detailed in the company's "guidelines for the Nomination Committee".

All shareholders are entitled to nominate candidates for election to the Board of poLight ASA. Nominations are submitted by sending an e-mail to erik.hagen@vikingventure.com. Nominations must be received well in advance to be considered for election at poLight's AGM. All proposals should include information about the candidate, grounds for consideration and contact details for the person nominating the candidate concerned.

8. The Board of Directors – composition and independence

According to the company's articles of association, the Board of Directors shall consist of up to five members. At 31 December 2019, the Board consisted of the following five members: Eivind Bergsmyr (Chair), Ann-Tove Kongsnes (Deputy Chair), Grethe Viksaas, Juha Alakarhu and Svernn-Tore Larsen.

The Board's chair has been elected by the general meeting. Members of the Board are elected for a term of up to two years at a time and may be re-elected. poLight's annual report and website provide details of board members' background and expertise.

All members of the Board are considered independent of executive management and material business connections. Further, Grethe Viksaas, Juha Alakarhu and Svernn-Tore Larsen are independent of the company's major shareholder(s). The Board of Directors does not include executive personnel.

Name	Role	Considered independent	Served since	Term expires	Participation Board Meetings 2019	Shares in poLight 31 December (direct/ indirect)
Eivind Bergsmyr	Chair	Yes, from March 2020	September 2010	AGM 2020	100%	1,358,053 (1)
Ann-Tove Kongsnes	Deputy Chair	No	December 2011	AGM 2020	100%	1,608,053 (2)
Grethe Viksaas	Board member	Yes	June 2018	AGM 2021	86%	
Juha Alakarhu	Board member	Yes	May 2019	AGM 2021	100%	
Svernn-Tore Larsen	Board member	Yes	May 2019	AGM 2021	100%	

1) Eivind Bergsmyr is a partner at Viking Venture. Viking Venture served as financial advisor to poLight shareholder Viking Venture III AS until February 21, 2020. Since then Mr. Bergsmyr is independent from Viking Venture III AS. Viking Venture III AS held 1.36 Million shares in poLight per December 31, 2019.

2) Ann-Tove Kongsnes is Investment Director and Head of International Affairs at Investinor AS, which held 1.61 million shares in poLight ASA at 31 December 2019

Members of the Board of Directors are encouraged to own shares in the company.

9. The work of the Board of Directors

The Board of Directors' tasks

The Board of Directors is elected by the shareholders to oversee executive management, and to make sure that the long-term interests of shareholders and other stakeholders are properly served. The Board has ultimate responsibility for management and the company's activities in general. Its main responsibilities include the company's organisation and planning, and the control and supervision of its operations.

The Board shall also ensure that the organisation of the company's accounting and cash management is compliant and under satisfactory control. The Board adopts an annual plan for its work, with particular emphasis on objectives, strategy, and implementation.

Instructions to the Board of Directors

The Board has issued instructions for its own work, as well as for the CEO, to allocate duties and responsibilities between the CEO and the Board of Directors. The instructions are based on applicable laws and well-established practices. The current instructions were last amended by the Board in April 2015.

Members of the Board of Directors and the company's executive management shall notify the Board in the event of any material direct or indirect interest in a transaction entered into by the company.

The Board's instructions state that, in situations when its chair cannot, or should not, lead the work of the Board, the longest-serving director shall chair the Board, until an interim chairperson has been elected by and from among the directors present.

Audit Committee

The whole Board serves as the Audit Committee. The Board will, over time, evaluate the need for a separate audit committee based on the development of the company and its operation in terms of size and complexity.

Remuneration Committee

The Board of Directors has established a remuneration committee which assists and facilitates decision-making related to the remuneration of executive personnel. The Remuneration Committee shall consist of at least two members of the Board of Directors. The Remuneration Committee's members and chair are appointed for a term of two years. All members must be independent of the company's executive management.

As at 31 December 2019, the Remuneration Committee consisted of the following three members: Ann-Tove Kongsnes, Grethe Viksaas and Eivind Bergsmyr.

Evaluation of the Board

The Board evaluates its performance and expertise annually.

10. Risk management and internal control

The Board places a high priority on managing risk, and has established routines and policies to limit overall risk exposure. The rules and guidelines take into account the extent and nature of the company's activities

and the integration of stakeholder considerations in the company's value creation through its corporate values, ethical guidelines and corporate social responsibility policies.

The Board conducts an annual review of the company's most important areas of risk exposure, and its internal control arrangements.

poLight's risk management is based on the principle that risk assessment is an integral part of all business activities. As a technology company with global operations, poLight is exposed to various risk factors of a financial and operational nature, which may affect business activities and the company's financial position. Management reports monthly to the Board of Directors on key operational developments, including project risk assessments, and on financial performance. In addition, quarterly financial reports are prepared and distributed to the financial market, in accordance with the Oslo Stock Exchange's requirements.

Detailed information on the company's operational and financial risks are included in the Annual Report and the prospectus dated 19 September 2018, available at www.polight.com.

11. Remuneration of the Board of Directors

The remuneration payable to board members is decided by the AGM, based on the Nomination Committee's recommendation. The remuneration paid shall reflect the Board of Directors' responsibilities, competence, time involved, and the complexity of the business.

The remuneration of the Board of Directors shall not be performance-based and shall not contain option elements. Members of board sub-committees shall be compensated separately. The company shall not provide loans to board members. Detailed information on the remuneration of board members is specified in Note 5 to the parent company's financial statements.

Members of the Board of Directors and/or companies with which they are associated should not take on specific assignments for the company in addition to their directorships. Should they do so, however, this must be disclosed to the full Board. The remuneration for such additional duties will be approved by the Board of Directors.

12. Remuneration of executive management

The Board of Directors prepares guidelines for the remuneration of the company's executive management. These guidelines are communicated to the AGM. See Note 5 to the parent company's financial statements for further details.

Performance-related remuneration of executive personnel in the form of share options, bonus programmes, or the like, shall be linked to value creation for the shareholders or the company's earnings performance over time.

13. Information and communications

The Board places great emphasis on open, honest and timely dialogue with shareholders, potential investors, analysts and other participants of the capital markets. The primary purpose of poLight's external information activities, is to provide the financial markets with sufficient information to accurately appraise the company's shares. Such information shall be presented factually and soberly, and shall be issued using methods and channels that ensure simultaneous, fair and wide distribution. All information is published in English, which is poLight's corporate language.

The company's primary channels for communication are its interim reports, the annual report and associated financial statements. polight also issues other notices to shareholders when appropriate. All reports and notices are issued and distributed in accordance with the Oslo Stock Exchange's rules and practices, and are made available on the company's website, and at www.newsweb.no.

polight has adopted an investor relations policy and guidelines for the company's contact with shareholders other than through general meetings. The CEO and the CFO are responsible for communicating with shareholders, the stock exchange, analysts and the media. The general meeting provides a forum for shareholders to raise issues with the Board. The Board of Directors will review and evaluate the content of the IR policy at least annually.

14. Takeovers

General

In the event of a takeover bid, the Board of Directors and the company's executive management each have an individual responsibility to ensure that the company's shareholders are treated equally, and that the company's activities are not unnecessarily interrupted. The Board has a special responsibility to ensure that the shareholders have sufficient information and time to form an informed opinion about the offer.

The Board has established guiding principles for how it will act in the event of a takeover bid. These are available at www.polight.com.

If an offer is made for the company's shares, the Board shall issue a statement evaluating the offer, and make a recommendation as to whether, in the Board's opinion, the shareholders should or should not accept the offer. If the Board finds itself unable to give a recommendation to shareholders on whether or not to accept the offer, it should explain the reasons for this. The Board of Director's statement on a takeover bid shall make it clear whether the views expressed are unanimous, and if this is not the case, it shall explain the reasons why specific members of the Board do not endorse the statement.

The Board shall consider whether to arrange a valuation from an independent expert. If any member of the Board, or close associates of such member, or anyone who has recently held such a position but has ceased to do so, is either the bidder or has a particular personal interest in the bid, the Board shall arrange an independent valuation. This shall also apply if the bidder is a major shareholder. Any such valuation should either be enclosed with the Board's statement or reproduced or referred to in the statement.

15. Auditor

The company's external auditor is EY. Each year, the Board of Directors ensures that it receives a presentation of the auditor's plan for its annual audit of the company. Additionally, the Board requires the auditor to participate in board meeting(s) where any of the following is on the agenda: the annual financial statements, accounting principles, assessment of any important accounting estimates and matters of importance on which there has been disagreement between the auditor and the company's management.

At least once a year, the Board of Directors and the auditor will jointly review the company's internal control procedures, including identification of weaknesses and proposals for improvement. The Board of Directors has not established guidelines for executive management's right to engage the auditor for purposes other than auditing.

The remuneration paid to the auditor is approved by shareholders at the AGM. The Board of Directors will provide the AGM with a breakdown of the fee paid for audit work and fees paid for other services, if any.

GROUP FINANCIAL STATEMENTS

Consolidated statement of income for the year ended 31 December 2019

<i>(in NOK 000)</i>	Note	2019	2018
Sale of goods	4	2 988	1 038
Revenue		2 988	1 038
Cost of sales	12	2 075	1 488
Gross profit		913	-450
Research and development expenses	5.3	-19 874	-28 918
Sales and marketing expenses	5.4	-8 729	-7 586
Administrative expenses	5.5	-17 073	-35 770
Operational / supply chain expenses	5.6	-8 216	-3 384
Depreciation, amortisation and net impairment losses	8,9,19	-26 191	-1 025
Operating profit		-79 170	-77 133
Net financial items	5.1,11.2	1 430	211
Profit before tax		-77 740	-76 922
Income tax expense	6	-124	-243
Profit for the year		-77 864	-77 165
Attributable to:			
Equity holders of the parent		-77 864	-77 165
Non-controlling interests		0	0
Earnings per share:			
Basic, attributable to ordinary equity holders of the parent (NOK)	7	-9.59	-12.66
Diluted, attributable to ordinary equity holders of the parent (NOK)	7	-9.59	-12.66

Consolidated statement of other comprehensive income for the year ended 31 December 2019

<i>(in NOK 000)</i>	Note	2019	2018
Profit for the year		-77 864	-77 165
Other comprehensive income			
Exchange differences on translation of foreign operations		-92	-74
Income tax effect		0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		-92	-74
Total comprehensive income for the year, net of tax		-77 956	-77 239
Attributable to:			
Equity holders of the parent		-77 956	-77 239
Non-controlling interests		0	0

Consolidated statement of financial position as at 31 December 2019

<i>(in NOK 000)</i>	Note	2019	2018	2017
ASSETS				
Property, plant and equipment	8	1 235	1 605	1 874
Intangible assets	9	53 936	75 829	67 444
Right-of-use assets	19	1 923	0	0
Total non-current assets		57 094	77 434	69 318
Inventories	12	7 728	7 372	1 781
Trade and other receivables	11.1	6 147	6 399	5 260
Other current assets		565	901	1 127
Cash and cash equivalents	13	73 463	127 424	93 647
Total current assets		87 903	142 095	101 816
Total assets		144 997	219 529	171 134
EQUITY AND LIABILITIES				
Issued capital	14	1 623	1 623	542
Share premium	14	124 385	198 748	148 036
Other equity		2 369	1 085	1 417
Equity attributable to equity holders of the parent		128 378	201 456	149 996
Non-controlling interests		0	0	0
Total equity		128 378	201 456	149 996
Interest-bearing loans and borrowings	11.2	0	0	600
Lease liabilities	19	766	0	0
Total non-current liabilities		766	0	600
Trade and other payables	11.2	11 911	15 172	13 690
Interest-bearing loans and borrowings	11.2	0	600	1 200
Current lease liabilities	19	1 241	0	0
Income tax payable	6	0	225	135
Provisions	15	2 701	2 076	5 513
Total current liabilities		15 853	18 073	20 538
Total liabilities		16 619	18 073	21 138
Total equity and liabilities		144 997	219 529	171 134

Consolidated statement of changes in equity for the year ended 31 December 2019

(in NOK 000)	Note	Attributable to equity holders of the parent					Non-controlling interest	Total equity
		Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total		
As at 1 January 2018		542	148 036	425	993	149 996	0	149 996
Losses for the period				-77 165		-77 165	0	-77 165
Other comprehensive income					-74	-74	0	-74
Total comprehensive income		0	0	-77 165	-74	-77 239	0	-77 239
Value of share option plan	5.2,18			4 719		4 719	0	4 719
Increase of share capital	14	542	-542			0		0
Issue of share capital	14	539	134 150			134 689		134 689
Transaction costs	14		-10 709			-10 709		-10 709
Allocation to cover losses	14		-72 187	72 187		0	0	0
At 31 December 2018		1 623	198 748	166	919	201 456	0	201 456
Losses for the period				-77 864		-77 864	0	-77 864
Other comprehensive income					-92	-92	0	-92
Total comprehensive income		0	0	-77 864	-92	-77 956	0	-77 956
Value of share option plan	5.2,18			4 877		4 877		4 877
Allocation to cover losses	14		-74 363	74 363		0	0	0
At 31 December 2019		1 623	124 385	1 542	827	128 378	0	128 378

Consolidated statement of cash flows for the year ended 31 December 2019

<i>(in NOK 000)</i>	Note	2019	2018
Operating activities			
Profit before tax		-77 740	-76 922
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	8	1 895	966
Amortisation and impairment of intangible assets	9	24 297	59
Share option plan expense	18	4 877	4 719
Other items related to operating activities		-1 489	-300
Net foreign exchange differences		-112	-183
Movements in provisions and government grants	15,16	3 230	-3 456
Working capital adjustments:			
Increase (-) in trade and other receivables and prepayments		-560	532
Increase (-) in inventories	12	-356	-5 591
Decrease (-) in trade and other payables		-4 718	57
Interest received	5.1	1 613	1 057
Interest paid	5.1	-107	-740
Income tax paid		-367	-118
Net cash flows from / (used in) operating activities		-49 538	-79 919
Investing activities			
Purchase of property, plant and equipment	8, 9	-319	-749
Development capital expenditures	5.3, 9	-2 931	-10 433
Receipt of government grants	16	526	1 989
Net cash flows from / (used in) investing activities		-2 724	-9 193
Financing activities			
Issue of share capital	14	0	134 689
Transaction costs on issue of shares	14	0	-10 709
Repayment of lease liabilities		-1 120	0
Repayment of borrowings	11.2	-600	-1 200
Net cash flows from / (used in) financing activities		-1 720	122 780
Net increase in cash and cash equivalents		-53 982	33 667
Effect of exchange rate changes on cash and cash equivalents		20	110
Cash and cash equivalents at 1 January	13	127 424	93 648
Cash and cash equivalents at 31 December	13	73 463	127 424

Notes to the Consolidated Financial statements

1 Corporate information

poLight ASA 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 offers a new autofocus lens which "replicates" the human eye for use in devices such as smartphones, wearables, barcode, machine vision systems and various medical equipment. poLight's TLens® enables better system performance and new user experiences due to benefits such as extremely fast focus, small footprint, no magnetic interference, low power consumption and constant field of view. For more information, visit www.polight.com.

Information on the Group and related parties are presented in Note 20.

The consolidated financial statements of poLight ASA and its subsidiaries (collectively, poLight or the Group) for the year ended 31 December 2019 were authorised for issue in accordance with a resolution of the Board of Directors on 23 April 2020.

2 Significant accounting policies

2.1 Basis of preparation

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

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

Changes in accounting policies and disclosures

IFRS 16 Leases was adopted from 1 January 2019. poLight has entered into commercial leases with regards to premises and office equipment. poLight used the modified retrospective approach and the 'low-value' and short-term leases exempts. For the first time adoption of this standard the group determined the value of the right-to-use assets equal to the liabilities of the leases at 1.1.2019. The effect on the consolidated financial statement at January 1, 2019 was increased assets and liabilities of NOK 1.9 million. The right-to-use assets are depreciated over the leasing period of 19 months.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2019.

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.

2.3 Summary of significant accounting policies

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group recognises revenue from the sale of goods at the point in time when control of the goods is transferred to the customer. Control of an asset refers to the ability to direct the use of and obtain substantially all of the remaining benefits from the asset, and the ability to prevent others from directing the use of and receiving the benefits from the asset. Revenue is generally recognised on delivery of the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components and consideration payable to the customer (if any).

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. 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.

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 average monthly exchange rates. The exchange differences arising on the translation are recognised in OCI.

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.

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.

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 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

Office/lab upgrades 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 facility upgrades 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 (1-2 years)
- Equipment: 3 to 5 years

An item of office/lab upgrade 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 office/lab upgrade and equipment are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office & lab lease, headquarter 19 months

The right-of-use assets are also subject to an impairment assessment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments).

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments).

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of office leases in Finland, France and China (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognised as expense on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately, are measured on initial recognition at cost. 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 are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss.

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

Research and development costs

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

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

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

Patents and licences

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

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

	Licences	Patents	Development costs
Useful lives	Finite (3-5 years)	Finite (7 years)	Finite (3-7 years)
Amortisation method used	Amortised on a straight-line basis over the lives of the licences	Amortised on a straight-line basis over the period of expected future sales from the related project	Amortised on a straight-line basis over the period of expected future sales from the related project
Internally generated or acquired	Acquired	Acquired	Internally generated

Financial instruments

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

i) Financial assets

The Group's financial assets are trade receivables, pre-payments (insurance, software and booked travels), government grants accruals and cash.

Trade receivables are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers. The other financial assets are measured initially at fair value plus transaction costs.

Subsequently the assets are measured *at amortised cost*. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

ii) Financial liabilities

Financial liabilities are classified, at initial recognition, as loans and borrowings or as payables, as appropriate. Loans and borrowings and payables are recognised initially at net of directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Payables are measured at their nominal amount when the effect of discounting is not material.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Impairment of financial assets

For trade receivables and contract assets, the Group applies a simplified approach in calculating expected credit losses ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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 services from subcontractors

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:

- | | |
|---|---------|
| • 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 and with use of scenario analyses. 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, 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. The expense relating to a provision is presented in the statement of profit or loss.

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 ASA (equity-settled transactions).

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

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

3 Significant accounting judgements, estimates and assumptions

Impairment of non-financial assets

An impairment exists, when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets, or observable market prices, less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years, and do not include restructuring activities that the Group is not yet committed to, or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is sensitive to changes in key assumptions related to estimating future cash flows including estimated time to commercialisation, future sales price, sales volume and margins. See note 10 for further details.

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 ASA.

Development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's assessment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone, according to an established project management model. Cost of material used in manufacturing line until status "mass production" is achieved is recognised as development costs to the extent that it is not sellable parts. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied, and the expected period of benefits. At 31 December 2019, the carrying amount of capitalised development costs was NOK 53.9 million (2018: NOK 75.8 million, 2017: NOK 67.3 million).

4 Segment information

For management purposes, poLight is organised into one operational segment.

poLight's product TLens® may be used in devices such as smartphones, wearables, barcode, machine vision systems and various medical equipment. poLight's TLens® enables better system performance and new user experiences due to benefits such as extremely fast focus, small footprint, no magnetic interference, low power consumption and constant field of view.

Geographical distribution (in NOK 000)	Machinery & equipment	
	2019	2018
Norway	1 022	1 492
France	8	7
Finland	46	62
Taiwan	140	25
China	19	19
Total	1 235	1 605

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

5 Other income/expenses

5.1 Financial items

(in NOK 000)	2019	2018
Net foreign exchange gain (losses)	-30	-292
Interest income	1 600	1 057
Finance income	0	255
Interest expense on debts and borrowings	-16	-202
Interest expense on lease liabilities	-91	0
Interest expense on repaid VAT	0	-539
Finance expenses	-32	-69
Net financial items	1 430	211

5.2 Employee benefits expense

<i>(in NOK 000)</i>	2019	2018
<i>Included in Research and development expenses:</i>		
Wages and salaries	10 869	15 887
Social security costs	1 753	2 658
Pension costs (Note 17)	459	629
Other benefits and social costs	466	606
Value of share option plan (Note 18)	1 320	1 290
Grants	-3 171	-2 728
Internal development of intangible assets	-915	-2 706
<i>Included in Sales and marketing expenses:</i>		
Wages and salaries	4 767	4 150
Social security costs	769	694
Pension costs (Note 17)	201	164
Other benefits and social costs	204	158
Value of share option plan (Note 18)	223	150
<i>Included in Administrative expenses:</i>		
Wages and salaries	8 397	7 465
Social security costs	1 355	1 249
Pension costs (Note 17)	355	295
Other benefits and social costs	360	285
Value of share option plan (Note 18)	2 773	2 695
<i>Included in Operational/supply chain expenses:</i>		
Wages and salaries	3 253	1 050
Social security costs	525	176
Pension costs (Note 17)	137	42
Other benefits and social costs	139	40
Value of share option plan (Note 18)	561	584
Total employee benefits expense	34 800	34 832
Average number of employees (full time employee)	30	34

5.3 Research and development expenses

<i>(in NOK 000)</i>	2019	2018
Employee benefits expense	14 867	21 070
Other operating expenses	14 564	24 113
Grants	-7 122	-7 821
Capitalised	-2 435	-8 444
Total Research and development expenses	19 874	28 918

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. The TLens® Platinum development project was the only project eligible for capitalisation.

R&D costs that are expensed, includes R&D management, patents, research on improvements of the TLens (see Note 16 Government grants) and software applications and integration.

5.4 Sales and marketing expenses

<i>(in NOK 000)</i>	2019	2018
Employee benefits expense	6 165	5 317
Other operating expenses	2 565	2 269
Total Sales and marketing expenses	8 729	7 586

5.5 Administrative expenses

<i>(in NOK 000)</i>	2019	2018
Employee benefits expense	13 240	11 988
Other operating expenses	3 833	23 782
Total Administrative expenses	17 073	35 770

In September 2018, polight ASA received a VAT claim from the Norwegian Tax Administration (Note 15) which led to NOK 15.7 million recognised as administrative expenses.

IPO expenses of NOK 4.4 was recognised as administrative expenses in 2018.

5.6 Operational/supply chain expenses

<i>(in NOK 000)</i>	2019	2018
Employee benefits expense	4 615	1 892
Other operating expenses	3 600	1 492
Total Operational/supply chain expenses	8 216	3 384

5.7 Auditor's remuneration

<i>(in NOK 000)</i>	2019	2018
Audit fee	420	280
Audit related fee	100	526
Tax fee	204	245
Other service fee	0	240
Total Auditor's remuneration (including VAT)	724	1 291

6 Income tax

The significant components of income tax expense are:

<i>(in NOK 000)</i>	2019	2018
Consolidated statement of profit or loss		
Current income tax expense	124	243
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
Income tax expense reported in the statement of profit or loss	124	243

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>	2019	2018
Calculated income tax at statutory rate of 22%	-17 103	-17 692
Government grants exempt from tax	-1 032	-1 194
Tax effect of permanent differences	799	1 134
Transaction costs private placement	0	-2 463
Change in unrecognised deferred tax assets	17 360	15 444
Change in tax rate	0	5 019
Effect of different tax rates compared with Norwegian tax rate	47	60
Effect on items recognised in OCI	53	-65
Income tax expense	124	243
Effective tax rate	0.2 %	0.3 %

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of income	
<i>(in NOK 000)</i>	2019	2018	2017	2019	2018
Non-current assets	6 110	2 224	1 975	-3 886	-250
Current assets	2 771	2 609	1 693	-161	-917
Group receivables	-982	-1 047	-1 030	-65	17
Provisions and other liabilities	435	195	1 437	-240	1 242
Losses available for offsetting against future taxable income	121 200	108 192	92 655	-13 008	-15 537
Deferred tax expense/(income)				-17 360	-15 444
Net deferred tax assets/(liabilities)	129 533	112 174	96 729		

Reflected in the statement of financial position as follows:

Deferred tax assets	130 516	113 221	97 760
Deferred tax liabilities	-982	-1 047	-1 030
Unrecognised deferred tax assets net	-129 533	-112 174	-96 729
Deferred tax liabilities net	0	0	0

Total unrecognised deferred tax assets relate to

<i>(in NOK 000)</i>	2019	2018
Norway	123 040	105 548
France	7 476	7 673
Total	130 516	113 221

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:

	2019	2018
Weighted average number of ordinary shares for basic EPS	8 116 592	6 096 256
<i>Effect of dilution:</i>		
Weighted average number share options, in-the-money	16 539	0
Weighted average number of shares adjusted for the effect of dilution	8 133 131	6 096 256

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>	2019	2018
Earnings per share for income attributable to equity holders of polight:		
Basic	-9.59	-12.66
Diluted	-9.59	-12.66

Existing share options 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 2017	287	13 780	14 067
Additions	0	234	234
Disposals at cost	0	0	0
Effect of changes in foreign exchange	0	174	174
Cost at 31 December 2017	287	14 189	14 475
Accumulated depreciation and impairment losses at 1 January 2017	0	-11 357	-11 357
Depreciation	-181	-943	-1 124
Impairment losses	0	0	0
Accumulated depreciation and impairment losses disposals	0	0	0
Effect of changes in foreign exchange	0	-120	-120
Accumulated depreciation and impairment losses at 31 December 2017	-181	-12 420	-12 601
Net book value at 31 December 2017	106	1 768	1 874

<i>(in NOK 000)</i>	Building	Equipment	Total
Cost at 1 January 2018	287	14 189	14 475
Additions	0	749	749
Disposals at cost	0	-3 092	-3 092
Effect of changes in foreign exchange	0	21	21
Cost at 31 December 2018	287	11 868	12 154
Accumulated depreciation and impairment losses at 1 January 2018	-181	-12 420	-12 601
Depreciation	-106	-861	-966
Impairment losses	0	0	0
Accumulated depreciation and impairment losses disposals	0	3 038	3 038
Effect of changes in foreign exchange	0	-19	-19
Accumulated depreciation and impairment losses at 31 December 2018	-287	-10 262	-10 549
Net book value at 31 December 2018	0	1 605	1 605

<i>(in NOK 000)</i>	Building	Equipment	Total
Cost at 1 January 2019	287	11 868	12 154
Additions	0	319	319
Disposals at cost	0	-274	-274
Effect of changes in foreign exchange	0	-16	-16
Cost at 31 December 2019	287	11 896	12 183
Accumulated depreciation and impairment losses at 1 January 2019	-287	-10 262	-10 549
Depreciation	0	-690	-690
Impairment losses	0	0	0
Accumulated depreciation and impairment losses disposals	0	274	274
Effect of changes in foreign exchange	0	17	17
Accumulated depreciation and impairment losses at 31 December 2019	-287	-10 661	-10 948
Net book value at 31 December 2019	0	1 235	1 235
Estimated useful lives (years)	1)	3-7	

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

9 Intangible assets

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

<i>(in NOK 000)</i>	Development costs and TLens patents	Other patents	Software licence	Total
Cost at 1 January 2018	67 336	0	242	67 577
Additions — internal development	2 706	0	0	2 706
Additions	5 738	0	0	5 738
Disposals	0	0	0	0
Cost at 31 December 2018	75 780	0	242	76 022
Accumulated amortisation and impairment losses at 1 January 2018	0	0	-133	-133
Amortisation	0	0	-59	-59
Impairment losses	0	0	0	0
Disposals	0	0	0	0
Accumulated amortisation and impairment losses at 31 December 2018	0	0	-193	-193
Net book value at 31 December 2018	75 780	0	49	75 829

<i>(in NOK 000)</i>	Development costs and TLens patents	Other patents	Software licence	Total
Cost at 1 January 2019	75 780	0	242	76 022
Additions — internal development	915	0	0	915
Additions	1 490	0	0	1 490
Disposals	0	0	0	0
Cost at 31 December 2019	78 184	0	242	78 427
Accumulated amortisation and impairment losses at 1 January 2019	0	0	-193	-193
Amortisation	-5 990	0	-27	-6 017
Impairment losses	-18 280	0	0	-18 280
Disposals	0	0	0	0
Accumulated amortisation and impairment losses at 31 December 2019	-24 270	0	-220	-24 490
Net book value at 31 December 2019	53 914	0	22	53 936

Intangible assets with finite useful lives, are amortised systematically over their estimated economic lives, ranging between 3 and 7 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 2019 and 2018, respectively, NOK 2.4 million and NOK 8.4 million were capitalised related to product development of TLens Platinum.

poLight started amortising capitalised development investments for TLens Silver and the related ASIC driver in the second quarter of 2019 as they became ready for commercial shipments. The useful lives are deemed to be 7 years for the TLens Silver and 3 years for the related ASIC driver. The useful lives of TLens Silver correlates with the remaining number of years of the first patent. It is expected that the ASIC driver will be subject to development, and therefore shorter useful lives. The commercial useful lives may end up being significantly longer.

NOK 18.3 million has been recognised as impairment loss in 2019 related to TLens Platinum. See Note 10 for further information.

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

10 Research and development costs

The part of poLight's IP (intellectual property) that is recognised as an intangible asset, is the fundamental TLens® technology, which can become a component in smartphones, wearables and augmented reality, as well as a wide range of industrial applications, such as barcode readers and machine vision/sensor applications.

<i>(in NOK 000)</i>	Carrying amount before impairment	Carrying amount after impairment	Net impairment loss
CGU: TLens®			
At 31 December 2017	67 336	67 336	0
At 31 December 2018	75 780	75 780	0
At 31 December 2019	72 194	53 914	18 280

The TLens® technology is poLight's major asset. Since the company was founded in 2005, it has raised (gross) NOK 664 million in equity and received significant governmental grants to develop the TLens® technology from its patents.

Two autofocus lenses based on the TLens technology platform are in production: TLens Silver and TLens Silver Premium. In addition, the ASIC driver needed to supply voltage to the TLens (any TLens) called PDAF50, is also in production.

In January 2020, the first product using TLens Silver was launched within the consumer market segment. A smartwatch phone for children, that contains two cameras. The main camera includes an advanced autofocus (AF) function delivered by poLight and is used to take pictures. A second camera is integrated in the screen and is used as a face camera without AF. In February 2020, the second product was launched, also using TLens Silver in a smartwatch phone for children.

In March 2020, the TLens Silver Premium was designed into a next-generation barcode scan engine, for use within the industrial market segment. Planned market release is in the late second quarter or early third quarter 2020, depending on successful testing and other external factors.

The third TLens product, TLens Platinum is currently under development. Engineering samples have been produced and have already been tested by some potential customers. However, activity to prepare Platinum for mass production has been put on hold until the product is closer to the anticipated market breakthrough. In this situation the company are not able to demonstrate cash flow projections for Platinum on reasonable and supportable assumptions as required by the accounting standards and it has been concluded to recognize an impairment charge of NOK 18.3 million related to this product. The recognition of impairment for accounting purposes does not imply that the assets have no commercial value.

Marketing activities have continued at a high level through 2019 and into 2020. poLight is actively engaged in several segments. This includes consumer market devices, such as smartphones, wearables and augmented reality, as well as a wide range of industrial applications, such as barcode readers and machine vision/sensor applications. Interest in our solutions remains high, and the company continues to make progress on several projects with potential customers. TLens technology is increasingly being recognised by a broad range of potential customers in both the consumer and industrial segments.

Introducing new technology to the market is challenging in general and specifically in a dynamic smartphone market. For that reason, there is an inherent risk that TLens products may not be selected for inclusion in items destined for the smartphone or other markets. However, this risk has been reduced by the fact that TLens products are now used in merchandise already on sale in the consumer market and have been designed into equipment intended for the industrial market. Such reference cases are important demonstrations of the technology's viability for other potential customer applications.

The remaining carrying value of development costs are NOK 54 million and related to TLens Silver and The ASIC driver. An impairment test has been performed for these assets based on a value in use calculation where a discounted cash flow model is used. Key assumptions when estimating future cash flows include estimated time to commercialisation, future sales price, sales volume and margins and the value in use is sensitive to changes in these assumptions. The value in use assessment has been based on a weighted analysis of various business scenarios dependent on the timing and extent of commercialisation of the TLens technology in different potential markets. The impairment test did not show any impairment for the TLens Silver and the ASIC driver, but most of the business scenarios depend on additional liquidity beyond current cash deposits.

11 Financial assets and financial liabilities

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

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

Foreign currency risk

Trade and inventory; poLight's contracts with the suppliers of the actuator and the assembly of the TLens®, are in USD. Foreign currency risk will be mitigated by entering sales contracts in USD or using hedging instruments. The group had not entered into any hedging instruments as at 31 December 2019.

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

The following tables demonstrate the sensitivity to a reasonably possible change in EUR and USD exchange rates, with all other variables held constant. The impact on the profit before tax is due to changes in the fair value of monetary assets and liabilities. The impact on the pre-tax equity is due to the effect on operating activities and fluctuations on the translation into NOK of foreign operations. The expose on the fluctuation on the translation into NOK is hedged holding borrowings in foreign currency. poLight's exposure to foreign currency changes for all other currencies is not material.

	Change in EUR rate	Effect on profit before tax (in NOK 000)	Effect on pre- tax equity (in NOK 000)
2019	+5%	-649	-404
	-5%	649	404
2018	+5%	-550	-310
	-5%	550	310
	Change in USD rate	Effect on profit before tax	Effect on pre- tax equity
2019	+5%	-458	-458
	-5%	458	458
2018	+5%	-1 057	-1 057
	-5%	1 057	1 057

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. poLight is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, foreign exchange transactions and other financial instruments.

Credit quality of a customer is assessed based on D&B's credit rating scorecard and are regularly monitored. As at 31 December 2019, most of the receivables consisted of government grants with low credit risk.

Credit risk from balances with banks are mitigated using 5 different Norwegian banks with a deposit limit of NOK 40 million each. Credit quality is assessed and regularly monitored.

Liquidity risk

At year-end, poLight had a significant cash reserve. Combined with the private placement that took place in April 2020 of NOK 40 million, the liquidity could potentially fund group activities into 2022.

11.1 Financial assets

<i>(in NOK 000)</i>	2019	2018	2017
Financial assets at amortised cost:			
Trade receivables	1 072	188	334
Grants recognised, not received	4 690	5 838	4 394
Other receivables	385	373	532
Total financial assets	6 147	6 399	5 260
Total current	6 147	6 399	5 260
Total non-current	0	0	0

Trade receivables are non-interest bearing and generally on 30 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				
			< 30 days	30–60 days	61–90 days	91–120 days	> 120 days
2019	6 147	6 093	9	45	0	0	0
2018	6 399	6 399	0	0	0	0	0
2017	5 260	5 260	0	0	0	0	0

11.2 Financial liabilities

<i>(in NOK 000)</i>	2019	2018	2017
Financial liabilities at amortised cost, other than interest-bearing loans and borrowings:			
Trade payables	1 648	5 496	5 372
Other payables	10 262	9 901	8 452
Provisions	2 701	2 076	5 513
Total	14 612	17 473	19 338
Total current	14 612	17 473	19 338
Total non-current	0	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 2.4 months

<i>(in NOK 000)</i>	Interest rate	Maturity	2019	2018	2017
Current interest-bearing loans and borrowings:					
Secured loan, Innovation Norway	5%	< 1 year	0	600	1 200
Total			0	600	1 200

Maturity analysis

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

<i>(in NOK 000)</i>	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 December 2019					
Interest-bearing loans	0	0	0	0	0
Lease liabilities	326	977	775		2 078
Trade and payables	9 948	1 963	0	0	11 911
	10 274	2 940	775	0	13 989

<i>(in NOK 000)</i>	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31 December 2018					
Interest-bearing loans	0	623	0	0	623
Trade and payables	13 250	2 147	0	0	15 397
	13 250	2 769	0	0	16 020

Capital Management

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

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

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

<i>(in NOK 000)</i>	2019	2018	2017
Interest-bearing loans	0	600	1 800
Trade and other payables	14 612	17 473	19 338
Less: cash and short-term deposits	-73 463	-127 424	-93 647
Net debt	-58 851	-109 351	-72 509

The Group's capital structure is primarily based on deposits. Current cash deposits together with the successfully private placement that took place in April 2020 of NOK 40 million, could potentially fund group activities into 2022.

12 Inventories

<i>(in NOK 000)</i>	2019	2018	2017
Work in progress (at cost)	20 322	19 233	9 140
Work in progress (expensed as cost of sales)	-12 595	-11 861	-7 360
Work in progress (net realisable value)	7 728	7 372	1 781
Finished goods	0	0	0
Total inventories at the lower of cost and net realisable value	7 728	7 372	1 781

During 2019, NOK 0.7 million (2018: NOK 3.3 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

13 Cash and short-term deposits

<i>(in NOK 000)</i>	2019	2018	2017
Cash at banks	72 314	126 093	92 550
Restricted cash, taxes withheld	889	1 072	841
Restricted cash, deposits	260	258	257
Cash and short-term deposits	73 463	127 424	93 647

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

14 Issued capital and reserves

	2019	2018	2017
			<i>(in thousands)</i>
Ordinary shares	8 116 592	8 116 592	5 422 810

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

Shares issued and fully paid	Number of shares	Issued capital (in NOK 000)
At 1 January 2018 of NOK 0.0001 each	5 422 810 495	542
Conversion of share premium to issued capital on 20 August 2018. Increase of par value from NOK 0.0001 to 0.0002 per share.	0	542
Private placement on 20 August 2018 of NOK 0.0002 each	505	0
Reverse split (1000:1) on 20 August 2018 from NOK 0.0002 to 0.2 per share	-5 417 388 189	0
Initial Public Offering on 28 September 2018 of NOK 0.2 each	2 600 000	520
Share Capital increase - greenshoe on 31 October 2018 of NOK 0.2 each	93 781	19
At 31 December 2019	8 116 592	1 623

<i>(in NOK 000)</i>	Share premium
At 1 January 2018	148 036
Conversion to issued capital	-542
Initial Public Offering on 28 September 2018 of NOK 0.2 each	129 480
Decrease due to transaction costs for issued share capital	-10 709
Share Capital increase - greenshoe on 31 October 2018 of NOK 0.2 each	4 670
Allocated to retained earnings	-72 187
At 31 December 2018	198 748
Allocated to retained earnings	-74 363
At 31 December 2019	124 385

Share option schemes

The board is authorised to issue shares through share option schemes up to a total nominal value of NOK 137 982 (689 910 shares at par value of NOK 0.2), that is approximately 8.5 per cent of share outstanding. The company's share option schemes, with the opportunity to subscribe for shares in poLight, have been offered all employees (Note 18).

15 Provisions

<i>(in NOK 000)</i>	NRE	Liability	Claims	Total
At 1 January 2018	2 380	3 133	0	5 513
New or increased provisions	0	0	13 555	13 555
Utilised	-1 493	-1 194	-12 366	-15 053
Unused reversed as cost of sales	0	-1 939	0	-1 939
At 31 December 2018	887	0	1 189	2 076
New or increased provisions	0	1 512	0	1 512
Utilised	-887	0	0	-887
At 31 December 2019	0	1 512	1 189	2 701

<i>Expected timing of cash flow (in NOK 000)</i>	NRE	Liability	Claims	Total
Current, < 1 year	0	1 512	1 189	2 701
Non-current	0	0	0	0
At 31 December 2019	0	1 512	1 189	2 701

Non-recurring engineering (NRE)

Some of the non-recurring product development cost (NOK 2.4 million) associated with the TLens driver project was agreed to be paid as an additional cost price element on the driver purchase price. The remaining NRE have been paid during 2019.

Liability

2018: In conjunction with dedicated CAPX investments of USD 4.8 million at the company's wafer manufacturer STMicroelectronics, the company signed on a CAPEX letter giving the company an obligation to pay an amount equal to one-year depreciation of unused capacity. The unused capacity penalty has been paid as a price addition on wafer purchases in 2017 and 2018. NOK 1.2 million have been paid as price addition on wafer purchases in 2018.

2019: A provision of NOK 1.5 million was recognised in the fourth quarter of 2019 related to severance packages for 6 FTE (full time equivalent) employees.

Claims

On September 14, 2018, the Norwegian Tax Administration (Skatt Sør) excluded polight ASA from the Norwegian VAT Register and claimed repayment of refunded VAT, with effect from 1 January 2013 of total NOK 13.6 million. The Norwegian Tax Administration claimed that the company was not capable of being profitable and does therefore not qualify as a "business" pursuant to the Norwegian laws and regulation regarding VAT. In September 2018 the decision was appealed, and in February 2019 the Tax Appeals Board (Skatteklagenemda) received the documents for further proceedings.

The entire claim was paid in 2018, except the additional associated taxes of NOK 1.2 million that will not be payable until a final decision is made. As per 31 December 2019 the monetary impact of the ruling amounted to NOK 18.5 million. The monetary effect of not being VAT registered was NOK 1.6 million for 2019 (2018: NOK 4 million), increasing the expenditures recognised in the consolidated statement of income.

16 Government grants

<i>(in NOK 000)</i>	2019	2018
At 1 January	4 413	4 394
Received during the year	-10 253	-9 791
Capitalised	526	1 989
Released to the statement of profit or loss	7 122	7 821
At 31 December	1 809	4 413

The group have received grants for development of next generation optical components based on TLens® technology and analyses and testing activities to understand better relations between micro failure in optical components and mechanical, physical and electric testing. The group have in addition received Tax Refund grants related to project for creating camera module systems and application reference design enabled by poLight technology, autofocus lens and ASIC projects.

<i>(in NOK 000)</i>	2019	2018	2017
Current	1 809	4 413	4 394
Non-current	0	0	0
Total	1 809	4 413	4 394

17 Pensions

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

The pension scheme in Norway is based on a defined contribution plan, and the premium is calculated on the basis of the employees' income. In 2019 5.55% of the income between 1G and 7.1G, and 8% of the income between 7.1G and 12G was calculated. The period's contributions are recognised in the Consolidated statement of income as pension cost for the period.

<i>(in NOK 000)</i>	2019	2018
Defined contribution plan	1 045	1 029
Social security	147	145
Total pension cost	1 192	1 174

18 Share option plans

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

The share options can be exercised up to two years after the three-year vesting period. Vested options may be exercised, and shares issued once per quarter each following the release of poLight ASA's quarterly reports.

The board is authorised to issue shares - in share option scheme - up to total par value of NOK 137 982 (689 910 shares at par value of NOK 0.2).

	2019		2018	
	Number of share options	WAEP	Number of share options	WAEP
Outstanding at 1 January	421 475	52,7	425 534	112,5
Granted during the year	218 322	26,6	415 420	51,8
Forfeited during the year	-37 874	45,0	-8 278	112,5
Cancelled ¹⁾ during the year	0		-333 670	112,5
Exercised during the year	0		0	
Expired during the year	-11 097	105,0	-77 531	112,5
Outstanding at 31 December	590 826	41,6	421 475	52,7
In % of outstanding shares	7,28 %		5,19 %	
Exercisable at 31 December	205 265	43,6	45 216	66,0

- 1) 18 October 2018 the Board of Directors decided to offer the employees of polLight to exchange their existing share options with new share options at a strike price corresponding to the offer price in the Company's initial public offering of NOK 50 per share. The new share option agreement replaced the old. The vesting started at the date of entering the new agreement.

The weighted average share price (WAEP) for the share options outstanding as at 31 December 2019, was NOK 41.6 (2018: NOK 52.7). At the end of the year, the weighted average share price was NOK 43.6 (2018: NOK 66.0) on exercisable options.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2019 was 4.05 years (2018: 4.71 years). In the case of an offeror becomes the owner of at least 9/10 of the issued shares of polLight, all of the unvested share options becomes immediately vested.

Share option valuation

The fair value of the options granted in the period has been calculated to NOK 1.0 million, by using the Black-Scholes option pricing model. 2018: The incremental fair value (NOK 6.1 million) of the granted replacement share options was the difference between the fair value of the new share option agreement and the net fair value of the cancelled share option agreement, at the date the replacements are granted.

The basis for the valuation model comprises several factors that affect the calculated fair value of granted options. The assumptions used in the calculation was:

	2019	2018
Price at grant date	NOK 11,6	NOK 50
Exercise price	NOK 18.9, 27 and 33.75 ¹⁾	NOK 50
Maximum ²⁾ option life	5 years	5 years
Risk-free interest rate	1,40 %	1,52 %
Volatility	80 %	50 %

- 1) The share options are vested in equal parts over 3 years. The exercise price is NOK 18.90 for the vested share options the first year, NOK 27 the second year and NOK 33.75 the third year.
- 2) Any vested options shall be exercised no later than 6 months after last day of service

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

19 Leases

polight has entered into commercial leases with regards to premises and office equipment used in its operations. 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 1,080 square meters, and the contract is renewed annually, with twelve months' notice.

The office lease terms in France, Finland and China are of 12 months or less. The leases of office equipment are with low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

Building		
<i>(in NOK 000)</i>	2019	2018
At 1 January	1 921	0
Additions	1 207	0
Depreciation expense	-1 205	0
At 31 December	1 923	0

Set out below are the carrying amounts of lease liabilities and the movements during the period:

<i>(in NOK 000)</i>	2019	2018
At 1 January	1 921	0
Additions	1 207	0
Accretion of interest	91	0
Payments	-1 212	0
At 31 December	2 007	0
Current, < 1 year	1 241	0
Non-current	766	0

The maturity analysis of lease liabilities are disclosed in Note 11.2.

The following are the amounts recognised in profit or loss:

<i>(in NOK 000)</i>	2019	2018
Depreciation expense of right-of-use assets	1 205	0
Interest expense on lease liabilities	91	0
Expense relating to short-term leases (included in research and development expenses)	423	0
Expense relating to short-term leases (included in sales and marketing expenses)	105	0
Expense relating to leases of low-value assets (included in administrative expenses)	51	0
Total amount recognised in profit or loss	1 876	0

The Group had total cash outflows for leases of NOK 1 791 in 2019. The Group also had non-cash additions to right-of-use assets and lease liabilities of NOK 1 207 in 2019. The future cash outflows relating to leases that have not yet commenced are disclosed in Note 11.2.

20 Related parties

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

Name	Principal activities	Country of incorporation	2019	2018	2017
poLight ASA	R&D, Sales and Management	Norway	100%	100%	100%
poLight France SAS	R&D	France	100%	100%	100%
poLight Finland Oy	R&D	Finland	100%	100%	100%
poLight Hong Kong Limited	Holding company	HK, China	100%	100%	
poLight (Shenzhen) Technical Service Company Limited	Sales	China	100%	100%	

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

poLight ASA is the ultimate parent. None of the shareholders of poLight ASA has control of the company. As of 31 December 2019, the largest shareholder is Investinor AS, with an ownership of 19.8%.

Transactions between group companies

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

	Currency	2019	2018	2017
Subordinated loan agreement	EUR	2 750 000	2 800 000	2 900 000

A subordinated loan agreement of EUR 3,000,000 was concluded on 29 December 2016, replacing all intercompany balance between poLight ASA 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 2019, the entire principal is considered as equity, and not interest-bearing. Since the loan is considered to be a part of the net investment in France, the currency translation effect is recognised in OCI.

Transactions with other related parties

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

Compensation with key management personnel

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

21 Events after the balance sheet date

When the annual financial statements were prepared, the Covid-19 pandemic had not significantly affected the company's operations. All employees are at work, and none has been laid off. Activities at the company's assembly partners in Taiwan have progressed as planned, but some delays have occurred at the wafer manufacturing partner in Italy. The company has a significant number of wafers in stock and the delay is therefore unlikely to have a negative impact. Based on order receipts so far in 2020, however, the Covid-19 outbreak has probably had a negative impact on consumer sales of smartwatch phones using poLight's TLens. The outbreak may also have led to some delays in customer qualification programmes.

22 Standards issued, but not yet effective

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 ASA FINANCIAL STATEMENTS

Statement of income poLight ASA – NGAAP for the year ended 31 December 2019

<i>(in NOK 000)</i>	Note	2019	2018
Sale of goods	2	2 988	1 038
Rendering of services	2	490	526
Revenue		3 478	1 564
Cost of sales	12	2 075	1 488
Gross profit		1 403	76
Research and development expenses		-21 915	-30 991
Sales and marketing expenses		-9 146	-8 165
Administrative expenses		-18 285	-35 771
Operational / supply chain expenses		-8 216	-3 384
Depreciation, amortisation and net impairment losses	9,10	-24 928	-844
Operating profit		-81 086	-79 078
Net financial items	7,14	1 846	2 172
Profit before tax		-79 240	-76 907
Income tax expense	8	0	0
Profit for the year		-79 240	-76 907
Attributable to:			
Share premium	18	-74 363	-72 187
Retained earnings	18	-4 877	-4 719
Profit for the year		-79 240	-76 907

Balance Sheet polLight ASA – NGAAP as at 31 December 2019

<i>(in NOK 000)</i>	Note	2019	2018
ASSETS			
Property, plant and equipment	9	1 162	1 517
Intangible assets	10	53 914	75 783
Investments in subsidiaries	11	320	320
Subordinated loan to subsidiaries	13,21	1 000	1 000
Total non-current assets		56 396	78 620
Inventories	12	7 728	7 372
Trade receivables	13	1 072	188
Other receivables	13	5 428	6 930
Cash and cash equivalents	16	70 586	123 745
Total current assets		84 813	138 234
Total assets		141 209	216 854
EQUITY AND LIABILITIES			
Issued capital	17,18	1 623	1 623
Share premium	18	124 385	198 748
Total owners' equity		126 009	200 371
Retained earnings	18	0	0
Total equity		126 009	200 371
Interest-bearing loans and borrowings	14	0	600
Total non-current liabilities		0	600
Trade payables	13	3 719	5 561
Public duties payable		1 626	1 887
Other payables	13	9 855	8 435
Total current liabilities		15 201	15 883
Total liabilities		15 201	16 483
Total equity and liabilities		141 209	216 854

Statement of cash flows poLight ASA – NGAAP for the year ended 31 December 2019

<i>(in NOK 000)</i>	Note	2019	2018
Operating activities			
Profit before tax		-79 240	-76 907
Depreciation, amortisation and net impairment losses	9,10	24 928	844
Changes in inventories, accounts receivables and accounts payable		-3 082	-6 996
Changes in other accruals		7 050	-427
Net cash flows from / (used in) operating activities		-50 344	-83 487
Investing activities			
Purchase of property, plant and equipment	9	-300	-1 072
Development capital expenditures	10	-2 931	-10 434
Receipt of government grants	4	526	1 989
Proceeds from group borrowings	13,21	489	962
Foundation of subsidiaries	11	0	-204
Net cash flows from / (used in) investing activities		-2 215	-8 758
Financing activities			
Issue of share capital	18	0	134 689
Transaction costs on issue of shares	18	0	-10 709
Repayment of borrowings	14	-600	-1 200
Net cash flows from / (used in) financing activities		-600	122 780
Net increase in cash and cash equivalents		-53 159	30 535
Cash and cash equivalents at 1 January	16	123 745	93 210
Cash and cash equivalents at 31 December	16	70 586	123 745

Notes to the Financial statement poLight ASA

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 ASA, and companies in which poLight ASA 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 22% of temporary differences and the tax effect of tax losses carried forward. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Taxes payable and deferred taxes are recognised directly in equity, to the extent that they relate to equity transactions.

Classification and valuation of balance sheet items

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

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

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

Research and development

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

Fixed assets

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

Investments in subsidiaries

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

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

Inventory

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

Receivables

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

Cash flow statement

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

2 Revenue

(in NOK 000)	2019	2018
By business area		
TLens® for Smartphone and other markets	2 988	1 038
Group revenue	490	526
Total	3 478	1 564
Geographical distribution		
USA	77	27
Asia	2 492	585
Europe	909	952
Total	3 478	1 564

3 Specification of operating expenses by nature

(in NOK 000)	Note	2019	2018
Capitalised intangible assets in progress	10	-2 404	-8 444
Employee benefits expense	5, 19	27 604	28 324
Depreciation, amortisation and net impairment losses	9, 10	24 928	844
Other operating expenses	6, 15	32 362	58 431
Total operating expenses		82 489	79 155

4 Government grants

(in NOK 000)	2019	2018
At 1 January	4 413	4 394
Received during the year	-10 253	-9 791
Capitalised	526	1 989
Released to the statement of profit or loss	7 122	7 821
At 31 December	1 809	4 413

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

5 Employee benefits expense

(in NOK 000)	2019	2018
Wages and salaries	20 689	21 258
Social security costs	2 932	3 023
Pension costs (Note 19)	1 101	1 080
Other benefits and social costs	1 175	972
Value of share option plan	4 877	4 719
Grants	-3 171	-2 728
Internal development of intangible assets	-915	-2 706
Total employee benefits expense	26 689	25 618
Average number of employees	22	24

Management remuneration

<i>(in NOK 000)</i>	Salaries	Bonus	Pension costs	Other benefits	Value share options	Total 2019	2018
Øyvind Isaksen - CEO	2 770	0	85	277	2 232	5 364	5 585
Pierre Craen - CTO	1 651	0	86	24	385	2 145	2 037
Alf Henning Bekkevik - CFO	1 291	0	81	16	439	1 828	1 968
Marianne Sandal - COO	1 465	0	95	21	463	2 043	1 933

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

Remuneration members of the board

<i>(in NOK 000)</i>	Fixed pay	Value share options	2019	2018
Eivind Bergsmyr - chair of the board	525		525	100
Ann-Tove Kongsnes - deputy chair of the board	263		263	50
Per Anell ¹⁾	0		0	50
Johan Paulsson ¹⁾	175	28	203	142
Grethe Viksaas	263		263	0
Svenn Tore Larsen ²⁾	88		88	0
Juha Alakarhu ²⁾	88		88	0

1) Member to May 28, 2019

2) Member from May 28, 2019

At the Annual General Meeting in May 2019, a resolution was passed that changed the time for payment of remuneration from yearly payments in arrears to quarterly payments in advance, which led to a remuneration period of 18 months paid in 2019. There are no loans from poLight to the management or members of the board.

Remuneration of the nomination committee

The members of the nomination committee, Erik Hagen, Haakon Jensen and Jan Erik Hæreid were each remunerated with NOK 20,000.

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 50% for the CEO, 30% for management, 20% for department managers and 10% for other employees.

The board is authorised to issue shares - in share option scheme - up to total par value of NOK 137 982 (689 910 shares at par value of NOK 0.2). 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 NOK 1.0 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 was:

	2019	2018
Price at grant date	NOK 11,6	NOK 50
Exercise price	NOK 18.9, 27 and 33.75 ¹⁾	NOK 50
Maximum ²⁾ option life	5 years	5 years
Risk-free interest rate	1,40 %	1,52 %
Volatility	80 %	50 %

- 1) The share options are vested in equal parts over 3 years. The exercise price is NOK 18.90 for the vested share options the first year, NOK 27 the second year and NOK 33.75 the third year.
- 2) Any vested options shall be exercised no later than 6 months after last day of service

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 polight management's and board members' granted share options:

	Opening balance	Expired options	Forfeited options	Granted options	Ending balance	Vested options
Øyvind Isaksen - CEO	162 420	0	0	94 330	256 750	86 017
Pierre Craen - CTO	40 000	0	0	23 000	63 000	21 139
Alf Henning Bekkevik - CFO	40 000	0	0	23 000	63 000	21 139
Marianne Sandal - COO	40 000	0	0	23 000	63 000	21 139
Johan Paulsson - member of the Board	3 500	-3 208	-292	0	0	0
	285 920	-3 208	-292	163 330	445 750	149 434

The exercise price on all issued share options at 31 December 2019, was NOK 41,4 per share in average. No share options were exercised in 2019.

In the case of an offeror becoming the owner of at least 9/10 of the issued shares of polight, all of the unvested share options becomes immediately vested.

6 Auditor's remuneration

(in NOK 000)	2019	2018
Audit fee	400	234
Audit-related fee	100	526
Tax fee	204	245
Other service fee	0	240
Total (including VAT)	704	1 245

7 Financial items

Finance income

(in NOK 000)

	2019	2018
Interest income from group companies *)	0	0
Other interest income	1 590	1 064
Agio on loan to group companies	0	280
Reversal of impairment on group loan	730	1 682
Other financial income (agio)	198	791
Total finance income	2 518	3 818

*) According to the subordinated loan (see Note 13) only the part that exceeds a prudent level, both equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual.

Finance expenses

(in NOK 000)

	2019	2018
Other interest expenses	16	741
Agio on loan to group companies	242	0
Other financial expenses (disagio)	413	906
Total finance expenses	671	1 646

8 Income tax

Income tax expense

(in NOK 000)

	2019	2018
Current income tax expense	0	0
Adjustments in respect of current income tax of previous year	0	0
Changes in deferred tax	0	0
Total income tax expense	0	0

Tax base calculation

(in NOK 000)

	2019	2018
Profit before income tax	-79 240	-76 907
Permanent differences	4 912	6 614
Transaction costs private placement	0	-10 709
Government grants exempt from tax	-4 690	-5 192
Temporary differences	18 998	-1 296
Tax base	-60 020	-87 490

Temporary differences:
(in NOK 000)

	2019	2018
Receivables	0	0
Inventories	12 595	11 861
Fixed assets	23 835	2 710
Intangible assets	3 938	7 400
Group loan	21 606	22 095
Provisions	1 978	887
Tax losses carry forward	516 926	456 905
Net deferred tax assets/(liabilities)	580 878	501 859
22% deferred tax asset/(liability)	127 793	110 409

Reconciliation of nominal tax rate to effective tax rate:
(in NOK 000)

	2019
Calculated income tax at statutory rate of 22%	-17 433
Tax effect of permanent differences	1 081
Government grants exempt from tax	-1 032
Change in unrecognised deferred tax assets	17 384
Income tax expense	0
Effective tax rate	0,0%

9 Property, plant and equipment
(in NOK 000)

	Building	Equipment	Total
Cost at 1 January 2019	287	9 995	10 281
Additions	0	300	300
Disposals at cost	0	-274	-274
Cost at 31 December 2019	287	10 021	10 307
Accumulated depreciation	-287	-8 630	-8 917
Accumulated impairment losses	0	-229	-229
Accumulated depreciation and impairment losses at 31 December 2019	-287	-8 859	-9 145
Net book value at 31 December 2019	0	1 162	1 162
Depreciation for the year	0	655	655
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	Software licence	Total
Cost at 1 January 2019	75 780	171	75 951
Additions	2 404	0	2 404
Cost at 31 December 2019	78 184	171	78 355
Accumulated amortisation	-5 990	-171	-6 161
Accumulated impairment losses	-18 280	0	-18 280
Accumulated amortisation and impairment losses at 31 December 2019	-24 270	-171	-24 441
Net book value at 31 December 2019	53 914	0	53 914
Depreciation for the year	5 990	3	5 993
Estimated useful lives (years)	3-7	3-7	
Amortisation plan	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 2019 and 2018, respectively, NOK 2.4 million and NOK 8.4 million were capitalised, related to product development of TLens Platinum.

poLight started amortising capitalised development investments for TLens Silver and the related ASIC driver in the second quarter of 2019 as they became ready for commercial shipments. The useful lives are deemed to be 7 years for the TLens Silver and 3 years for the related ASIC driver. The useful lives of TLens Silver correlates with the remaining number of years of the first patent. It is expected that the ASIC driver will be subject to development, and therefore shorter useful lives. The commercial useful lives may end up being significantly longer.

TLens Platinum is currently under development. Engineering samples have been produced and have already been tested by some potential customers. However, activity to prepare Platinum for mass production has been put on hold until the product is closer to the anticipated market breakthrough. Due to strict documentation requirements relating to future sales volume and profitability, it has been concluded that development costs related to Platinum are subject to impairment. NOK 18.3 million has therefore been recognised as an impairment loss in 2019. The recognition of impairment for accounting purposes does not imply that the assets have no commercial value.

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	19.08.2010	Lyon, France	100 %	100 %
poLight Finland Oy	15.09.2016	Tampere, Finland	100 %	100 %
poLight Hong Kong Limited	08.12.2016	HK, China	100 %	100 %
poLight (Shenzhen) Technical Service Company Limited	24.04.2017	Shenzhen, China	100 %	100 %

Company	Share capital	Number of shares	Book value	Equity	Net profit 2019
	NOK 000		NOK 000	NOK 000	NOK 000
poLight France SAS	80	10 000	0	-24 054	450
poLight Finland Oy	23	100	23	1 822	469
poLight Hong Kong Limited	202	200 000	202	202	0
poLight (Shenzhen) Technical Service Company Limited	246	200 000	94	981	303

The entities in France and Finland provide R&D services to poLight ASA, Norway. A sales office was established in Shenzhen, China in 2017, operational from 1 February 2018, with a parent holding company in Hong Kong.

12 Inventories

(in NOK 000)	2019	2018
Work in progress (at cost)	20 322	19 233
Work in progress (expensed as cost of sales)	-12 595	-11 861
Work in progress (net realisable value)	7 728	7 372
Finished goods	0	0
Total inventories at the lower of cost and net realisable value	7 728	7 372

During 2019, NOK 0.7 million (2018: NOK 3.3 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

13 Intercompany balances with group companies

Receivables (in NOK 000)	2019	2018
Trade receivable	0	0
Other receivables	0	0
Total	0	0

Subordinated loan (in NOK 000)	2019	2018
Non-current receivables	27 125	27 855
Impairment	-26 125	-26 855
Total	1 000	1 000

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

Payables (in NOK 000)	2019	2018
Trade payables	2 101	8
Other payables	0	0
Total	2 101	8

14 Financial liabilities

Current interest-bearing loans and borrowings:

(in NOK 000)

	Interest rate	2019	2018
Secured loan, Innovation Norway	5 %	0	600
Total		0	600

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

Pledged assets

(in NOK 000)

	2019	2018
Accounts receivable	0	188
Inventories	0	7 372
Equipment	0	1 517
Intangible assets	0	75 783
Total	0	84 859

15 Operating lease commitments

polight ASA has entered into commercial leases on premises and office equipment. The premises (lab facilities and offices) comprise 1,080 square meters, and the contract is renewed annually, with twelve months' notice.

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

(in NOK 000)	2019	2018
Within one year	1 236	1 244
After one year but not more than five years	736	780
More than five years	0	0
Total	1 972	2 024

16 Cash and short-term deposits

(in NOK 000)

	2019	2018
Cash at banks and on hand	69 436	122 414
Restricted cash, taxes withheld	889	1 072
Restricted cash, deposits	260	258
Cash and short-term deposits	70 586	123 745

17 Share capital and shareholder information

	Number of shares	Par value	Book value
		NOK	NOK 000
Ordinary shares	8 116 592	0.20	1 623

<i>Shareholders of poLight ASA at December 31, 2019</i>	Ordinary shares	Shareholding	Voting rights
		%	%
Investinor AS	1 608 313	19.8 %	19.8 %
Viking Venture III AS	1 358 053	16.7 %	16.7 %
Stiftelsen Industrifonden	947 644	11.7 %	11.7 %
Alliance Venture Polaris AS	380 278	4.7 %	4.7 %
Nordnet Bank AB (nominee)	222 767	2.7 %	2.7 %
Sintef Venture III AS	174 129	2.1 %	2.1 %
T.D. Veen AS	166 415	2.1 %	2.1 %
KAS Bank N.V. (nominee)	156 000	1.9 %	1.9 %
VPF Nordea Avkastning	152 680	1.9 %	1.9 %
LHH AS	132 500	1.6 %	1.6 %
Åstveit Investor AS	131 875	1.6 %	1.6 %
VPF Pareto Investment	124 458	1.5 %	1.5 %
VPF Nordea Kapital	120 233	1.5 %	1.5 %
Total	5 675 345	69.9 %	69.9 %
Other (less than 1% ownership)	2 441 247	30.1 %	30.1 %
Total number of shares	8 116 592	100.0 %	100.0 %

At 31 December 2019, Øyvind Isaksen, CEO, owned 24,856 shares (0.31%), through his company Oimacon AS.

18 Equity

<i>(in NOK 000)</i>	Issued capital	Share premium	Retained earnings	Total
Equity at 31 December 2018	1 623	198 748	0	200 371
Profit for the period			-79 240	-79 240
Value of share option plan			4 877	4 877
Allocation to retained earnings		-74 363	74 363	0
Equity at 31 December 2019	1 623	124 385	0	126 008

19 Pensions

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

The pension scheme is based on a defined contribution plan, and the premium is calculated on the basis of the employee's income. 5.5% of the income between 1 and 7.1G and 8% of the income between 7.1 and 12G is calculated. At 31 December 2019, 21 members were covered by the plan.

<i>(in NOK 000)</i>	2019	2018
Defined contribution plan	1 045	1 029
Social security	147	145
Total pension cost	1 192	1 174

20 Provisions

(in NOK 000)	NRE	Liability	Claims	Total
At 1 January 2019	887	0	1 189	2 076
New or increased provisions	0	1 512	0	1 512
Utilised	-887	0	0	-887
At 31 December 2019	0	1 512	1 189	2 701

Expected timing of cash flow

(in NOK 000)	NRE	Liability	Claims	Total
Current, < 1 year	0	1 512	1 189	2 701
Non-current	0	0	0	0
At 31 December 2019	0	1 512	1 189	2 701

Non-recurring engineering (NRE)

Some of the non-recurring product development cost (NOK 2.4 million) associated with the TLens driver project was agreed to be paid as an additional cost price element on the driver purchase price. The remaining NRE have been paid during 2019.

Liability

2018: In conjunction with dedicated CAPX investments of USD 4.8 million at the company's wafer manufacturer STMicroelectronics, the company signed on a CAPEX letter giving the company an obligation to pay an amount equal to one-year depreciation of unused capacity. The unused capacity penalty has been paid as a price addition on wafer purchases in 2017 and 2018. NOK 1.2 million have been paid as price addition on wafer purchases in 2018.

2019: A provision of NOK 1.5 million was recognised in the fourth quarter of 2019 related to severance packages for 6 FTE (full time equivalent) employees.

Claims

On September 14, 2018, the Norwegian Tax Administration (Skatt Sør) excluded polight ASA from the Norwegian VAT Register and claimed repayment of refunded VAT, with effect from 1 January 2013 of total NOK 13.6 million. The Norwegian Tax Administration claimed that the company was not capable of being profitable and does therefore not qualify as a "business" pursuant to the Norwegian laws and regulation regarding VAT. In September 2018 the decision was appealed, and in February 2019 the Tax Appeals Board (Skatteklagenemda) received the documents for further proceedings.

The entire claim was paid in 2018, except the additional associated taxes of NOK 1.2 million that will not be payable until a final decision is made. As per 31 December 2019 the monetary impact of the ruling amounted to NOK 18.5 million. The monetary effect of not being VAT registered was NOK 1.6 million for 2019 (2018: NOK 4 million), increasing the expenditures recognised in the statement of income.

21 Related parties

polight ASA is the ultimate parent. None of the shareholders of polight ASA has control of the company. As of 31 December 2019, the largest shareholder is Investinor AS, with an ownership of 19.8%.

Transactions between group companies

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

A subordinated loan agreement (balance 31.12.2019: EUR 2,750,000) was concluded on 29 December 2016, replacing all intercompany balance between poLight ASA 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 2019, the entire principal is considered as equity, and not interest-bearing.

Transactions with other related parties

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

22 Events after the balance sheet date

When the annual financial statements were prepared, the Covid-19 pandemic had not significantly affected the company's operations. All employees are at work, and none has been laid off. Activities at the company's assembly partners in Taiwan have progressed as planned, but some delays have occurred at the wafer manufacturing partner in Italy. The company has a significant number of wafers in stock and the delay is therefore unlikely to have a negative impact. Based on order receipts so far in 2020, however, the Covid-19 outbreak has probably had a negative impact on consumer sales of smartwatch phones using poLight's TLens. The outbreak may also have led to some delays in customer qualification programmes.

Horten, 23 April 2020

THE BOARD OF DIRECTORS OF POLIGHT ASA

Eivind Bergsmyr (sign)
Chair

Ann-Tove Kongsnes (sign)
Deputy chair

Grethe Viksaas (sign)
Board member, Independent

Svenn-Tore Larsen (sign)
Board member, Independent

Juha Alakarhu (sign)
Board member, Independent

Øyvind Isaksen (sign)
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of poLight ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of poLight ASA 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 2019, 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 2019, 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway
- ▶ the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2019 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2019. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.



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Valuation of capitalized development costs

The company recognized an impairment charge of NOK 18.3 million in 2019, and the remaining capitalized development costs as of 31 December 2019 amounted to NOK 53.9 million. As the Company has not recognized significant revenues prior to December 31, 2019, management's estimate of timing and extent of future revenues and margins involves significant uncertainty. Due to the materiality of the assets recognized and the level of management judgement involved, valuation of capitalized development costs and the impairment assessment was a key audit matter.

We evaluated the process and procedures related to the impairment assessment. We evaluated the Company's assumptions used in calculation of the recoverability of intangible assets, in particular future sales volume, prices, margins and the timing of cash flows in the various scenarios used by management. We compared forecasted sales volume in the calculations against volume estimates obtained by the Company from main customers and partners. We also tested the calculations and mathematical accuracy of the cash flow model applied.

We refer to information in note 10 in the consolidated financial statements.

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 on the other information obtained prior to the date of the auditor's report, 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.

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

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- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and on the statement on corporate governance

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 and in the statement on corporate governance 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.

Oslo, 23 April 2020
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The auditor's report is signed electronically

Tore Sørli
State Authorized Public Accountant (Norway)

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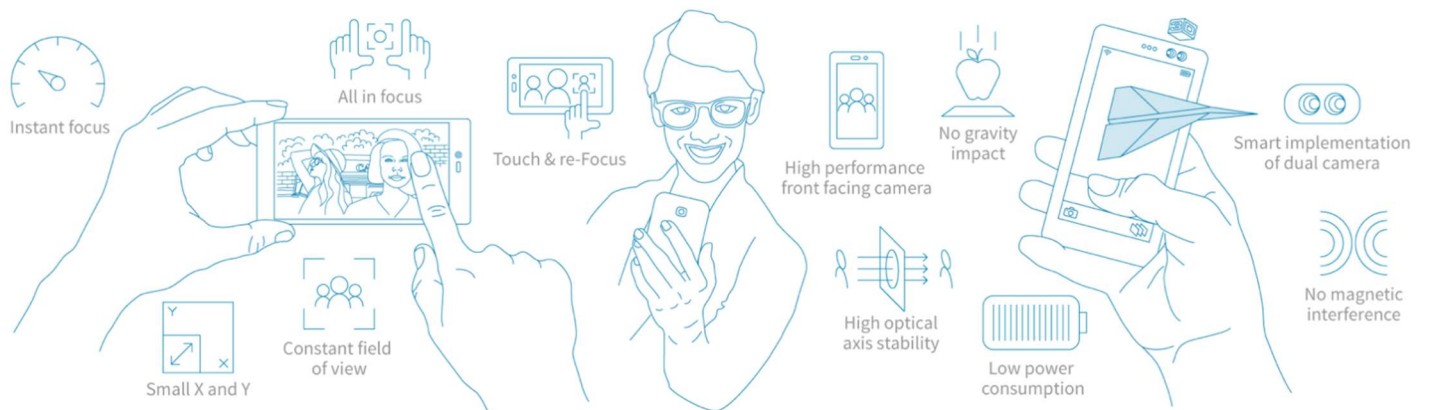
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