poLight ASA
Annual Report

FOR BETTER
EXPERIENCES

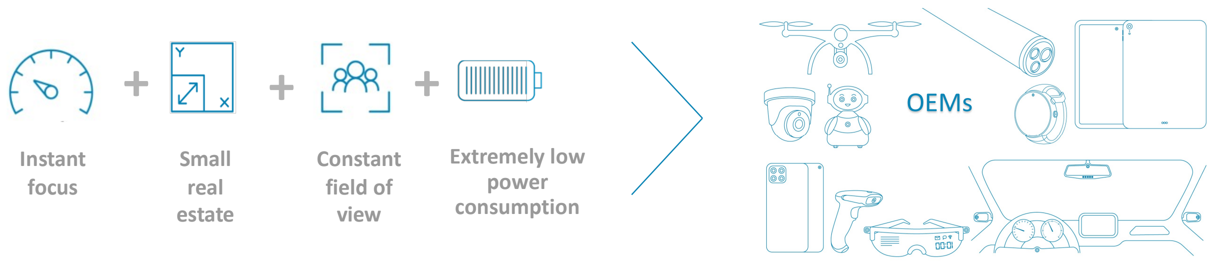
2021

Contents

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 professional applications. The new lens replicates the lens of the human eye, enabling new user experiences and easing 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.

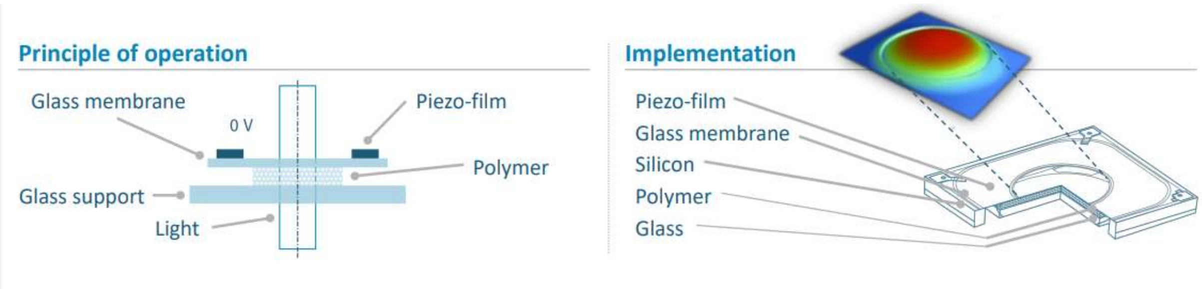


poLight has employees and long-term consultants in Norway, Finland, France, UK, Russia, China and Taiwan, and is also represented in South Korea and Japan. Since the company was founded in 2005, it has acquired world-class expertise in optics, polymers and MEMS technology. The poLight team comprises highly skilled researchers and technical specialists, all aiming to develop world-leading imaging technologies.

Technology

The company has developed and patented TLens® – a tuneable 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 poLight lens is constructed around a piezo element (pzt film), which is placed on a thin glass membrane and acts as an actuator. A patented polymer is sandwiched between two high-quality glass layers.



The piezo material on the thin glass membrane is designed to spherically deform the polymer when a voltage is applied to 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 poLight'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).

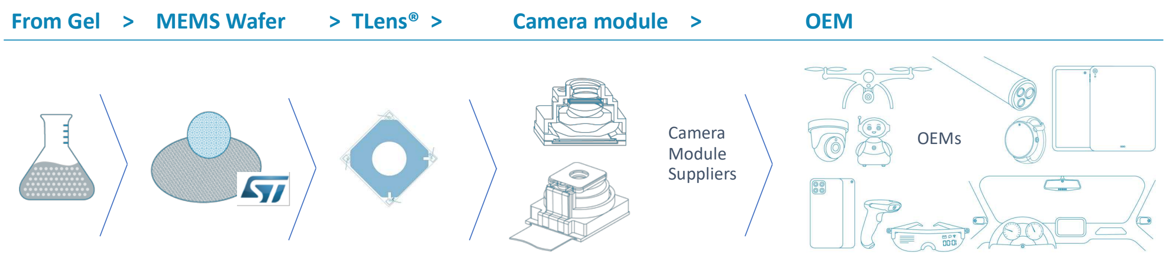
Product portfolio

Based on the TLens technology platform (see above), poLight has launched the TLens® Silver and TLens® Silver Premium, 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 developed. 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 manufacturing partners in the Philippines and Taiwan, which assemble the complete TLens® products and ship them to camera module vendors.



Market

poLight's TLens technology is suitable for a wide variety of applications, particularly those 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, augmented reality (AR) glasses, other wearables/IoT, industrial scanners, readers and sensors, and medical equipment.

Smartphones and wearables

- Large addressable market for which billions of cameras are produced each year
- 1.5 billion phones per year with 1 front camera and an average of 3 back cameras
- Potential addressable market for TLens®/poLight technology estimated at 3 billion units per year

Barcode/Industrial

- Evolving from 1D laser to 2D imaging barcode readers
- Lasers replaced by camera systems, where autofocus will improve efficiency
- Barcode technology is spreading to new industries
- OEM scan engine vendors today are increasingly looking to enable machine vision capabilities on their current offerings

Augmented Reality (AR)

- AR is expected to grow significantly, as the technology is rapidly expanding beyond entertainment and gaming to an increasing number of industrial, commercial, educational applications, and eventually consumer devices

Other

- New opportunities are emerging that could represent significant potential
- Video conferencing and endoscopy are just two examples of new opportunities for poLight technology

MESSAGE FROM THE CEO

2021 was another busy year, with a high level of activity on several customer cases resulting in four design-wins and good progress on several Proof of Concept (PoC) projects. The opportunity pipeline is promising. The design-win related to the augmented reality (AR) product is of strategic importance for the company. The activity and opportunity pipeline we see in this market segment is impressive. The technical attributes of TLens®, its speed, compactness, low power consumption and no gravity sensitivity, are viewed as key for AR applications.

Smartphone-related activity has been high. Together with our customers, we are working hard to mature cases and qualify TLens® for commercial use. This is a very demanding process, requiring much effort and resources. We have made encouraging progress, even though there are hurdles still to be overcome. Making our supply chain ready for various applications is also demanding. Most of our available resources are currently engaged in the above-mentioned efforts. We are therefore strengthening our organisation in order to handle the predicted increase in activity, both with respect to supporting and maturing customer cases and handling technical and supply chain challenges.

The organisation is working hard under a lot of pressure, so I would like to take this opportunity to thank the entire poLight team. We are all very motivated to do everything possible to further develop a world-class tuneable optics company and create shareholder value."

Dr Øyvind Isaksen
CEO, poLight ASA

Board of Directors

Ann-Tove Kongsnes
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.

Thomas Görling
Board member

Thomas Görling is a Senior Investment Director at Stiftelsen Industrifonden (Sweden) with a comprehensive involvement in building successful technology companies. Representing Industrifonden, he has been engaged in a number of portfolio company boards, at present Medtentia International Ltd Oy (Finland) and eBuilder AB (Sweden). Before joining Industrifonden in 1998, Mr Görling held management positions within the European optical instrument and systems industry. Thomas holds a Master of Science from the Royal Institute of Technology in Stockholm, and studied business economics at Stockholm University.

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 and member 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 Telenor ASA. She is currently a non-executive director on the boards of Link Mobility Group Holding ASA and Crayon Group Holding ASA. She also serves as Chair of the Board in No Isolation AS and Farmforce AS. Ms Viksaas has a master's degree in computer science from the University of Oslo.

Svenn-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 (PLT) has one class of shares. Its shares were listed on the Oslo Stock Exchange on 1 October 2018 at NOK 50 per share. The company had 10,385,096 shares outstanding at the close of 2021, each with a nominal value of NOK 0.20.

In 2021, the Group's share price rose from NOK 83.80 per share at the beginning of the year to NOK 186.40 at close. During the year, the share price varied between NOK 83.80 and NOK 253.00 per share. In total, 15,597,290 shares were traded in 2021, equivalent to 150% of the shares outstanding.

Major shareholders and voting rights

poLight had 6,876 shareholders registered in the Norwegian Central Securities Depository (VPS) as at 31 December 2021. The 20 largest shareholders owned shares representing 51.4% of the share capital. Non-Norwegian shareholders owned 22.8% of the shares. All the shares registered by name carry equal voting rights. The shares are freely negotiable.

poLight shareholders as at 31 December 2021

	Ordinary shares	Share-holding	Voting rights
		%	%
Investinor Direkte AS	1 779 858	17,1 %	17,1 %
Stiftelsen Industrifonden	1 048 825	10,1 %	10,1 %
Nordnet Bank AB (nominee)	449 476	4.3 %	4.3 %
Nordnet Livsforsikring AS	425 822	4,1 %	4,1 %
ABN AMRO Global Custody Services (nominee)	390 101	3,8 %	3,8 %
VPF Pareto Investment	157 109	1,5 %	1,5 %
VPF Nordea Avkastning	155 615	1,5 %	1,5 %
VPF Nordea Kapital	113 988	1.1 %	1.1 %
LHH AS	100 000	1,0 %	1,0 %
Wiseth Holding AS	89 500	0,9 %	0,9 %
J.P. Morgan Bank Luxembourg S.A. (nominee)	74 528	0,7 %	0,7 %
Danske Bank A/S (nominee)	73 654	0,7 %	0,7 %
VPF Nordea Norge Plus	72 507	0,7 %	0,7 %
Stefan Sveen	66 500	0,6 %	0,6 %
Saxo Bank A/S (nominee)	60 686	0,6 %	0,6 %
Fjellstuens Eftf. AS	59 500	0,6 %	0,6 %
Kjell Mossefin	57 358	0,6 %	0,6 %
Trond Andersen	55 960	0,5 %	0,5 %
Asbjørn John Buanes	55 731	0,5 %	0,5 %
Erik Schellhorn	53 801	0,5 %	0,5 %
Total number of shares owned by top 20 shareholders	5 340 519	51.4%	51.4%
Number of shares owned by other shareholders	5 044 577	48.6%	48.6%
Total number of shares	10 385 096	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 182,564, equal to 912,820 shares. In 2021, 83,515 shares were issued in order to fulfil the obligation to provide shares following the exercise of share options. As at 31 December, 809,173 share options (equal to 7.8% of shares outstanding) were outstanding, all at a weighted average strike price of NOK 62.10 per share.

Corporate actions/events	Date
Follow-up purchase order for barcode scan engine product	11.03.2021
Webcam launched with advanced TLens® autofocus function	06.04.2021
Received purchase order for web camera product	07.04.2021
Received another purchase order for web camera product	21.04.2021
TLens® confirmed to be used in a machine vision product	18.05.2021
Smartphone project cancelled due to portfolio changes	29.07.2021

Follow-up purchase order for barcode scan engine product	09.08.2021
Purchase order received for mass production preparation for a surgical device	20.08.2021
Private Placement successfully raised a total of NOK 125 million	13.09.2021
Additional purchase order received related to surgical device	21.09.2021
Subsequent offering raised gross proceeds of NOK 12.8 million	21.10.2021
Design-win confirmation from first AR customer	01.12.2021
Awarded a barcode design-win for manufacturing line applications	07.12.2021
poLight ASA won its VAT appeal	16.12.2021

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

poLight does not currently have analyst coverage. Any changes will be updated on the company's website www.polight.com.

Financial calendar 2022

Date	Event
18 February 2022	Quarterly Report – Q4 2021
27 April 2022	Annual report 2021
12 May 2022	Quarterly Report – Q1 2022
25 May 2022	Annual General Meeting
18 August 2022	Half-yearly Report 2022
03 November 2022	Quarterly Report – Q3 2022
16 February 2023	Quarterly Report – Q4 2022

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

BOARD OF DIRECTORS' REPORT

Overall progress in 2021 has been encouraging. poLight´s TLens® was selected for inclusion in four new products, representing both consumer and professional applications, confirming the versatility and market potential of poLight's unique technology. There was a high level of activity related to smartphone and augmented reality (AR) throughout the year, which has led to important business opportunities being explored.

Corporate events in 2021

At the AGM held on 26 May 2021, Ann-Tove Kongsnes was elected as the Board's chair for the remaining year, replacing Eivind Bergsmyr. Grethe Viksaas, Svenn-Tore Larsen and Juha Alakarhu were re-elected for another two years and Thomas Görling was elected for two years as a new board member. Thomas Görling is a Senior Investment Director at Stiftelsen Industrifonden (Sweden) with a comprehensive involvement in building successful technology companies. Before joining Industrifonden in 1998, Mr Görling held management positions within the European optical instrument and systems industry.

The AGM also appointed Thomas Wrede Holm for another two years as the chair of the company's Nomination Committee.

On 16 June 2021, Grethe Viksaas became a member of the Audit Committee, replacing Eivind Bergsmyr.

In the second half of 2021, poLight successfully raised NOK 138 million, including a subsequent offering of approximately NOK 13 million, through the issue of new shares priced at NOK 110 per share.

In December 2021, Norway's Tax Appeals Board issued a final decision and upheld the appeal filed by poLight in 2018 against the Norwegian Tax Administration's decision to exclude the company from the VAT register and demand payment of VAT deductions with effect from January 2013. Accordingly, NOK 12.4 million was recognised in the fourth quarter 2021. The outstanding amount was received in January 2022.

Manufacturing and operations

poLight works primarily with two categories of sub-contractors – a MEMS/wafer supplier (ST Microelectronics (ST) in Italy) and assembly partners. While ST produces the wafers/actuators, the assembly partners assemble the complete product. The polymer (*i.e.* lens material) is produced at poLight's headquarters.

poLight collaborates with two assembly partners in Asia. The focus has been on yield-improvement initiatives and securing supplies for existing and new customer projects. The targeted monthly assembly capacity is planned to exceed 1 million towards the end of 2022. Material flow (*e.g.* wafers) and final test capacity are planned accordingly. Push out–pull in is continuously evaluated depending on the market situation and capacity availability.

ST has been, and is still, processing a backlog of wafers ordered by poLight, which is scheduled to be cleared by the end of 2022. Important projects designed to improve the optical performance of the TLens® were initiated during the year.

Lead time and capacity constraints in the industry remain challenging and require long-term commitments regarding materials and capacity.

Product development

During most of the year, a significant portion of the company's R&D resources were devoted to supporting ongoing customer projects and operational activities related to final test equipment and yield-improvement processes. On customer-related projects, the focus was to support aspects of TLens® integration, running and analysing reliability tests for smartphone cases, and implementing product improvements.

Furthermore, poLight has engaged in discussions with smartphone-related vendors concerning new and advanced design concepts based on poLight's existing products and its technology platform in general.

Market

Customer-related activities continued at a high level during the whole year. poLight is actively engaged in several segments. This includes consumer market devices, such as smartphones and accessories, as well as a broad range of professional applications, such as barcode readers, medical devices and AR. 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 wide range of potential customers. Over time, this is expected to develop into a diversified revenue base for poLight.

Consumer market

The new camera module concept, based on add-in TLens® design, is continuing to attract strong interest. This camera module concept has the potential to become a widely used solution for selfie cameras and may represent a route to the main camera (back camera) for TLens®. During the year, several Proof of Concept (PoC) projects, with OEMs and camera module (CM) vendors, made progress. Customers show considerable enthusiasm for the technology, and significant investments have been made to qualify the use of TLens®.

Customer requirements are stringent and a significant amount of company resources has been allocated to these cases.

At the end of the year, poLight's TLens is being used in 11 ongoing Proof-of-Concept (PoC) projects relating to the consumer market, while 24 have been completed – a total of 35 projects. AR consumer-oriented cases account for four of the ongoing and two of the completed PoCs. Eight PoCs are in the planning stage.

Augmented Reality (AR) market

During the last quarter of the year, it was announced that the company had received a design-win confirmation, and first mass production purchase order, related to an AR product. The product is expected to go on sale in 2022.

Currently, TLens® is being considered by several other market players for use in next generation AR headsets, and testing/prototype building is continuing. TLens' low power consumption, no gravity sensitivity, high speed and compactness are highlighted as key technical benefits. Currently, the company is engaged in three projects (design-ins) and eight ongoing PoCs. In addition, four OEMs are considering starting PoCs. The ongoing projects (design-ins) are all related to professional use cases, *i.e.* low volume, and two of them have the potential to conclude in 2022. Four of the ongoing PoCs target the consumer market (*i.e.* higher volume). The use case for TLens® mainly relates to world-facing cameras, but the company is also involved in a laser display application.

The AR market is entering a very important phase, and poLight expects to see several companies releasing new AR products in the coming years. Most of the initial customer cases relate to the professional/enterprise market, so the initial volumes are relatively low. It is expected that over time AR devices will address the consumer market, prompting a significant increase in demand. However, this is likely to be some years down the road.

Industrial market

During the year, the company announced two new design-wins related to barcode reading and received two follow-up orders for the EX30 from Honeywell.

The company is currently involved in two projects (design-ins) and six ongoing PoCs (of which two are for barcode applications), while as many as nine OEMs are planning PoCs (four of which are barcode related). poLight will continue to actively explore this important market, which is expected to be a significant gross margin contributor in the longer term.

Other applications

In other application areas, the company achieved one design-win (Kavli Institute for Systems Neuroscience and Centre for Neural Computation, a microscope for internal use), and one design-in related to a compact surgical device that is due to go on sale in 2022. In addition, there are five ongoing PoCs and eight planned PoCs.

The medical/science area is currently the area of highest activity within this grouping. In addition to some surgical equipment cases, several cases like Kavli's are now maturing. The company sees this activity primarily as important for brand building and as a contribution to important research.

Sustainability

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 and standards related to corporate social responsibility. poLight is not regulated by any environmental permits or regulatory mandates.

Management carries out an annual ESG (environmental, social and governance) assessment, including a risk assessment, which is subject to evaluation by poLight ASA's Board of Directors. The top three risks that are of importance to both stakeholders and poLight are:

1. Quality risks – customer satisfaction
   To ensure quality in customer deliveries, poLight makes significant efforts to support the customer in the integration of the TLens ® as well as thoroughly testing of the products before shipping.
2. Competence risks – employee attraction
   Research, development and manufacturing of TLens ® technology requires a high level of competence. To retain and attract new employees in an organic growth phase, it is therefore extremely important for poLight to be perceived as an exciting and competitive employer.
3. Supply chain risks
   poLight places great emphasis on qualifying and carrying out continuous improvement processes together with manufacturing partners to ensure the quality, cost efficiency and robustness of the supply chain. While managing supply chain partners in general is demanding, it is particularly complex when preparing for various ramp-up scenarios in today's challenging global supply chain situation.

The company is increasingly aware of its role in contributing to the UN Sustainable Development Goals. As an example, poLight's products are already in use in medical scientific equipment and hence contributes to important research benefitting the greater society. From a business perspective this is not short- or medium-term key for the company, but important to support for other reasons mentioned above. Also, poLight´s technology might be used in compact surgical devices making surgical procedure safer and more efficient.

Organisation

poLight had 21 full-time employees and one part-time employee at the close of 2021, compared to 23 full-time and no part-time employees in 2020. In addition, 10 consultants were engaged on long-term contracts, compared with four in 2020. The employees and consultants were located in eight different countries and represented 10 different nationalities. Women made up 22% of the workforce, compared with 26% in 2020. poLight is committed to being a healthy workplace, which provides equal opportunities for development to all employees, irrespective of gender, ethnicity or other characteristics.

poLight's code of conduct states that: "poLight expects dedicated employees, who treat others with respect and maintain open communications. There shall be no discrimination or harassment on the grounds of age, gender, disabilities, race, sexual orientation, ethnic origin, religion or political affiliation. poLight shall be an attractive workplace with an inclusive working environment. poLight expects its employees not to act in ways that could harm the poLight brand. When we are working in cultures other than our own, we treat everyone – individuals as well as organisations – with respect, and act in accordance with national laws and regulations. We also pay attention to local etiquette and values in the countries where we are working. In meetings with contacts outside poLight, we behave with professionalism and courtesy. poLight supports and respects internationally recognised human rights, including those set out in the International Labour Organization's conventions. The company respects the right to freedom of association and opposes any form of child labour, forced labour or discrimination, and requests all representatives and suppliers to abide by the same principles. All employees, partners, etc., are made aware of these guidelines."

poLight is committed to the health, safety and welfare of its employees and their families, and its customers. Sickness absence came to 0.7% in 2021, compared with 2.2% in 2020. Sickness absence remains well below the Norwegian national average of approximately 6.4% (2020: 6.2%). No work-related accidents caused personal injuries or material damage in 2021.

Liability insurance

Members of poLight ASA's Board and management are covered by directors and officers liability insurance provided by AIG. The insurance also includes poLight's subsidiaries. The Board considers the coverage to be reasonable.

Financial development, poLight Group

The Group's consolidated revenue in 2021 totalled NOK 10.0 million, compared with NOK 3.0 million in 2020. The revenue reflects sales of TLens® and ASICs for commercial use and sample deliveries of TLens® and ASICs for customer development projects.

Cost of sales totalled NOK 3.9 million in 2021, compared with NOK 0.7 million in 2020.

R&D expenses amounted to NOK 25.4 million, up from NOK 20.4 million in 2020. No development expenditures have been capitalised in the past two years. Expensed R&D costs include R&D management, patents, improvements of the existing TLens, feasibility study of new concepts, and costs related to integration of TLens in new customer applications/products.

Sales and marketing expenses totalled NOK 7.2 million, up from NOK 5.4 million in 2020. Operational/supply chain expenses totalled NOK 9.1 million, up from NOK 8.0 million in 2020.

Administrative expenses totalled NOK 6.9 million, down from NOK 7.7 million in 2020. As a result of the positive outcome of the VAT appeal, NOK 11.6 million was recognised as a cost reduction in 2021. In 2020, as a result of being re-registered in the VAT register, VAT refunds of NOK 8.2 were recognised, whereof NOK 7.6 million was recognised as a reduction of administrative expenses.

Depreciation and amortisation amounted to NOK 11.9 million, down from NOK 12.1 million in 2020.

The Group made an operating loss of NOK 54.3 million in 2021, compared with an operating loss of NOK 51.4 million in 2020.

Net financial items in 2021 totalled NOK 0.9 million, up from NOK 0.4 million in 2020. This is attributable primarily to interest on bank deposits and interest of NOK 0.8 million on the VAT claim. The tax expense in 2021 came to NOK 0.1 million, compared with NOK 0.2 million the year before.

The Group made a net loss of NOK 53.5 million in 2021, compared with a net loss of NOK 51.2 million in 2020. This represents a loss in 2021 of NOK 5.65 per share on a fully-diluted basis, compared with a loss of NOK 5.83 per share in 2020.

Financial position

As at 31 December 2021, total assets came to NOK 238.7 million, compared with NOK 141.8 million at year-end 2020. Total equity came to NOK 213.4 million, compared with NOK 128.8 million at year-end 2020. Share issues carried out in the second half 2021 raised NOK 130.3 million in net proceeds.

Intangible assets amounted to NOK 33.4 million as at 31 December 2021, compared with NOK 43.6 million at the close of 2020, reflecting amortisation over the year. Trade and other receivables totalled NOK 22.1 million (NOK 6.0 million in 2020), including recognised government grants of NOK 7.3 million (NOK 5.0 million in 2020), and VAT claim receivables.

As at 31 December 2021, the company had cash and cash equivalents of NOK 157.8 million, compared with NOK 77.2 million at the close of 2020. The change was mainly a function of liquidity consumed by operating activities and net proceeds from share issues.

Long-term liabilities totalled NOK 3.9 million at year-end 2021 (NOK 0 million in 2020). The increase is attributable to a new lease for the company's headquarters in Horten, which was signed in the second quarter 2021. Total current liabilities at year-end 2021 totalled NOK 21.3 million (NOK 12.9 million in 2020).

Cash flow

Net cash flow used in operating activities totalled NOK 49.5 million in 2021, compared with NOK 42.6 million in 2020. Net cash flow used in investing activities totalled NOK 2.1 million in 2021, compared with NOK 0.2 million used in 2020. Net cash flow from financing activities totalled NOK 132.3 million in 2021 (NOK 46.6 million in 2020). The positive cash flow from financing activities reflects the net proceeds from the share issues carried out in the second half of 2021, which raised NOK 13.3 million in net proceeds.

Financial development, parent company

In 2021, the parent company generated NOK 10.0 million in gross revenue, compared with NOK 3.1 million the year before. It made an operating loss of NOK 55.9 million in 2021, after total operating expenses of NOK 62.1 million. In 2020, the parent company made a loss of NOK 52.3 million, after total operating expenses of NOK 54.7 million.

Operating expenses in 2021 include employee expenses (including consultants engaged on long-term contracts) of NOK 38.4 million, compared with NOK 26.8 million in the preceding year. The parent company had on average 19 employees and consultants in 2021, compared with 15 in 2020. In 2021, other operating expenses amounted to NOK 12.8 million, compared with NOK 17.0 million in 2020. (See Note 3.)

poLight ASA made a net loss of NOK 54.2 million in 2021, compared with a loss of NOK 49.9 million in 2020.

The Board proposes that NOK 49.8 million be transferred from the share premium fund and NOK 4.4 million from retained earnings. The Board does not propose payment of a dividend for 2021.

Share capital

As at 31 December 2021, poLight ASA had a share capital of NOK 2.1 million, consisting of 10,385,096 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 a total nominal value of NOK 182,564 (912,820 shares at a nominal value of NOK 0.20). As at 31 December, 809,173 share options (equal to 7.8% of shares outstanding) have been granted, all at a weighted average strike price of NOK 62.10 per share with a range from NOK 18.90 to NOK 114.

Risks and risk management

poLight's risk management is based on the principle that risk assessment is an integral part of all business activities. Reference is also made to the ESG risk assessment described in *Sustainability* chapter. 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. poLight's Board 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: To protect the poLight's intellectual property rights (IPR), poLight relies on a combination of patents, copyright and trademark laws, trade secrets, confidentiality procedures and contractual provisions. IPR constitutes one of poLight's key assets and poLight actively seeks to protect its products and technologies in the markets and geographic regions where it operates, and elsewhere as deemed relevant. In its use of IPR, poLight faces several risks. For example, third parties may illegally copy or utilize the poLight's IPR, third parties may (with or without merit) claim that the poLight's use of IPR infringes the IPR of that third party, or the IPR of others may limit the poLight's freedom to operate.

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. For the next 12 months, the Group's principal source of liquidity will still be cash generated from financing, equity and debt, in addition to net cash flows generated from sales. The company may in the 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). A separate section of this annual report provides further details of the poLight Group's corporate governance.

Going concern and events in 2021

The risk factors associated with the Covid-19 pandemic relate mainly to the supply chain and an inability to move employees/competence between Europe and Asia. This latter has been offset by strengthening the local organisation in Asia. Supply chain-related risk means that the company needs to plan for material and capacity far in advance of specific customer demands. The pandemic may also have led to some delays in customer qualification programmes.

For the next 12 months, the Group's principal source of liquidity will still be cash generated from financing, equity and/or debt, in addition to net cash flows generated from sales. Management and the Board of Directors are continuously evaluating the Group's liquidity requirements. There are no plans to raise more capital through share issues in the next 12 months.

Accordingly, these consolidated financial statements have been prepared under the assumption that both the Group and the parent company are going concerns, and management confirms that this is an appropriate assumption.

Outlook

The company continued to make progress during 2021, with four design-wins and several active customer projects.

The opportunity pipeline is developing positively, with progress in the augmented reality (AR) space being considered particularly promising. Smartphone customers and the company put considerable effort into maturing cases and qualifying TLens® for commercial use. This is a very demanding process. Encouraging progress has been made during the year, even though there are hurdles still to be overcome. Making our supply chain ready for various applications is also demanding. Most of our available resources are currently engaged in the above-mentioned efforts. We are therefore strengthening our organisation in order to handle the predicted increase in activity, both with respect to supporting and maturing customer cases and handling technical and supply chain challenges.

Tuneable optics are gaining increased attention, and poLight is one the key players in this important technology space. The focus area going forward will continue to be smartphone, AR and barcode applications.

Statement by the Board of Directors and the CEO

We confirm that, to the best of our knowledge, the consolidated financial statements for 2021 have been prepared in accordance with IFRS, as adopted by the EU, as well as additional disclosure requirements set out in the Norwegian Accounting Act; and that the financial statements for the parent company for 2021 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 and the Group's assets, liabilities, financial position and results for the period as a whole; 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 writing this report, considers could have a significant impact on the financial performance of the Group.

poLight ASA
Horten, 27 April 2022

Ann-Tove Kongsnes (sign) **Chair**	**Thomas Görling (sign)** **Board member**	**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 (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.

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 11 January 2021.

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 2021, poLight's consolidated equity totalled NOK 213.4 million, which is equivalent to 89% of total assets. Liabilities were mainly trade payables and other payables. 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 26 May 2021, 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 of NOK 0.20 each, up to the share capital equivalent of NOK 182,564, is valid until the date of the 2022 AGM, or 30 June 2022 at the latest. As at 31 December 2021, shares equal to a share capital of NOK 16,703 have been issued under this authorisation.

The AGM on 26 May 2021 granted the Board a general authorisation to issue shares and to increase the share capital by a maximum of NOK 365,128. The authorisation is valid until the 2022 AGM, or 30 June 2022 at the latest. As at 31 December 2021, shares equal to a share capital of NOK 250,551.80 have been issued under this authorisation.

The AGM also granted the Board an authorisation to buy back shares equal to a share capital of NOK 182,564. The authorisation is valid until the 2022 AGM, or 30 June 2022 at the latest. The authorisation had not been utilised as at 31 December 2021.

4. Equal treatment of shareholders and transactions with related parties

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 it by a general meeting of shareholders, the reason therefor shall be publicly disclosed in a stock exchange announcement.

Trading in treasury shares

Any trading undertaken by the company in its own shares shall be carried out through the stock exchange, and always at prevailing market 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 related parties

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 related parties in 2021. 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 2021, poLight held its AGM on 26 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 2021, the Nomination Committee consisted of the following three members: Thomas Wrede Holm (Investinor), Jan Erik Hæreid (independent) and Anne E. H. Worsøe (independent). The committee's members were elected by the AGM for terms lasting until the company's AGM in 2022 or 2023.

None of the Nomination Committee's members are members of the Board or executive management. The majority of the Nomination Committee's members are deemed to be independent of the company's Board and executive management.

Tasks

The Nomination Committee is responsible for recommending candidates for election to the Board 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 the Nomination Committee's chair at the following address: thomas.wrede-holm@investinor.no. 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 2021, the Board consisted of the following five members: Ann-Tove Kongsnes (Chair), Thomas Görling, Grethe Viksaas, Juha Alakarhu and Svenn-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 associates. Further, Grethe Viksaas, Juha Alakarhu and Svenn-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 at Board Meetings 2020	Shares in poLight 31 December (direct/ indirect)
Ann-Tove Kongsnes	Chair	No	December 2011	AGM 2022	100%	1,779,858 (1)
Thomas Görling	Board member	No	May 2021	AGM 2023	100%	1,048,825 (2)
Grethe Viksaas	Board member	Yes	June 2018	AGM 2023	100%	
Juha Alakarhu	Board member	Yes	May 2019	AGM 2023	100%	
Svenn-Tore Larsen	Board member	Yes	May 2019	AGM 2023	86%	

1) Ann-Tove Kongsnes is Investment Director and Head of International Affairs at Investinor AS, which held 1.78 million shares in poLight ASA at 31 December 2021
2) Thomas Görling is a Senior Investment Director at Stiftelsen Industrifonden, which held 1.05 million shares in poLight ASA at 31 December 2021

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 Audit Committee supports the Board with respect to the assessment and control of financial risk, financial reporting, auditing and control, and prepares discussions and resolutions for board meetings. The Audit Committee does not make decisions on behalf of the Board, and the establishment of the Audit Committee does not alter the Board's legal responsibilities or tasks. In addition, under the whistleblower procedure, complaints from employees and other concerned parties are received and followed up by the Audit Committee. The Chief Financial Officer participates in the meetings of the Audit Committee. The committee holds at least one meeting per year with the auditor without the Chief Financial Officer or any other members of the Group Management and administration being present.

The Audit Committee held five meetings in 2021 and was in regular contact with the company's auditor regarding audits of the statutory accounts. The committee also assesses and monitors the auditor's independence, including non-audit services provided by the auditor.

The committee makes recommendations to the Board with respect to the appointment, retention and termination of the Group's auditor as well as the auditor's fees. The committee reviews complaints regarding accounting, internal controls and auditing matters.

The tasks and rules of procedure of the Audit Committee are further regulated in the Audit Committee Charter.

The Audit Committee shall consist of at least two members of the Board. The Audit Committee shall in total have the expertise that, based on the company's organisation and operations, is necessary to carry out its tasks. At least one of the members of the Audit Committee is to be independent of the operations and have accounting or auditing qualifications. The Board shall appoint one member of the committee to be its chair.

As at 31 December 2021, the Audit Committee consisted of the following two members: Ann-Tove Kongsnes and Grethe Viksaas.

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 purpose of the Remuneration Committee is to ensure thorough and independent preparation of matters relating to compensation to the executive personnel. The Remuneration Committee puts forth a recommendation for the Board of Directors' guidelines for remuneration to senior executives in accordance with section 6-16a of the Norwegian Public Limited Liability Companies Act.

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 2021, the Remuneration Committee consisted of the following three members: Ann-Tove Kongsnes, Grethe Viksaas and Thomas Görling.

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.

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 20 to the consolidated 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 must 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 annually to the Annual General Meeting. A separate remuneration report will be published on poLight's website as a part of the notification of the Annual General Meeting.

The remuneration paid to members of executive management consists of a fixed salary in combination with certain benefits in kind and an performance-based bonus, in addition to participation in a share option scheme. See Note 20 *Related parties*, in the consolidated 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 KPMG. Each year, the Audit Committee ensures that it receives a presentation of the auditor's plan for its annual audit of the company. Additionally, the Audit Committee requires the auditor to participate in Audit Committee meetings 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 Audit Committee and the auditor will jointly review the company's internal control procedures, including identification of weaknesses and proposals for improvement. The auditor also at least once a year meets with the Audit Committee without the presence of the CEO and CFO.

The remuneration paid to the auditor is approved by shareholders at the AGM. The Audit Committee 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 comprehensive income for the year ended 31 December

(in NOK 000)	**Note**	**2021**	**2020**
Sale of goods	4	8 683	2 590
Rendering of services		1 350	429
Revenue		**10 032**	**3 019**
Cost of sales	12	3 851	698
Gross profit		**6 182**	**2 321**
Research and development expenses	5.4	-25 360	-20 432
Sales and marketing expenses	5.5	-7 224	-5 419
Operational / supply chain expenses	5.6	-9 139	-7 972
Administrative expenses	5.7	-6 868	-7 734
Depreciation and amortisation	8,9,19	-11 923	-12 132
Operating profit / loss (-)		**-54 332**	**-51 369**
Finance income	5.2	1 830	1 356
Finance costs	5.2	-887	-938
Net financial items		**944**	**417**
Profit / loss (-) before tax		**-53 388**	**-50 952**
Income tax expense	6	-93	-203
Profit / loss (-) for the year		**-53 481**	**-51 155**
Attributable to:			
Equity holders of the parent		-53 481	-51 155
Non-controlling interests		0	0
Earnings per share:			
Basic, attributable to ordinary equity holders of the parent (NOK)	7	-5.65	-5.83
Diluted, attributable to ordinary equity holders of the parent (NOK)	7	-5.65	-5.83

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

(in NOK 000)	Note	2021	2020
Profit / loss (-) for the year		**-53 481**	**-51 155**
Other comprehensive income			
Exchange differences on translation of foreign operations		-5	212
Income tax effect		0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**-5**	**212**
Total comprehensive income for the year, net of tax		**-53 486**	**-50 943**
Attributable to:			
Equity holders of the parent		-53 486	-50 943
Non-controlling interests		0	0

Consolidated statement of financial position as at 31 December

(in NOK 000)	Note	2021	2020
ASSETS			
Property, plant and equipment	8	2 356	839
Intangible assets	9	33 377	43 646
Right-of-use assets	19	4 778	964
Total non-current assets		**40 511**	**45 448**
Inventories	12	16 836	9 166
Trade and other receivables	11.1	22 078	6 040
Prepayments		1 456	3 897
Cash and cash equivalents	13	157 810	77 209
Total current assets		**198 180**	**96 312**
Total assets		**238 691**	**141 761**
EQUITY AND LIABILITIES			
Share capital	14	2 077	1 810
Share premium	14	813 632	680 229
Reserves		1 035	1 040
Uncovered losses		-603 335	-554 238
Equity attributable to equity holders of the parent		**213 409**	**128 840**
Non-controlling interests		0	0
Total equity		**213 409**	**128 840**
Lease liabilities	19	3 934	0
Total non-current liabilities		**3 934**	**0**
Trade and other payables	11.2	19 906	10 684
Current lease liabilities	19	942	1 048
Provisions	15	500	1 189
Total current liabilities		**21 349**	**12 921**
Total liabilities		**25 282**	**12 921**
Total equity and liabilities		**238 691**	**141 761**

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

(in NOK 000)	Note	Share capital	Share premium	Retained earnings	Translation reserve	Total	Non-controlling interest	Total equity
		Attributable to equity holders of the parent						
As at 1 January 2020		**1 623**	**632 682**	**-506 755**	**827**	**128 378**	**0**	**128 378**
Profit / loss (-) for the year				-51 155		-51 155	0	-51 155
Other comprehensive income					212	212	0	212
Total comprehensive income		0	0	-51 155	212	-50 943	0	-50 943
Issue of ordinary shares	14	182	49 818			50 000	0	50 000
Share options exercised	14	5	734			738		738
Transaction costs	14		-3 005			-3 005		-3 005
Equity-settled share-based payments	5.3,18			3 672		3 672		3 672
At 31 December 2020		**1 810**	**680 229**	**-554 238**	**1 040**	**128 840**	**0**	**128 840**
Profit / loss (-) for the year				-53 481		-53 481	0	-53 481
Other comprehensive income					-5	-5	0	-5
Total comprehensive income		0	0	-53 481	-5	-53 486	0	-53 486
Issue of ordinary shares	14	251	137 553			137 803	0	137 803
Share options exercised	14	17	3 380			3 397	0	3 397
Transaction costs	14		-7 530			-7 530	0	-7 530
Equity-settled share-based payments	5.3,18			4 385		4 385	0	4 385
At 31 December 2021		2 077	813 632	-603 335	1 035	213 409	0	213 409

Consolidated statement of cash flows for the year ended 31 December

(in NOK 000)	**Note**	**2021**	**2020**
Operating activities			
Profit / loss (-) for the period		-53 388	-50 952
Adjustments for:			
Depreciation and impairment of property, plant and equipment and right-of-use assets	8	1 654	1 842
Amortisation and impairment of intangible assets	9	10 269	10 290
Net finance income	5.2	-944	-417
Equity-settled share-based payments	18	4 385	3 672
Other non-cash items		937	-610
Changes in unrealised net foreign exchange rate differences/fluctuations		21	221
Changes in working capital:			
Increase (-) in trade and other receivables and prepayments		-11 332	-2 902
Increase (-) in inventories	12	-7 669	-1 439
Increase (+) in trade and other payables		9 223	1 655
Changes in provisions and government grants	15,16	-2 954	-4 718
Interest received	5.2	585	851
Interest paid	5.2	-203	68
Income tax paid		-129	-196
Net cash flows used in operating activities		**-49 546**	**-42 633**
Investing activities			
Purchase of property, plant and equipment	8, 9	-2 142	-226
Net cash flows used in investing activities		**-2 142**	**-226**
Financing activities			
Proceeds from issuance of ordinary shares	14	137 803	50 000
Proceeds from exercise of share options	14	3 397	738
Transaction costs on issuance of shares	14	-7 530	-3 005
Payment of lease liabilities	19	-1 355	-1 119
Net cash flows from financing activities		**132 315**	**46 614**
Net increase in cash and cash equivalents		80 627	3 755
Effect of exchange rate changes on cash and cash equivalents		-26	-9
Cash and cash equivalents at 1 January	13	77 209	73 463
Cash and cash equivalents at 31 December	13	**157 810**	**77 209**

Notes to the Consolidated Financial statements

1 Corporate information

poLight ASA is a limited liability company, founded in 2005, which is incorporated and domiciled in Norway. The address of its registered office is Innlaget 230, N-3185 Skoppum, 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 *Related parties*.

The consolidated financial statements of poLight ASA and its subsidiaries (collectively, poLight or the Group) for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the Board of Directors on 27 April 2022, to be approved by the annual general meeting on 25 May 2022.

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 as issued by the International Accounting Standards Board (IASB) and adopted by the EU (IFRS).

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

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of poLight ASA and its subsidiaries.

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.

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

During 2021 the group had two revenue streams:

- Sales of TLenses and related driver ASICs.

  The Group recognizes revenue from sale of TLenses and other components at the point in time when the control of goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Revenue is generally recognised on delivery of the goods.

- Services related to customer development projects.

  In certain cases, when the counterparty to the contract is a customer or a potential customer, the Group will engage in customer development projects financed by the customer. In general, income is recognised when the project is finalised according to the contract and the customer can obtain the benefits from the project. Revenue may be recognised over time when one of the following criteria are met:

  - Customer consumes benefits as the Group performs the service
  - Customer controls benefits as the Group performs the service

  Earned revenue for the period is earned revenue at the balance sheet date, less earned revenue in prior periods. If the project is ongoing, income will be recognized continuously in accordance with the agreement, based on actual deliveries.

The Group has for the periods presented limited sales and revenues. Further information on revenue recognition or disclosures according to IFRS 15 is consequently not relevant for these financial statements.

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 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 the statement of profit or loss are translated at average monthly exchange rates. The exchange differences arising on the translation are recognised in OCI. Exchange differences arising from the translation of net investment in subsidiaries and borrowings are included in OCI. At December 31, 2020 and 2021 an intercompany subordinated loan to poLight France SAS of EUR 2,750,000 was regarded as a part of the net investment in poLight France SAS.

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 end of the reporting period.

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
- 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

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 in substance 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 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 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 year. 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.

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.

Software license

The Group made upfront payments to purchase software licenses. 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:

	Software licence	**Development costs**
Useful lives	Finite (3-5 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 consumption of future economic benefits from the related project
Internally generated or 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, government grant receivables, 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 recognised initially at net of directly attributable transaction costs and subsequently measured at amortised cost.

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.

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:

Components:

- 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 of 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 Cash-Generating Unit (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 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.

Value in use impairment calculation is based 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 are recognised in the consolidated statement of comprehensive income.

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 fair value of share options that are granted has been calculated using the Black-Scholes option pricing model. The basis for the valuation comprises several factors that affect the calculated fair value of granted share options like the share price at the date of the grant, exercise price (strike), the expected number of share options that will ultimately vest, risk-free interest rate and the volatility that is deemed based on historic volatility of the poLight share.

The cost of equity-settled transactions is recognised in employee benefits expense (Note 5.3), 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 includes accrued social security expenses that are calculated based on the number of vested share options multiplied by the difference between market price and exercise price at the end for the period. The expense in the consolidated statement of income 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 and key sources of estimation uncertainty

3.1 Significant judgements in applying the Group's accounting policies

Development costs

Initial capitalisation of costs is based on management's assessment that technological and economic feasibility is likely, 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 of "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.

3.2 Key sources of estimation uncertainty – significant accounting estimates

Impairment of non-financial assets

Cash-generating units are reviewed for impairment when indicators exists. Judgements are required to determine if impairment indicators are present. If an impairment test is performed, changes in key assumptions may result in an impairment. 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, 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 18 *Share option plans (equity-settled)*.

3.3 Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. Significant valuation issues are reported to the Group's audit committee.

When measuring the fair value of an asset or a liability, the Group uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability fall into different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement. IFRS 13.95 The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. Further information about the assumptions made in measuring fair values is included in the following notes:

Note 18 – Share option plans (equity-settled)

4 Segment information

The Group has only one operating segment – the TLens® technology platform, consistent with the reporting to the CEO and the Board.

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	Revenue	
(in NOK 000)	**2021**	**2020**
America	2 618	291
Asia	6 026	1 815
Europe	1 388	912
Total	**10 032**	**3 018**

Geographical distribution	Right-of-use assets		Machinery & equipment		Development costs	
(in NOK 000)	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
Norway	4 778	964	2 097	525	33 377	43 646
France	0	0	16	27	0	0
Finland	0	0	26	37	0	0
Taiwan	0	0	184	242	0	0
China	0	0	34	7	0	0
Total	**4 778**	**964**	**2 356**	**839**	**33 377**	**43 646**

All patents and most of the economic IP (intellectual property) is owned by parent company based in Norway. A sales office has been established in China, with a parent holding company in Hong Kong.

5 Other income/expenses

5.1 Specification of operating expenses by nature

(in NOK 000)	**Note**	**2021**	**2020**
Employee benefits expense[1)]	5.3	46 866	36 190
Depreciation and amortisation		11 923	12 132
Other operating expenses		1 726	5 367
Total operating expenses		**60 514**	**53 689**

1) Including consultants engaged on long-term contracts

5.2 Financial items

(in NOK 000)	**2021**	**2020**
Foreign exchange gain	465	574
Interest income	585	782
Interest income VAT appeal case	780	0
Finance income	**1 830**	**1 356**
Foreign exchange losses	599	809
Interest expense on lease liabilities	203	69
Finance expenses	84	61
Finance cost	**887**	**938**

5.3 Employee benefits expense

(in NOK 000)	**2021**	**2020**
Included in Research and development expenses:		
Wages and salaries	10 495	10 674
Consultants engaged on long-term contracts	3 979	0
Social security costs	2 190	1 814
Pension costs (note 17)	374	406
Other benefits and social costs	511	419
Share based compensation costs (note 18)	1 951	1 512
Grants	-2 162	-2 525
Included in Sales and marketing expenses:		
Wages and salaries	2 929	2 898
Consultants engaged on long-term contracts	1 509	0
Social security costs	611	492
Pension costs (note 17)	104	110
Other benefits and social costs	143	114
Share based compensation costs (note 18)	880	316
Included in Operational / supply chain expenses:		
Wages and salaries	1 940	4 331
Consultants engaged on long-term contracts	2 342	0
Social security costs	405	736
Pension costs (note 17)	69	165
Other benefits and social costs	95	170
Share based compensation costs (note 18)	1 530	656
Included in Administrative expenses:		
Wages and salaries	7 808	8 554
Social security costs	1 630	1 453
Pension costs (note 17)	278	325
Other benefits and social costs	380	336
Share based compensation costs (note 18)	6 875	3 234
Total employee benefits expense	**46 866**	**36 190**
Average number of full-time equivalents, employees	21	22
Average number of full-time equivalents, total including long-term contracts	27	22

All employees are included in a bonus programme, with identical bonus criteria for all employees. 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.

5.4 Research and development expenses

(in NOK 000)	**2021**	**2020**
Employee benefits expense (incl. consultants)	19 500	14 825
Other operating expenses	17 747	14 553
Grants	-11 886	-8 946
Capitalized	0	0
Total Research and development expenses	**25 360**	**20 432**

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. None of the development projects were eligible for capitalisation during 2020 and 2021.

R&D costs that are expensed, includes R&D management, patents, improvements of the TLens (see Note 16 *Government grants*), feasibility study of new concepts, software applications and costs related to integration of TLens in new customer applications/products.

5.5 Sales and marketing expenses

(in NOK 000)	**2021**	**2020**
Employee benefits expense (incl. consultants)	6 176	3 930
Other operating expenses	1 048	1 489
Total Sales and marketing expenses	**7 224**	**5 419**

5.6 Operational/supply chain expenses

(in NOK 000)	**2021**	**2020**
Employee benefits expense (incl. consultants)	6 381	6 058
Other operating expenses	2 758	1 914
Total Operational / supply chain expenses	**9 139**	**7 972**

5.7 Administrative expenses

(in NOK 000)	**2021**	**2020**
Employee benefits expense	16 971	13 902
VAT claim (Note 15)	-11 624	-7 631
Other operating expenses	1 521	1 463
Total Administrative expenses	**6 868**	**7 734**

On 16 December 2021, the Tax Appeals Board issued a final decision and upheld the appeal, giving poLight full refund of the VAT claim. NOK 12.4 million was recognised in the fourth quarter 2021, whereof NOK 11.6 million as a reduction of administrative expenses and NOK 0.8 as financial income (see Note 15 *Provisions*).

5.8 Auditor's remuneration

(in NOK 000)	**2021**	**2020**
Audit fee	689	266
Audit related fee	55	84
Tax fee	30	34
Other service fee	41	0
Total Auditor's remuneration *(excluding VAT)*	**814**	**384**

6 Income tax

The significant components of income tax expense are:

(in NOK 000)	2021	2020
Consolidated statement of profit or loss		
Current income tax expense	93	203
Deferred tax:		
Relating to origination and reversal of temporary differences	0	0
Income tax expense reported in the statement of profit or loss	**93**	**203**

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

(in NOK 000)	2021	2020
Calculated income tax at statutory rate of 22%	-11 746	-11 209
Government grants exempt from tax	-1 045	-822
Tax effect of permanent differences	2 117	1 667
Transaction costs share issues	-1 657	-661
Change in unrecognised deferred tax assets	12 374	11 216
Change in tax rate	398	0
Effect of different tax rates compared with Norwegian tax rate	-65	13
Foreign currency effects	132	0
Adjustments previous year	-415	0
Income tax expense	**93**	**203**
Effective tax rate	**0.2 %**	**0.4 %**

Movements in deferred tax balances

				Balance at 31 December		
2021 *(in NOK 000)*	**Net balance at 1 January**	**Recognised in profit or loss**	**Recognised in OCI**	**Net**	**Deferred tax assets**	**Deferred tax liabilities**
Property, plant and equipment	501	-74	0	427	427	0
Intangible assets	5 436	-135	0	5 301	5 301	0
Inventories	2 788	116	0	2 903	2 903	0
Group loan	-1 361	0	291	-1 070	0	-1 070
Provisions	102	8	0	110	110	0
Tax losses carried forward	133 283	12 168	0	145 452	145 452	0
Tax assets (liabilities) before set-off	140 749	12 083	291	153 123	154 193	-1 070
Set-off of tax				0	-1 070	1 070
Unrecognised deferred tax assets				-153 123	-153 123	
Net tax assets (liabilities)				**0**	**0**	**0**

2020 (in NOK 000)	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	539	-39	0	501	501	0
Intangible assets	5 571	-135	0	5 436	5 436	0
Inventories	2 771	17	0	2 788	2 788	0
Group loan	-982	0	-379	-1 361	0	-1 361
Provisions	435	-333	0	102	102	0
Tax losses carried forward	121 200	12 084	0	133 283	133 283	0
Tax assets (liabilities) before set-off	129 533	11 594	-379	140 749	142 110	-1 361
Set-off of tax				0	-1 361	1 361
Unrecognised deferred tax assets				-140 749	-140 749	
Net tax assets (liabilities)				**0**	**0**	**0**

Total unrecognised deferred tax assets net, relate to

(in NOK 000)	2021	2020
Norway (no expiry date)	146 746	132 861
France (no expiry date)	7 038	7 888
Total unrecognised deferred tax assets	**153 784**	**140 749**

7 Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit or loss 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:

	2021	2020
Weighted average number of ordinary shares for basic EPS	9 468 349	8 769 193
Effect of dilution:		
Share options in-the-money (average)	501 475	314 949
Anti-dilutive for the periods presented	-501 475	-314 949
Weighted average number of shares adjusted for the effect of dilution	**9 468 349**	**8 769 193**

Fully vested and Exercisable share options have no dilution effect on EPS computations, because this would have decreased loss per share.

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

(in NOK)	2021	2020
Profit / loss (-) attributable to ordinary equity holders of the parent	-53 481	-51 155
Earnings per share for income attributable to equity holders of poLight:		
Basic	-5.65	-5.83
Diluted	-5.65	-5.83

8 Property, plant and equipment

(in NOK 000)	Building	Equipment	Total
Cost at 1 January 2020	287	11 896	12 183
Additions	0	226	226
Effect of changes in foreign exchange	0	146	146
Cost at 31 December 2020	**287**	**12 268**	**12 554**
Accumulated depreciation and impairment losses at 1 January 2020	-287	-10 661	-10 948
Depreciation	0	-646	-646
Effect of changes in foreign exchange	0	-121	-121
Accumulated depreciation and impairment losses at 31 December 2020	**-287**	**-11 428**	**-11 715**
Net book value at 31 December 2020	**0**	**840**	**840**

(in NOK 000)	Building	Equipment	Total
Cost at 1 January 2021	287	12 268	12 554
Additions	1 126	1 016	2 142
Disposals at cost	-287	-313	-599
Effect of changes in foreign exchange	0	-110	-110
Cost at 31 December 2021	**1 126**	**12 861**	**13 987**
Accumulated depreciation and impairment losses at 1 January 2021	-287	-11 428	-11 715
Depreciation	-113	-512	-625
Accumulated depreciation and impairment losses disposals	287	313	599
Effect of changes in foreign exchange	0	110	110
Accumulated depreciation and impairment losses at 31 December 2021	**-113**	**-11 518**	**-11 631**
Net book value at 31 December 2021	**1 013**	**1 343**	**2 356**
Estimated useful lives (years)	**1)**	**3-7**	

1) Modifications and upgrades in leased premises are depreciated over the leasing period that is estimated to 5 years (including an option to extend the lease with 2 years).

9 Intangible assets

(in NOK 000)	Development costs and TLens patents	Software license	Total
Cost at 1 January 2020	78 184	242	78 427
Additions — internal development	0	0	0
Additions	0	0	0
Cost at 31 December 2020	**78 184**	**242**	**78 427**
Accumulated amortisation and impairment losses at 1 January 2020	-24 270	-220	-24 490
Amortisation	-10 269	-21	-10 290
Impairment losses	0	0	0
Disposals	0	0	0
Accumulated amortisation and impairment losses at 31 December 2020	**-34 539**	**-242**	**-34 780**
Net book value at 31 December 2020	**43 646**	**0**	**43 646**

(in NOK 000)	Development costs and TLens patents	Software license	Total
Cost at 1 January 2021	78 184	242	78 427
Additions — internal development	0	0	0
Additions	0	0	0
Disposals	0	-61	-61
Cost at 31 December 2021	**78 184**	**181**	**78 365**
Accumulated amortisation and impairment losses at 1 January 2021	-34 539	-242	-34 780
Amortisation	-10 269	0	-10 269
Impairment losses	0	0	0
Disposals	0	61	61
Accumulated amortisation and impairment losses at 31 December 2021	**-44 807**	**-181**	**-44 988**
Net book value at 31 December 2021	**33 377**	**0**	**33 377**

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®.

poLight started amortising capitalised development costs 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 which correlates with the remaining number of years of the first patent.

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 net of government grants received.

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.

(in NOK 000)	Carrying amount before impairment	Carrying amount after impairment	Accumulated net impairment loss
CGU: TLens® technology platform			
At 31 December 2020	61 926	43 646	18 280
At 31 December 2021	51 657	33 377	18 280

The TLens® technology platform is poLight's major asset. In January 2020, the first product using TLens Silver was launched within the consumer market segment. A smartwatch phone for children, with a main camera with an advanced autofocus (AF) function delivered by poLight. Since then, additional 7 design-wins have been achieved. Additional two in consumer products like web cam and a second smartwatch, but also several design wins in industrial products, augmented reality (AR) and medical.

The company has one major asset, the TLens® technology platform and the management has evaluated that the group as a whole is one CGU for impairment testing. The remaining carrying value of development costs are NOK 33.4 million and are related to TLens® technology platform, that includes the ASIC driver. Indicators of impairment of the TLens ® technology platform have been reviewed, and none identified.

TLens® Platinum, that is a larger version of the TLens® is still under development. Engineering samples have been produced and have already been tested by some potential customers. However, activity to prepare TLens® Platinum for mass production has been put on hold until the product is closer to the anticipated market breakthrough. In December 2019 a management assessment was made and an impairment charge of NOK 18.3 million was recognised related to this product. The recognition of impairment for accounting purposes does not imply that the assets have no commercial value.

In addition, management has evaluated that the equity value of the company is an indication of the fair value of the CGU. The company's shares are listed on Oslo Stock exchange, and fair value is estimated based on the observed share price. The fair value measurement is categorized within level 2 of the fair value hierarchy in accordance with IFRS 13. It is considerable headroom between the carrying value and the fair value less cost of disposal.

11 Financial assets and financial liabilities

poLight's principal financial liabilities comprise trade and other payables, lease liabilities and provisions. 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 receivables, trade payables 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 2021.

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 value of monetary assets and liabilities measured in NOK. The impact on the equity is due to the effect on operating activities.

	Change in EUR rate	Effect on profit before tax	Effect on equity
		(in NOK 000)	*(in NOK 000)*
2021	+5%	-800	-576
	-5%	800	576
2020	+5%	-469	-177
	-5%	469	177

	Change in USD rate	Effect on profit before tax	Effect on equity
2021	+5%	-893	-893
	-5%	893	893
2020	+5%	-505	-505
	-5%	505	505

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. Historically, no bad debt has been recognised and since most receivables are current, no provision is made.

Credit quality of a customer is assessed based on D&B's credit rating scorecard and are regularly monitored. As at 31 December 2021, most of the receivables consisted of government grants with low credit risk.

Credit risk from balances with banks are mitigated using 10 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. There are no plans to raise more capital through a share issue for the next 12 months. Management and the Board of Directors are focused on the Group's liquidity requirements and are evaluating issuance of debt.

11.1 Financial assets

(in NOK 000)	2021	2020
Financial assets at amortised cost:		
Trade receivables	2 506	317
Grants recognised, not received	7 280	5 014
VAT receivables, VAT claim (note 15)	11 215	0
Other receivables	1 078	709
Total financial assets	**22 078**	**6 040**
Total current	22 078	6 040
Total non-current	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:

			Past due				
(in NOK 000)	Total	Not past due	< 30 days	30–60 days	61–90 days	91–120 days	> 120 days
2021	22 078	21 721	322	35	0	0	0
2020	6 040	6 040	0	0	0	0	0

11.2 Financial liabilities

(in NOK 000)	2021	2020
Financial liabilities at amortised cost, other than interest-bearing loans and borrowings:		
Trade payables	4 518	1 442
Other payables	6 490	7 195
Accrued employer's NICs on share option plan (note 18)	8 898	2 046
Provisions	500	1 189
Total	**20 406**	**11 873**
Total current	20 406	11 873
Total non-current	0	0

For all the financial liabilities the carry amounts represent a reasonable approximation of fair value.

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 2.6 months
- Accrued employer's NICs on exercisable share options with remaining contractual life of 2.29 years as at 31 December 2021. See Note 18 *Share option plans (equity-settled)* for additional information.

Maturity analysis

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

(in NOK 000)	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31. December 2021					
Lease liabilities	317	952	4 445	0	5 715
Trade and payables	18 256	1 650	0	0	19 906
	18 574	2 603	4 445	0	25 621

(in NOK 000)	< 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
As at 31. December 2020					
Lease liabilities	337	674	0	0	1 011
Trade and other payables	8 707	1 977	0	0	10 684
	9 045	2 651	0	0	11 695

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, the Group may issue new shares and/or debt.

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

(in NOK 000)	2021	2020
Trade and other payables	20 406	11 873
Less: cash and short-term deposits	-157 810	-77 209
Net debt	-137 403	-65 336

The Group's capital structure is primarily based on deposits.

12 Inventories

(in NOK 000)	2021	2020
Components; mainly wafers (at cost)	25 304	19 215
Finished goods; lenses and driver ASICs (at cost)	4 730	2 622
Obsolescence provision (expensed as cost of sales)	-13 198	-12 671
Total inventories at the lower of cost and net realisable value	**16 836**	**9 166**

During 2022, NOK 0.5 million (2020: NOK 0.1 million) was recognised as an obsolescence expense for inventories carried at net realisable value. This is recognised in cost of sales.

13 Cash and short-term deposits

(in NOK 000)	2021	2020
Cash at banks	156 365	76 335
Restricted cash, taxes withheld	1 263	692
Restricted cash, deposits	181	181
Cash and short-term deposits	**157 810**	**77 209**

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

14 Issued capital and reserves

	2021	2020
Ordinary shares	10 385 096	9 048 822

The shareholders are presented in Note 16 *Share capital and shareholder information*, in the financial statement of the parent company, poLight ASA.

Shares issued and fully paid	Number of shares	Issued share capital *(in NOK 000)*
At 1 January 2020 of NOK 0.20 each	8 116 592	1 623
Private placement on 16 April 2020 each with a par value of NOK 0.20	727 273	145
Subsequent offering on 28 May 2020 each with a par value of NOK 0.20	181 818	36
Exercise of share options on 26 June 2020 each with a par value of NOK 0.20	20 689	4
Exercise of share options on 1 September 2020 each with a par value of NOK 0.20	2 450	0
At 31 December 2020	**9 048 822**	**1 810**
Exercise of share options on 3 March 2021 each with a par value of NOK 0.20	79 378	16
Private placement on 13 September 2021 each with a par value of NOK 0.20	1 136 363	227
Exercise of share options on 29 September 2021 each with a par value of NOK 0.20	4 137	1
Subsequent offering on 21 October 2021 each with a par value of NOK 0.20	116 396	23
At 31 December 2021	**10 385 096**	**2 077**

(in NOK 000)	**Share premium**
At 1 January 2020	632 682
Private placement on 16 April 2020 of NOK 55 each	39 855
Subsequent offering on 28 May 2020 of NOK 55 each	9 964
Exercise of share options on 26 June 2020 average of NOK 33,11	681
Exercise of share options on 1 September 2020 average of NOK 21,81	53
Decrease due to transaction costs for issued share capital	-3 005
At 31 December 2020	**680 229**
Exercise of share options on 3 March 2021 average of NOK 40.36	3 188
Private placement on 13 September 2021 of NOK 110 each	124 773
Exercise of share options on 29 September 2021 average of NOK 46.57	192
Subsequent offering on 21 October 2021 of NOK 110 each	12 780
Decrease due to transaction costs for issued share capital	-7 530
At 31 December 2021	**813 632**

The board is authorised to increase the share capital issuing new shares up to a total nominal value of NOK 365 128 (1 825 640 shares at par value of NOK 0.2) that is approximately 20 per cent of shares outstanding, in addition to shares through share option schemes.

Share option schemes

The board is authorised to issue shares through share option schemes up to a total nominal value of NOK 182 564 (912 820 shares at par value of NOK 0.2), that is approximately 10 per cent of shares outstanding. The company's share option schemes, with the opportunity to subscribe for shares in poLight, have been offered all employees (Note 18 *Share option plans (equity-settled)*).

15 Provisions

(in NOK 000)	**Warranty provision**	**Liability**	**Claims**	**Total**
At 1 January 2020	0	1 512	1 189	2 701
New or increased provisions	0	0	0	0
Utilised	0	-1 512	0	-1 512
At 31 December 2020	**0**	**0**	**1 189**	**1 189**
New or increased provisions	500	0	0	500
Utilised	0	0	0	0
Unused reversed as administrative expense	0	0	-1 189	-1 189
At 31 December 2021	**500**	**0**	**0**	**500**

Expected timing of cash flow

(in NOK 000)	**Warranty provision**	**Liability**	**Claims**	**Total**
Current, < 1 year	500	0	0	500
Non-current	0	0	0	0
At 31 December 2021	**500**	**0**	**0**	**500**

Warranty provision

A general provision to meet potential claims under the warranty clause was recognised in 2021.

Liability

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, that was utilised in first half of 2020.

Claims

On 14 September 2018, the Norwegian Tax Administration for South Norway (Skatteetaten Sør-Norge) excluded poLight ASA from the Norwegian VAT Register and claimed repayment of refunded VAT, with effect from 1 January 2013, totalling NOK 13.6 million. The Norwegian Tax Administration claimed that the company was not capable of being profitable and did not therefore qualify as a "business" pursuant to the Norwegian laws and regulations regarding VAT. In September 2018, the decision was appealed to the Tax Appeals Board (Skatteklagenemda). The entire claim was paid in 2018, except the additional associated taxes of NOK 1.2 million.

On 28 August 2020, the tax authorities decided to re-register poLight ASA in the VAT Register with effect from July 2020 on ordinary terms. The receivable of NOK 8.2 million was recognised in the third quarter 2020, whereof NOK 7.6 million as a reduction of administrative expenses. The cash proceeds from this ruling were received in the fourth quarter 2020.

On 16 December 2021, Norway's Tax Appeals Board issued a final decision and upheld the appeal filed by poLight giving full refund of the VAT claim. NOK 12.4 million was recognised in the fourth quarter 2021, whereof NOK 11.6 million as a reduction of administrative expenses and NOK 0.8 as financial income. The outstanding amount was received in January 2022.

16 Government grants

(in NOK 000)	**2021**	**2020**
Receivable at 1 January	5 014	1 809
Received during the year	-9 621	-5 740
Grants recognised as reduction of research and development expenses in the consolidated statement of income	11 886	8 946
Receivable at 31 December	**7 280**	**5 014**

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 has in addition received Tax Refund grants related to project for application reference design enabled by poLight technology, autofocus lens and ASIC projects.

(in NOK 000)	**2021**	**2020**
Current	7 280	5 014
Non-current	0	0
Total	**7 280**	**5 014**

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, Finland and China 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 2021 5.55% of the salary between 1G (1G=NOK 106,399) and 7.1G, and 8% of the salary 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.

(in NOK 000)	**2021**	**2020**
Defined contribution plan	734	861
Social security tax	104	121
Total pension cost	**838**	**983**

18 Share option plans (equity-settled)

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 in each agreement 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 are 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. Exercisable share options may as a general rule, be exercised and shares issued once per quarter each following the release of poLight ASA's quarterly reports.

Share option expense

(in NOK 000)	**2021**	**2020**
Share based compensation costs	4 385	3 672
Accrued social security	6 852	2 046
Recognised as employee benefits expense	**11 236**	**5 718**

For additional details of the expense recognised in profit or loss, see Note 5.2 *Employee benefits expense*.

The board is authorised to issue additional shares - in share option scheme - up to total par value of NOK 182 564 (912 820 shares at par value of NOK 0.2).

Outstanding share options at December 31, 2021

Year issued	**Exercise price (NOK)**	**Outstanding no. of share options**	**Exercisable no. of share options**	**Remaining contractual life (years)**	**Total expensed (in NOK 000)**	**Remaining estimated expense (in NOK 000)**
2018	50,00	327 903	327 903	1,80	6 320	0
2019	18,90	40 442	40 442	2,47	375	0
2019	27,00	49 886	49 886	2,47	303	0
2019	33,75	67 275	39 175	2,47	259	3
2020	74,90	189 667	85 167	3,67	5 311	1 171
2021	114,00	134 000	4 250	4,45	1 413	7 581
Total		**809 173**	**546 823**		**13 980**	**8 756**

Reconciliation of outstanding share options

	2021		2020	
	Number of share options	WAEP	Number of share options	WAEP
Outstanding at 1 January	764 132	50.5	590 826	41.6
Granted during the year	134 000	114.0	198 000	74.9
Forfeited during the year	-5 444	41.5	0	
Exercised during the year	-83 515	40.7	-23 139	31.9
Expired during the year	0		-1 555	45.6
Outstanding at 31 December	**809 173**	62.1	**764 132**	50.5
In % of outstanding shares	**7.79 %**		**8.44 %**	
Exercisable at 31 December	546 823	48.8	402 902	44.9

The weighted average exercise price (WAEP) for the share options exercised during 2021 was NOK 40.7 (2020: NOK 31.9), and the average market price at the exercise dates was NOK 132.1 (2020: NOK 60.9).

The weighted average exercise price for the share options outstanding as at 31 December 2021, was NOK 48.8 (2020: NOK 50.5) with a range from NOK 18.90 to NOK 114. The weighted average remaining contractual life for the share options outstanding as at 31 December 2021 was 2.85 years (2020: 3.47 years).

At the end of the year, the weighted average exercise price was NOK 48.8 (2020: NOK 44.9) on exercisable options.

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

Share option valuation

The fair value of the options granted in 2021 has been calculated to NOK 5.8 million excluding social security expenses (2020: NOK 6.5 million), by using the Black-Scholes option pricing model.

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

	2021	2020
Price at grant date	NOK 114.4	NOK 75.7
Exercise price	NOK 114.0	NOK 74.9
Maximum[1)] option life	5 years	5 years
Assumed option life	4 years	4 years
Risk-free interest rate	1.15%	0.4%
Volatility	80 %	60 %
Fair value per share option	NOK 67.1	NOK 34.7

1) The share options expire 5 years from the date of the grant, but 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 deemed based on historic volatility.

Sensitivity analysis

The fair value of the share options granted in 2021 of NOK 5.8 million was determined based on an assumption of a volatility of 80%. At a volatility of 90%, holding other assumptions constants, would have increased the fair value with NOK 0.5 million over the three-year vesting period. A decrease in the assumed lifetime of the share options from 4 years to 3.5 years, would have decreased the fair value with NOK 0.6 million over the vesting period.

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, Finland and China. The premises in Norway comprises 852 square meters. The contract expires in July 2024 with an option to extend the lease agreement with additional 2 years. The option is assumed to be utilised determining the lease period, increasing the lease assets and liabilities.

The office lease terms in Finland and China are terminable by both lessee and lessor with twelve months' notice 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

(in NOK 000)	**2021**	**2020**
At 1 January	964	1 923
Additions	5 309	237
Termination of contract	-465	0
Depreciation expense	-1 029	-1 197
At 31 December	**4 778**	**964**

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

(in NOK 000)	**2021**	**2020**
At 1 January	1 048	2 007
Additions	5 309	160
Termination of contract	-522	0
Interest expense	243	69
Payments	-1 202	-1 188
At 31 December	**4 876**	**1 048**
Current, < 1 year	942	1 048
Non-current	3 934	0

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

The following are the amounts recognised in profit or loss:

(in NOK 000)	2021	2020
Depreciation expense of right-of-use assets	1 029	1 197
Interest expense on lease liabilities	243	69
Expense relating to short-term leases (included in research and development expenses)	389	419
Expense relating to short-term leases (included in sales and marketing expenses)	202	121
Expense relating to leases of low-value assets (included in administrative expenses)	40	47
Total amount recognised in profit or loss	**1 904**	**1 851**

The Group had total cash outflows for leases of NOK 1 833 in 2021 (2020: NOK 1 774). The Group also had non-cash additions to right-of-use assets and lease liabilities of NOK 5 309 in 2021 (2020: NOK 160). The addition is attributable to a new lease for the company's headquarters in Horten.

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	2021	2020
poLight ASA	R&D, Sales and management	Norway	100 %	100 %
poLight France SAS	R&D	France	100 %	100 %
poLight Finland Oy	R&D	Finland	100 %	100 %
poLight Hong Kong Limited	Holding company	HK, China	100 %	100 %
poLight (Shenzhen) Technical Service Company Limited	Sales	China	100 %	100 %

poLight ASA is the ultimate parent. None of the shareholders of poLight ASA has control of the company. As of 31 December 2021, the largest shareholder was Investinor Direkte AS, with an ownership of 17.14%.

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.

(in NOK 000)	2021	2020
Purchases from subsidiaries	11 532	12 043

Outstanding balances	Currency	2021	2020
Subordinated loan agreement	EUR 000	2 750	2 750
Trade and other payables	NOK 000	511	1 163

A subordinated loan agreement was concluded on 29 December 2016, 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 2021, 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 poLight France SAS, the currency translation effect is recognised in OCI. In the parent company an impairment loss of NOK 26 469 200 related to the subordinated loan have been recognised, whereof NOK 1 324 125 recognised in 2021.

Transactions with other related parties

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

Compensation to management personnel and board of director's

A separate remuneration report will be published on poLight's website as a part of the notification of the Annual General Meeting.

Management remuneration

In accordance with the Norwegian public Limited Companies Act §6-16 a, the board of directors prepares a separate statement related to the determination of salary and other benefits for the corporate management. The statement shall be subject to an advisory vote by the annual general meeting in accordance with §5-6 (3). The statement for 2021 will be submitted for approval in the annual general meeting 25 May 2022 and will be available on poLight ASA's website at the time the notice of the meeting is sent to the shareholders.

The total remuneration to the management consists of fixed salary, bonus, benefits in-kind, share option program and pension schemes. The fixed salary is subject to an annual evaluation, and any salary increases and other amendments to the employments terms shall be based on a review by the CEO and the Board each year, taking into account trends in local labour markets, the results achieved, and individual contributions to the development of the Company.

(in NOK 000)	**Salaries**	**Bonus**	**Pension costs**	**Other benefits**	**Value 1) share options**	**Total 2021**	**2020**
Øyvind Isaksen - CEO	3 157	667	93	533	1 203	5 653	6 130
Pierre Craen - CTO 2)	2 120	292	15	0	321	2 747	2 617
Alf Henning Bekkevik - CFO	1 352	175	89	17	27	1 661	1 903
Marianne Sandal - COO	1 664	217	104	48	321	2 354	2 325

1) Fair value of the share options vested in 2021 are calculated using the Black-Scholes option pricing model at the date of the grant. Gain on exercised share options in 2021 was:
    a. Pierre Craen (CTO) NOK 1,288.1 thousand (2020: NOK 298.7 thousand)
    b. Alf Henning Bekkevik (CFO) NOK 1,372.7 thousand
    c. Marianne Sandal (COO) NOK 1,372.7 thousand
2) Pierre Craen has for the period 1.1.2021-31.12.2021 invoiced NOK 2,172 thousand of the remuneration through Tilia-Blue SRL as a consultant, included in the above figure.

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

Below is an overview of poLight management's and board members' granted share options:

	Opening balance	Forfeited options	Exercised options	Granted options	Ending balance	Exercisable options
Øyvind Isaksen - CEO	336 750	0	0	0	336 750	281 426
Pierre Craen - CTO	76 833	0	-14 711	0	62 122	47 581
Alf Henning Bekkevik - CFO	63 000	0	-12 778	0	50 222	47 028
Marianne Sandal - COO	84 500	0	-12 778	0	71 722	57 181
	561 083	0	-40 267	0	520 816	433 216

Pierre Craen has for the period 1.1.2021-31.12.2021 invoiced NOK 2,172.3 thousand of the remuneration through Tilia-Blue SRL as a consultant.

The exercise price on exercisable share options at 31 December 2021 was NOK 47.8 per share in average. 40,267 share options were exercised in 2021.

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 and exercisable.

Remuneration members of the board

(in NOK 000)	2021	2020
Ann-Tove Kongsnes - chair of the board	288	175
Eivind Bergsmyr - former chair of the board [1)]	0	350
Grethe Viksaas	213	175
Svenn Tore Larsen	213	175
Juha Alakarhu [2)]	213	175
Thomas Görling [3)]	125	0

1) Resigned from the Board on May 26, 2021
2) In addition to the remuneration received, Juha Alakarhu has invoiced NOK 12.4 thousand through Spektro Oy as an consultant.
3) Member from May 26, 2021

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, Thomas S. Wrede-Holm, Jan-Erik Hæreid and Anne E. H. Worsøe were each remunerated with NOK 20,000.

21 Events after the end of the reporting period

No events have occurred after the end of the reporting period that requires disclosure. Since poLight does not have any operations, customers or direct suppliers in Russia or Ukraine, except a consultant in Moscow, the war has so far not led to any consequences of significance for the operations in poLight.

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

(in NOK 000)	Note	2021	2020
Sale of goods	2	8 683	2 590
Rendering of services	2	1 350	463
Revenue		**10 032**	**3 053**
Cost of sales	12	3 851	698
Gross profit		**6 182**	**2 355**
Research and development expenses		-26 142	-21 318
Sales and marketing expenses		-7 866	-5 525
Operational / supply chain expenses		-9 139	-7 972
Administrative expenses		-8 127	-8 999
Depreciation, amortisation and net impairment losses	9,10	-10 855	-10 882
Operating profit / loss (-)		**-55 948**	**-52 342**
Net financial items	7	1 728	2 491
Profit / loss (-) before tax		**-54 220**	**-49 851**
Income tax expense	8	0	0
Profit / loss (-) for the year		**-54 220**	**-49 851**
Allocated to/from:			
Share premium	17	-49 836	-46 179
Retained earnings	17	-4 385	-3 672
Profit / loss (-) for the year		**-54 220**	**-49 851**

Balance sheet poLight ASA – NGAAP as at 31 December

(in NOK 000)	Note	2021	2020
ASSETS			
Property, plant and equipment	9	2 280	768
Intangible assets	10	33 377	43 646
Investments in subsidiaries	11	320	320
Subordinated loan to subsidiaries	13,20	1 000	1 000
Total non-current assets		**36 977**	**45 733**
Inventories	12	16 836	9 166
Trade receivables	13	2 506	317
Other receivables	13	20 325	9 514
Cash and cash equivalents	15	154 660	74 462
Total current assets		**194 326**	**93 459**
Total assets		**231 303**	**139 193**
EQUITY AND LIABILITIES			
Share capital	16,17	2 077	1 810
Share premium	17	209 320	125 752
Total equity		**211 397**	**127 562**
Trade payables	13	4 932	2 558
Public duties payable		10 894	3 355
Other payables	13	4 080	5 718
Total current liabilities		**19 906**	**11 631**
Total liabilities		**19 906**	**11 631**
Total equity and liabilities		**231 303**	**139 193**

Horten, 27 April 2022
THE BOARD OF DIRECTORS OF POLIGHT ASA

Ann-Tove Kongsnes (sign)
Chair

Thomas Görling (sign)
Board member

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

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

(in NOK 000)	Note	2021	2020
Operating activities			
Profit before tax		-54 220	-49 851
Depreciation, amortisation and net impairment losses	9,10	10 855	10 882
Changes in inventories, accounts receivables and accounts payable		-7 483	-1 846
Changes in other accruals		-1 029	-4 788
Net cash flows from / (used in) operating activities		**-51 877**	**-45 603**
Investing activities			
Purchase of property, plant and equipment	9	-2 099	-201
Dividend from subsidiaries	7	504	1 947
Net cash flows from / (used in) investing activities		**-1 595**	**1 746**
Financing activities			
Proceeds from Issue of ordinary shares	17	137 803	50 000
Proceeds from exercise of share options	17	3 397	738
Transaction costs on issue of shares	17	-7 530	-3 005
Net cash flows from / (used in) financing activities		**133 670**	**47 733**
Net increase in cash and cash equivalents		80 198	3 876
Cash and cash equivalents at 1 January	15	74 462	70 586
Cash and cash equivalents at 31 December	15	**154 660**	**74 462**

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. The consolidated financial statements of the Group have been prepared in accordance with IFRS. The Company's accounting principles are similar to the accounting principles for the Group unless otherwise noted. Financial statement disclosures for the Company that are substantially different from the disclosures from the disclosures for the Group are shown below. See notes to the consolidated financial statements.

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 control 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 operating 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 straight-line over its useful life. Research costs are expensed as incurred.

Fixed assets

Property, plant and equipment is capitalised and depreciated straight-line 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

The investments in subsidiaries are valued as cost 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 subsidiaries. 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)	**2021**	**2020**
By business area		
TLens®	10 032	3 019
Group revenue	0	34
Total	**10 032**	**3 053**
Geographical distribution		
America	2 618	291
Asia	6 026	1 815
Europe	1 388	946
Total	**10 032**	**3 053**

3 Specification of operating expenses by nature

(in NOK 000)	Note	2021	2020
Employee benefits expense[1)]	5,18	30 594	26 796
Depreciation, amortisation and net impairment losses	9,10	10 855	10 882
Other operating expenses	6,14	20 680	17 018
Total operating expenses		**62 130**	**54 697**

1) Including consultants engaged on long-term contract

4 Government grants

(in NOK 000)	2021	2020
At 1 January	5 014	1 809
Received during the year	-9 621	-5 740
Released to the statement of comprehensive income	11 886	8 946
At 31 December	**7 280**	**5 014**

poLight ASA has received grants for reimbursement of expenses related to technology and product development and customer product design.

5 Employee benefits expense

(in NOK 000)	2021	2020
Wages and salaries	16 512	18 956
Consultants engaged on long-term contract	7 830	0
Social security costs	3 245	2 951
Pension costs (note 18)	825	926
Other benefits and social costs	938	769
Share based compensation costs	11 236	5 718
Grants	-2 162	-2 525
Total employee benefits expense	**38 424**	**26 796**
Average number of full-time equivalents, employees	14	15
Average number of full-time equivalents, total including long-term contracts	19	15

All employees are included in a bonus programme, with identical bonus criteria for all. 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.

All employees in the group are included in a share option programme. Details are presented in Note 18 *Share option plans (equity-settled),* in the consolidated financial statement.

Management and board member's remuneration are presented in Note 20 *Related parties*, in the consolidated financial statement.

6 Auditor's remuneration

(in NOK 000)	2021	2020
Audit fee	640	214
Audit related fee	55	84
Tax fee	30	34
Other service fee	41	0
Total *(excluding VAT)*	**765**	**332**

7 Financial items

Finance income

(in NOK 000)	2021	2020
Interest income from group companies *)	0	0
Other interest income	1 365	782
Currency gain on loan to group companies	0	1 668
Reversal of impairment on group loan	1 324	0
Dividend subsidiaries	504	1 947
Other financial income (currency gain)	465	574
Total finance income	**3 659**	**4 970**

*) 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)	2021	2020
Other interest expenses	1	1
Currency loss on loan to group companies	1 324	0
Impairment of group loan	0	1 668
Other financial expenses (currency loss)	606	810
Total finance expenses	**1 931**	**2 480**

8 Income tax

Income tax expense

(in NOK 000)	2021	2020
Current income tax expense	0	0
Changes in deferred tax	0	0
Total income tax expense	**0**	**0**

Tax base calculation

(in NOK 000)	**2021**	**2020**
Profit before income tax	-54 220	-49 851
Permanent differences	9 603	5 762
Transaction costs on issue of shares	-7 530	-3 005
Government grants exempt from tax	-4 750	-3 736
Temporary differences	-390	-2 224
Adjustments previous year	-1 888	0
Tax base	-59 175	-53 054

Temporary differences:

(in NOK 000)	**2021**	**2020**
Inventories	13 198	12 671
Fixed assets	1 940	2 276
Intangible assets	24 095	24 708
Group loan	21 606	21 606
Provisions	500	466
Tax losses carry forward	629 155	569 980
Net deferred tax assets/(liabilities)	690 493	631 708
22 % deferred tax asset/(liability)	151 908	138 976
Unrecognised deferred tax assets	-151 908	-138 976
Recognised net deferred tax assets	0	0

Reconciliation of nominal tax rate to effective tax rate:

(in NOK 000)	**2021**
Calculated income tax at statutory rate of 22%	-11 928
Tax effect of permanent differences	456
Government grants exempt from tax	-1 045
Change in unrecognised deferred tax assets	12 933
Adjustments previous year	-415
Income tax expense	**0**
Effective tax rate	**0,0 %**

9 Property, plant and equipment

(in NOK 000)	Building	Equipment	Total
Cost at 1 January 2021	287	10 222	10 508
Additions	1 126	973	2 099
Disposals at cost	-287	-313	-599
Cost at 31 December 2021	**1 126**	**10 882**	**12 008**
Accumulated depreciation	-113	-9 387	-9 500
Accumulated impairment losses	0	-229	-229
Accumulated depreciation and impairment losses at 31 December 2021	**-113**	**-9 616**	**-9 728**
Net book value at 31 December 2021	**1 013**	**1 267**	**2 280**
Depreciation for the year	**113**	**474**	**587**
Estimated useful lives (years)	1)	3-7	
Amortisation plan	Linear	Linear	

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

10 Intangible assets

(in NOK 000)	Development costs and TLens patents	Software license	Total
Cost at 1 January 2021	78 184	171	78 355
Disposals	0	-61	-61
Additions	0	0	0
Cost at 31 December 2021	**78 184**	**110**	**78 294**
Accumulated amortisation	-26 527	-110	-26 637
Accumulated impairment losses	-18 280	0	-18 280
Accumulated amortisation and impairment losses at 31 December 2021	**-44 807**	**-110**	**-44 917**
Net book value at 31 December 2021	**33 377**	**0**	**33 377**
Amortisation for the year	**10 269**	**0**	**10 269**
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®.

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 which correlates with the remaining number of years of the first patent.

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	Date of foundation	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 2021
	NOK 000		NOK 000	NOK 000	NOK 000
poLight France SAS	80	10 000	0	-23 550	317
poLight Finland Oy	23	100	23	674	323
poLight Hong Kong Limited	202	200 000	202	202	0
poLight (Shenzhen) Technical Service Company Limited	246	200 000	94	1 522	373

The entities in France and Finland provide R&D services to poLight ASA, Norway. In China a sales office is established with a parent holding company in Hong Kong.

12 Inventories

(in NOK 000)	2021	2020
Work in progress (at cost)	25 304	19 215
Finished goods (at cost)	4 730	2 622
Obsolescence provision (expensed as cost of sales)	-13 198	-12 671
Total inventories at the lower of cost and net realisable value	**16 836**	**9 166**

During 2022, NOK 0.5 million (2020: NOK 0.1 million) was recognised as an obsolescence 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)	2021	2020
Trade receivable	0	0
Other receivables	0	0
Total	**0**	**0**

Subordinated loan

(in NOK 000)	**2021**	**2020**
Non-current receivables	27 469	28 793
Impairment	-26 469	-27 793
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)	**2021**	**2020**
Trade payables	511	1 163
Other payables	0	0
Total	**511**	**1 163**

14 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)	**2021**	**2020**
Within one year	1 273	1 047
After one year but not more than five years	4 445	0
More than five years	0	0
Total	5 718	1 047

15 Cash and short-term deposits

(in NOK 000)	**2021**	**2020**
Cash at banks and on hand	153 216	73 588
Restricted cash, taxes withheld	1 263	692
Restricted cash, deposits	181	181
Cash and short-term deposits	**154 660**	**74 462**

16 Share capital and shareholder information

	Number of shares	Par value	Book value
		NOK	NOK 000
Ordinary shares	10 385 096	0.20	2 077

Shareholders of poLight ASA at December 31, 2021	Ordinary shares	Share-holding	Voting rights
		%	%
Investinor Direkte AS	1 779 858	17.1 %	17.1 %
Stiftelsen Industrifonden	1 048 825	10.1 %	10.1 %
Nordnet Bank AB (nominee)	449 476	4.3 %	4.3 %
Nordnet Livsforsikring AS	425 822	4.1 %	4.1 %
ABN AMRO Global Custody Services (nominee)	390 101	3.8 %	3.8 %
VPF Pareto Investment	157 109	1.5 %	1.5 %
VPF Nordea Avkastning	155 615	1.5 %	1.5 %
VPF Nordea Kapital	113 988	1.1 %	1.1 %
LHH AS	100 000	1.0 %	1.0 %
Wiseth Holding AS	89 500	0.9 %	0.9 %
J.P. Morgan Bank Luxembourg S.A. (nominee)	74 528	0.7 %	0.7 %
Danske Bank A/S (nominee)	73 654	0.7 %	0.7 %
VPF Nordea Norge Plus	72 507	0.7 %	0.7 %
Stefan Sveen	66 500	0.6 %	0.6 %
Saxo Bank A/S (nominee)	60 686	0.6 %	0.6 %
Fjellstuens Eftf. AS	59 500	0.6 %	0.6 %
Kjell Mossefin	57 358	0.6 %	0.6 %
Trond Andersen	55 960	0.5 %	0.5 %
Asbjørn John Buanes	55 731	0.5 %	0.5 %
Erik Schellhorn	53 801	0.5 %	0.5 %
Total number of shares owned by top 20 shareholders	5 340 519	51.4 %	51.4 %
Number of shares owned by other shareholders	5 044 577	48.6 %	48.6 %
Total number of shares	10 385 096	100.0 %	100.0 %

At 31 December 2021, Øyvind Isaksen, CEO, owned 24,856 shares (0.24%), through his company Oimacon AS.

17 Equity

(in NOK 000)	Share capital	Share premium	Retained earnings	Total
Equity at 31 December 2020	1 810	125 752	0	127 562
Profit for the period			-54 220	-54 220
Issue of ordinary shares	251	137 553	0	137 803
Share options exercised	17	3 380	0	3 397
Transaction costs		-7 530	0	-7 530
Equity-settled share-based payment			4 385	4 385
Allocation to retained earnings		-49 836	49 836	0
Equity at 31 December 2021	**2 077**	**209 320**	**0**	**211 397**

18 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 2021, 15 members were covered by the plan.

(in NOK 000)	**2021**	**2020**
Defined contribution plan	734	861
Social security	104	121
Total pension cost	**838**	**983**

19 Provisions

(in NOK 000)	**Warranty provision**	**Claims**	**Total**
At 1 January 2021	0	1 189	1 189
New or increased provisions	0	0	0
Utilised	500	0	500
Unused reversed as cost of sales	0	-1 189	-1 189
At 31 December 2021	**500**	**0**	**500**

Expected timing of cash flow

(in NOK 000)	**Warranty provision**	**Claims**	**Total**
Current, < 1 year	500	0	500
Non-current	0	0	0
At 31 December 2021	**500**	**0**	**500**

Warranty provision

A general provision to meet potential claims under the warranty clause was recognised in 2021.

Claims

On 14 September 2018, the Norwegian Tax Administration for South Norway (Skatteetaten Sør-Norge) excluded poLight ASA from the Norwegian VAT Register and claimed repayment of refunded VAT, with effect from 1 January 2013, totalling NOK 13.6 million. The Norwegian Tax Administration claimed that the company was not capable of being profitable and did not therefore qualify as a "business" pursuant to the Norwegian laws and regulations regarding VAT. In September 2018, the decision was appealed to the Tax Appeals Board (Skatteklagenemda). The entire claim was paid in 2018, except the additional associated taxes of NOK 1.2 million.

On 28 August 2020, the tax authorities decided to re-register poLight ASA in the VAT Register with effect from July 2020 on ordinary terms. The receivable of NOK 8.2 million was recognised in the third quarter 2020, whereof NOK 7.6 million as a reduction of administrative expenses. The cash proceeds from this ruling were received in the fourth quarter 2020.

On 16 December 2021, Norway's Tax Appeals Board issued a final decision and upheld the appeal filed by poLight giving full refund of the VAT claim. NOK 12.4 million was recognised in the fourth quarter 2021, whereof NOK 11.6 million as a reduction of administrative expenses and NOK 0.8 as financial income. The outstanding amount was received in January 2022.

20 Related parties

poLight ASA is the ultimate parent. None of the shareholders of poLight ASA has control of the company. As of 31 December 2021, the largest shareholder is Investinor Direkte AS, with an ownership of 17.1%.

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 31.12.2020: EUR 2,750,000) was concluded on 29 December 2016, 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 2020, 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.

21 Events after the balance sheet date

No events have occurred after the balance sheet date that have a material effect on the financial statements. Since poLight does not have any operations, customers or direct suppliers in Russia or Ukraine, except a consultant in Moscow, the war has so far not led to any consequences of significance for the operations in poLight.

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To the General Meeting of poLight ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of poLight ASA, which comprise:

- The financial statements of the parent company poLight ASA (the Company), which comprise the balance sheet as at 31 December 2021, the statement of income and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of poLight ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2021, the statement of income, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- the financial statements comply with applicable statutory requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, and 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, and
- the financial statements give a true and fair view of the financial position of the Group as at 31 December 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Our opinion is consistent with our additional report to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with 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 as required by laws and regulations and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities 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.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of the Company for 2 years from the election by the general meeting of the shareholders on 28 May 2020 for the accounting year 2020.

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 of the current period. 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.

Impairment of intangible assets

Refer to section "Financial position" in the Board of Director's report, the summary of significant accounting policies in Note 2.3 under section "Impairment of non-financial assets", the section "Key sources of estimation uncertainty – significant accounting estimates" described in Note 3.2 under subsection "Impairment of non-financial assets", Note 9 Intangible assets, and Note 10 Research and development costs in the consolidated financial statements.

The Key Audit Matter	*How the matter was addressed in our audit*
The assessment of possible impairment of intangible assets with a total carrying value of NOK 33,4 million is considered to be a risk area due to the size of the balances and the inherent uncertainties related to successful commercialization of the TLens technology platform ("TLens"). Management has determined that it has one cash generating unit, the TLens, and has evaluated if there were impairment indicators present for the TLens at 31 December 2021. Management considers the primary indicator to assess for possible impairment would be a negative development in the price of the Company's shares or low market capitalization of the Company over a period time. Significant auditor judgment is required when evaluating whether management's assessment is reasonable and supportable. No impairment charges have been recognised during the year.	Our audit procedures in this area included: - We assessed management's process and results for identification and classification of cash generating units (CGUs) to ensure that they are appropriate and in accordance with IAS 38. - We challenged management's assessment and considered whether an evaluation of all relevant impairment indicators have been included based on our knowledge of the business, its operating environment, industry, current market conditions and other information obtained during the audit. - We engaged our own valuation specialists to assess the use of market capitalization as a representation of the fair value of the equity in the Company. - We assessed whether the volume of trading in the Company's shares supports that the market capitalization represents the fair value of the equity in the Company. - We considered the appropriateness of the disclosures in light of the requirements.

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other accompanying information otherwise appears to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable legal requirements.

Our opinion on the Board of Director's report applies correspondingly to the Corporate Governance Report.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and true and fair view of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, 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 and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group 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 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 ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We 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 or the Group'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 and the Group'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 and the Group 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 a true and fair view.
- 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 the Board of Directors 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the Board of Directors, 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.

Report on Other Legal and Regulatory Requirements

Report on compliance with Regulation on European Single Electronic Format (ESEF)

Opinion
We have performed an assurance engagement to obtain reasonable assurance that the financial statements with file name; "2138007ZPDNUIHX6Z659-2021-12-31-en", have been prepared in accordance with Section 5-5 of the Norwegian Securities Trading Act (Verdipapirhandelloven) and the accompanying Regulation on European Single Electronic Format (ESEF).

In our opinion, the financial statements have been prepared, in all material respects, in accordance with the requirements of ESEF.

Management's Responsibilities
Management is responsible for preparing, tagging and publishing the financial statements in the single electronic reporting format required in ESEF. This responsibility comprises an adequate process and the internal control procedures which management determines is necessary for the preparation, tagging and publication of the financial statements.

Auditor's Responsibilities
Our responsibility is to express an opinion on whether the financial statements have been prepared in accordance with ESEF. We conducted our work in accordance with the International Standard for Assurance Engagements (ISAE) 3000 – "Assurance engagements other than audits or reviews of historical financial information". The standard requires us to plan and perform procedures to obtain reasonable assurance that the financial statements have been prepared in accordance with the European Single Electronic Format.

As part of our work, we performed procedures to obtain an understanding of the company's processes for preparing its financial statements in the European Single Electronic Format. We evaluated the completeness and accuracy of the iXBRL tagging and assessed management's use of judgement. Our work comprised reconciliation of the financial statements tagged under the European Single Electronic Format with the audited financial statements in human-readable format. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Oslo, 27 April 2022
KPMG AS

Thomas Sørhaug

John Thomas Sørhaug
State Authorised Public Accountant

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