poLight ASA Annual Report

2018

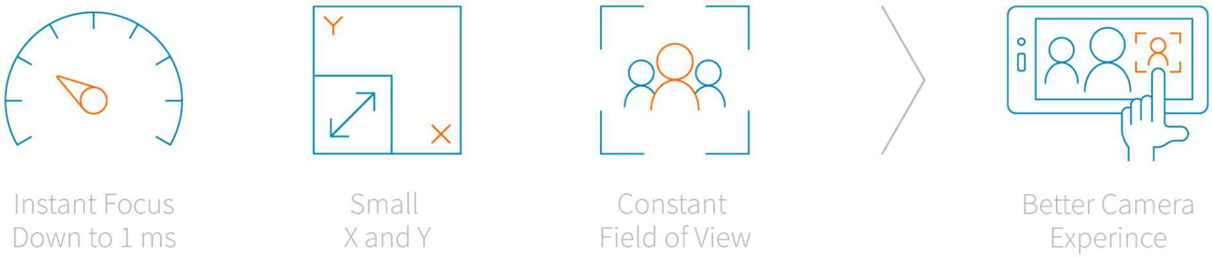
Contents

With technology replicating the lens of the human eye, poLight® is now ready to deliver solutions to the market that capture astonishing images with instant focus

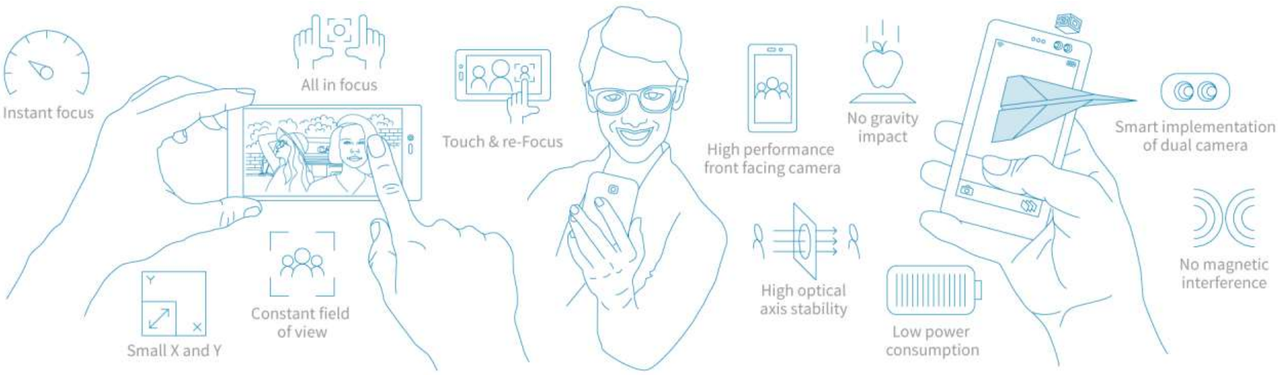
THIS IS POLIGHT

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

The patented, proprietary technology offers 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, will enable unique use cases both for single and multicamera smartphone implementations, front and back.



By combining the poLight lens with advanced image processing, new mobile applications can be created, such as: Instant Focus™, which instantaneously brings the image into focus; All in Focus™, which keeps all objects, from close to far, in focus; and full resolution focus after the fact, which enables the user to refocus the picture long after shooting it, without losing image quality.



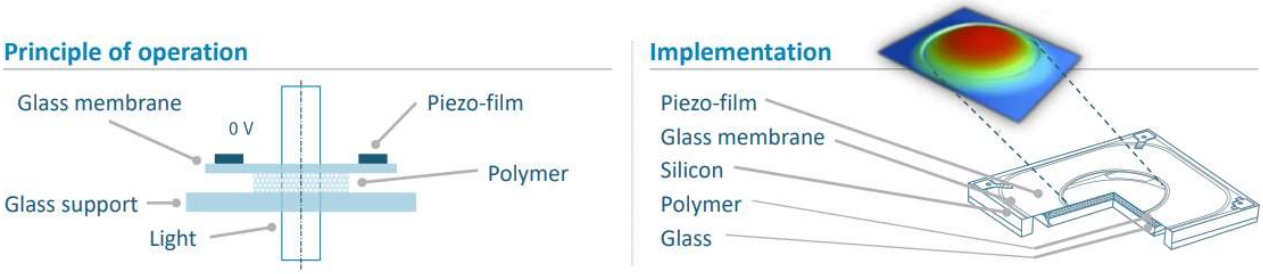
Furthermore, poLight's products have applications in other market areas such barcode, machine vision, medical equipment, augmented reality glasses and more.

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

Technology

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

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



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

Product portfolio

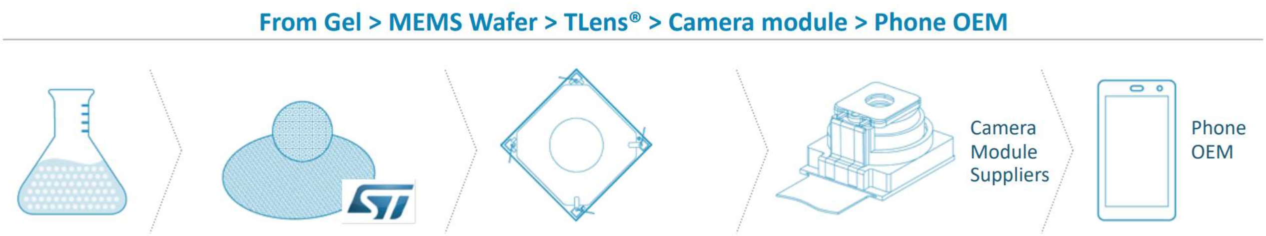
Based on the TLens technology platform (see above), poLight has already released its TLens Silver and TLens Silver Premium products to the market. TLens Platinum is the next product to be completed with expected market introduction in the fourth quarter of 2019 or early 2020. The main difference between the Tlens products from an application perspective 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 and Silver Premium are considered more suitable for a smartphone front-facing camera, wearables and for barcode readers. The TLens Platinum product is more suitable for rear-facing smartphone cameras due to wider front aperture diameters allowing for more light to reach the camera sensor.

In addition, the Company has released its own ASIC driver (PDA 50) which control the supply of variable voltage to all TLens products to change focus.

Supply Chain

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



Market

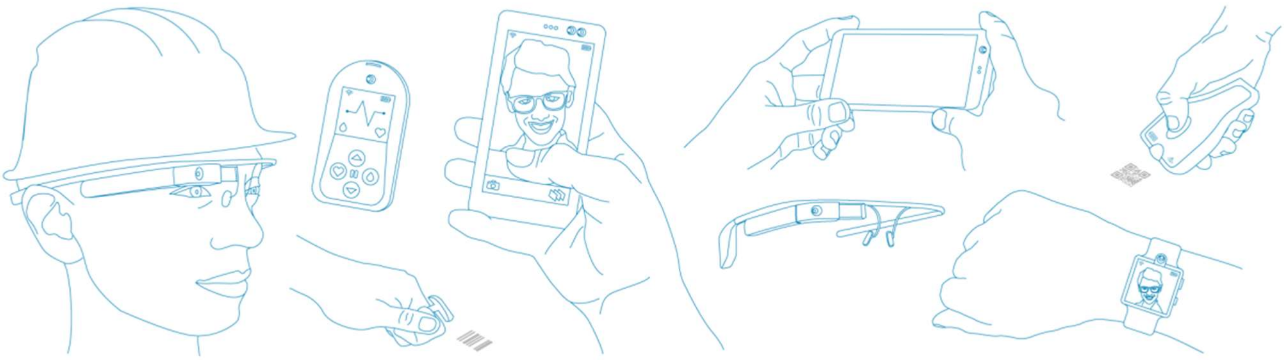
poLight’s TLens technology is suitable for application across multiple use-cases and equipment relying on compact and high-quality autofocus solutions that benefit from *e.g.* high-speed, small footprint and low power consumption. These include, but are not limited to, mobile phones, medical equipment, industrial scanners and readers, wearables, and AR (augmented reality) glasses.

Smartphones represent the biggest market currently being explored. The global market for mobile phones with a camera comprised an estimated 2 billion units sold in 2017, an increase of 3% from 2016, according to data from TSR[1]. Of these, approximately 1.5 billion were categorised as smartphones, corresponding to a market share of 77%. Virtually all current smartphones are shipped with both front-facing and rear-mounted cameras. Further, dual- or multi-camera solutions has become increasingly common. The multicamera trend generates new requirements like the need of nonmagnetic actuation, high optical axis stability solution as well as more compact AF actuation solutions.

[1] Techno System Research Co., Ltd

For most smartphone users, the camera is an important function. This assumption is supported by the uptake in the number of photos and videos recorded by mobile phones and smartphones distributed through globally leading social media applications such as Snapchat and YouTube. The deployment of 5G is expected reinforce this trend. New technology which enhances the camera related user-experience is therefore a key area of innovation for the smartphone players.

While the smartphone market offers a vast volume potential, it is also very cost sensitive and dynamic with short product life-cycles.



There are other attractive market segments with different characteristics such as longer product life-cycles, less cost pressure and lower volumes. One such segment is barcode readers, which today exist mostly of one-dimensional lasers. There is a rising demand for two-dimensional barcodes in several industries where the direct part marking is becoming crucial to establish more efficient and better controlled supply chain. A key factor to succeed in the market is to provide a product where they are able to mitigate the risk of scanning errors, secure high through put (high speed AF) and extended working range (AF capability) within their products. Annual volume demand in this segment for the various players are expected to be in the range of 0.1 million to 3 million units. Typically, product life time is from 5 to 10 years, as opposed to the smartphone market having product life time from 3 to 12 months.

Another emerging market is related to cameras used for AR (augmented reality) solutions. Augmented Reality (AR) provides the ability to overlay a visual and audio experience to a real-world environment as viewed through a computer, mobile device or special hardware. There are many use cases for AR from pure entertainment such as gaming, visiting places or seeing events, to real-world applications in medicine, education or the workplace. AR has the potential to become a new high-volume market for poLight over time.

Other examples of markets where poLight products and technologies have potential applications are smart-watches (or wearables in general), video-conferencing systems, computers/laptops and endoscopes.

MESSAGE FROM THE CEO

In 2018, poLight completed the transition to a fully commercially oriented company. We went from preparing our technology to delivering qualified TLenses and supporting potential customers in proof of concept (PoC) studies. These studies include multiple exciting applications ranging from smartphones and barcode readers to medical equipment and wearables such as smartwatches - all of which have one thing in common - they require compact, high-quality autofocus technology.

We also completed our initial public offering to raise new growth capital. It is an important step in maturing the company and poLight shares started trading on the Oslo Stock Exchange on 1 October. While providing financial market visibility and future access to capital, the IPO also reflects that we as a company is developing and have established key governance and risk management structures. These are important not only to investors but also to customers and partners.

We continuously work to improve our product platform, and its system integration, in relation to the robustness and applicability of TLens. Going into 2019 we were engaged in several PoC projects, with additional studies being planned within the smartphone market, barcode readers, AR devices, machine vision systems and smart watches. For us, this means that our technology is increasingly noticed and deemed relevant by a wider market. While the timing of a design win is subject to several factors outside of poLight's control, the progress made in 2018 and into 2019 strengthens our confidence in successful commercialisation of our technology.

I'd like to take the opportunity to thank the whole poLight team, our partners and investors, for their efforts and continued dedication to bringing our unique technology to the market. We continue to receive a steady increase in attention from new businesses evaluating TLens, representing high-value and very specialised use-cases to mass-market applications, and in our view, provide a foundation for significant long-term growth potential for the company.

Dr. Øyvind Isaksen
CEO, poLight ASA

BOARD OF DIRECTORS

Eivind Bergsmyr
Chair

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

Ann-Tove Kongsnes
Deputy chair

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

Per Anell
Board member

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

Johan Paulsson
Board member, Independent

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

Grethe Viksaas
Board Member, Independent

Ms. Viksaas has a long career from the Northern European managed service provider company Basefarm AS. First as founder and CEO, and later as working chair of the board of directors. Prior to her career in Basefarm, Viksaas served as CEO for SOL System AS and Infostream ASP. Viksaas has experience from numerous board positions, including Zenitel Group and ICT Norway. She is currently the Chair of the foundation Norsk Regnesentral and non-executive Director of the boards of Telenor ASA and Crayon Group. She also serves as board member in various start-up companies. Ms. Viksaas has a master's degree in computer science from the University of Oslo. She is a Norwegian citizen, currently residing in Oslo, Norway.

Management

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

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

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

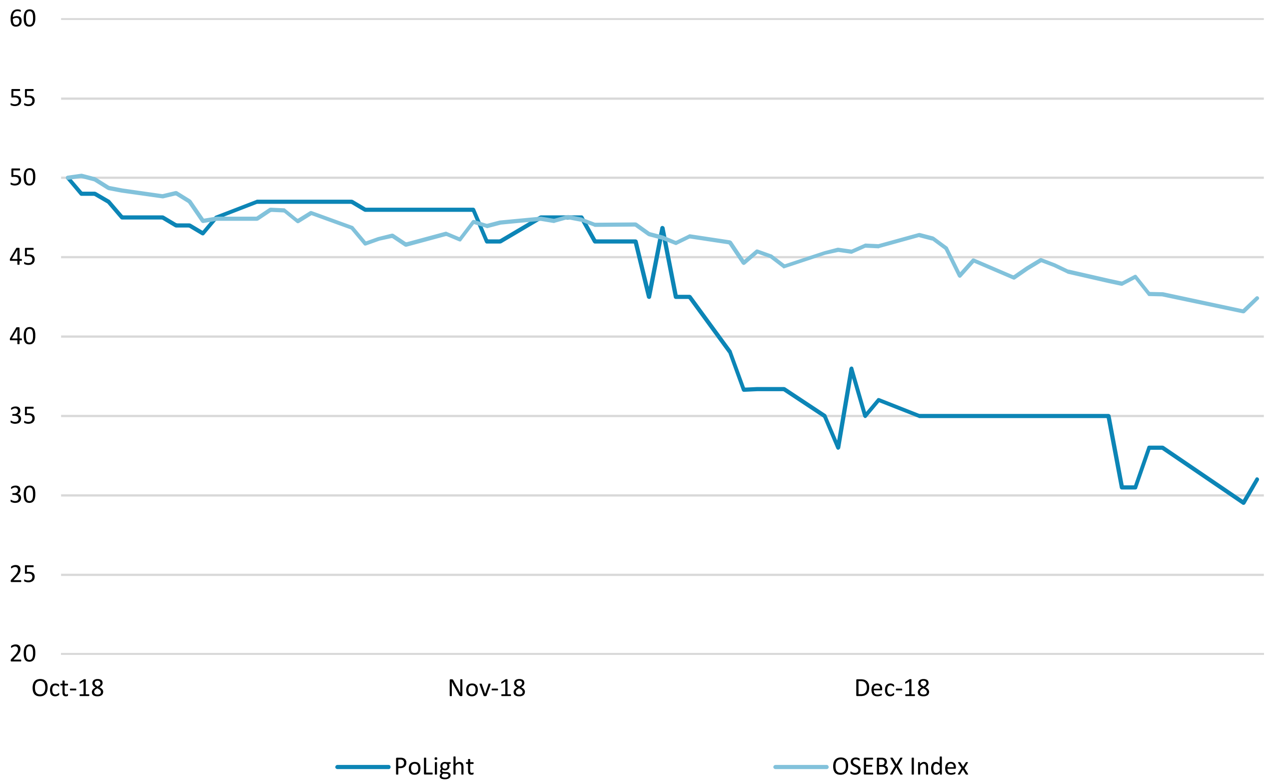
Marianne Sandal
Chief Operating Officer
Marianne Sandal has more than 15 years of experience heading worldwide operations in Nera ASA (telecommunications) and Q-Free ASA (intelligent transportation systems). Sandal holds a BSc Degree in Mechanical Engineering, in addition to courses in economics and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

INVESTOR INFORMATION

Share price development

poLight ASA has one class of shares. The shares were listed on Oslo Stock Exchange on 1 October 2018. There were 8,116,592 shares issued at the end of 2018, each with a nominal value of NOK 0.20.

In 2018, the group's shares traded between NOK 29.5 and NOK 50.4 per share. In total 410,300 shares were traded in 2018.



Major shareholders and voting rights

poLight had 448 registered shareholders in the Norwegian Central Securities Depository (VPS) at 31 December 2018, whereof shareholders owning 1% or more of the shares outstanding represented 81.5% of the share capital. The percentage of issued shares held by foreign shareholders was 28.1%. All the shares registered by name carry equal voting rights. The shares are freely negotiable.

poLight shareholders as at 31 December 2018	Ordinary shares	Share ownership	Voting rights
		%	%
Investinor AS	1 608 313	19,8 %	19,8 %
Viking Venture III AS	1 358 053	16,7 %	16,7 %
Northern Trust Global Services Plc[1)] (nominee)	947 644	11,7 %	11,7 %
Nordnet Bank AB (nominee)	396 836	4,9 %	4,9 %
Alliance Venture Polaris AS	380 278	4,7 %	4,7 %
VPF Nordea Avkastning	231 740	2,9 %	2,9 %
Arctic Funds PLC	230 476	2,8 %	2,8 %
Skandinaviska Enskilda Banken AB (nominee)	196 205	2,4 %	2,4 %
T.D. Veen AS	186 415	2,3 %	2,3 %
VPF Nordea Kapital	182 493	2,2 %	2,2 %
MP Pensjon PK	177 085	2,2 %	2,2 %
Sintef Venture III AS	174 129	2,1 %	2,1 %
Åstveit Investor AS	131 875	1,6 %	1,6 %
Verdipapirfondet Pareto Investment	124 458	1,5 %	1,5 %
Citibank, N.A. (nominee)	120 681	1,5 %	1,5 %
Verdipapirfondet Nordea Norge Plus	88 000	1,1 %	1,1 %
Nordea 1 SICAV	84 000	1,0 %	1,0 %
Total	6 618 681	81,5 %	81,5 %
Other (less than 1% ownership)	1 497 911	18,5 %	18,5 %
Total number of shares	8 116 592	100,0 %	100,0 %

1) Industrifonden AB

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 total par value of NOK 108 546, equal to 542 280 shares. As at 31 December, 421 475 share options (equal to 5.2% of shares outstanding) were issued, all at weighted average strike of 52.7 NOK /share.

Corporate actions	Date
Completion of initial public offering	27.09.18
Registration of share capital increase	28.09.18
Share listed on Oslo Stock Exchange	01.10.18
Shares issued under over-allotment option	02.11.19
Registration of share capital increase after over-allotment option	09.11.18

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 to grow the business. The company has not previously distributed any dividends to its shareholders and does not expect to pay any dividend in the foreseeable future. Any future decision to pay a dividend will depend on the company's financial position, operating profit and capital requirements.

Analyst coverage

Two analysts representing Norwegian and Nordic investment banks had active coverage of poLight in 2018. For contact details, please see the company website www.polight.com.

Financial calendar 2019

Date	Event
15 February 2019	Quarterly Report – Q4 2018
11 April 2019	Annual report 2018
10 May 2019	Quarterly Report - Q1 2019
28 May 2019	Annual General Meeting
16 August 2019	Half yearly Report 2019
24 October 2019	Quarterly Report - Q3 2019

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

BOARD OF DIRECTORS' REPORT

Through 2018, poLight made significant progress towards commercialization of its unique autofocus lens and engagements with potential customers in the smart phone, barcode, AR markets and other segments increased in number and scope. The progress was reflected in a steady increase in Proof-of-Concept (PoC) projects supported by poLight across a wider range of markets relying on small high-quality cameras.

On 27 September, poLight successfully completed its initial public offering (IPO). The IPO and listing enhance poLight's visibility in the financial market and ensure organised and regulated trading of the company's shares as well as provide future access to capital markets.

Additionally, the IPO represents a significant step in maturing poLight and a confirmation of the company's established governance and risk management infrastructure which are important factors for a wide range of stakeholders including investors, customers and partners.

The poLight share started trading on the Oslo Stock Exchange on Monday 1 October after issuing a total 2.6 million shares at NOK 50 each, raising gross proceeds of NOK 130 million. A further 93,781 shares were later issued under an over-allotment option as part of the transaction. A total of 95% of the shares were subscribed by investors in the institutional tranche and 5% to retail investors. Following completion of the IPO, poLight had more than 500 shareholders.

Other corporate events in 2018

The AGM held 13 June, elected Grethe Viksaas as a new board member, replacing Arne Hans Tonning. Ms. Viksaas has experience from numerous management and board positions. The AGM also appointed Jan-Erik Hareid, Erik Hagen and Haakon Jensen to serve as the company's nomination committee.

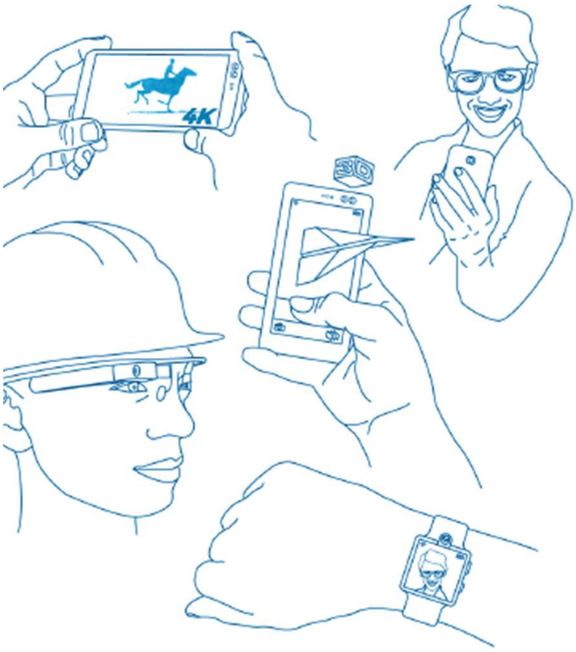
On September 14, poLight was notified by the Norwegian Tax Administration (Skatt Sør) that the authorities will claim repayment of refunded VAT, with additional associated taxes, for the period since 2013 following a ruling made by the tax administration. Additionally, Skatt Sør decided to strike poLight from the Norwegian VAT Register. poLight has appealed the ruling to the Skatteklagenemda (The Tax Appeals Board). See Note 15 to the consolidated financial statements for further details.

Manufacturing and operations

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

In 2018, ST focused on tuning various production processes to increase yield/performance of the Silver Premium wafers and some additional development activity related to the Platinum product. ST has during the year delivered Silver Premium and Platinum wafers used for customer proof-of-concept (PoC) projects and to buffer stock to prepare for a first order. poLight maintained focus on cash burn and risk, limiting material produced to volumes for debugging the manufacturing line, enabling customer sampling and preparations for a first design-win. The year-end manufacturing capacity was at just below 1 million lenses unyielded per month.

THEIL, the assembly partner in Taiwan, focused on adapting the assembly and final test process to cater for various TLens variants. The qualification process for the improved Silver Premium assembly process was the focus at the end of 2018 with completion planned late second quarter of 2019. TLens Platinum assembly progressed slowly as priority was given to the Silver Premium product.



poLight has started an internal project to establish redundancy and to minimise risk in supply chain, with focus on assembly processes.

Product development

poLight prioritised development of TLens Silver Premium in 2018, as well as finalising the qualification and developing system integration guidelines for the ASIC (PDA 50) which drives the various TLens products. Development projects related to TLens Platinum also progressed, but at a slower pace. Target is to start of product qualification in the second quarter and market release towards end of 2019 or early 2020. Timing will however depend on the Silver Premium project, which is prioritised.

In 2018, a significant part of poLight’s technical recourses were allocated to various internal and external customers qualification programs as wells continuous improvement processes for existing products.

Market

Marketing activities continued at a high level through 2018. In late February, poLight attended the Mobile World Congress (MWC) in Barcelona, Spain, with a team headed by Øyvind Isaksen, CEO. The team demonstrated poLight’s technology and updated potential clients on results from the product development- and qualification programs and discussed the usage of the TLens in different camera module systems. The sales office established in Shenzhen, China in 2017, was operational from 1 February 2018. poLight has two employees in China who support ongoing PoC-projects and sales activities.

Marketing in the mobile phone segment is focused on camera module makers and mobile phone manufacturers in China and Taiwan, but poLight has dialogues at various stages of maturity with other smartphone market participants in other regions. Activities related to potential customers in the barcode, AR markets and other segments also increased in number through the year and lead to the start of multiple POC projects.

Smart phone
Interest for poLight's TLens technology has increased following positive test results and an industry trend towards autofocus (AF) in the front-facing mobile phone camera used to capture selfies. Recently, smart-phone vendors have started evaluating AF solutions for dedicated high-frame-rate video cameras, for which TLens may be the preferred actuator due to speed and power consumption. Discussions related to the latter use-case are still at an early stage, but are expected to accelerate in response to increased sharing of videos captured by mobile devices with the introduction of high-speed 5G networks.

With regards to AF in front-facing cameras, the incumbent VCM players are developing a compact nose camera solution, which seems to require a smaller hole in the screen than the current TLens integration. VCM also represents a known technology and it is therefore likely the first AF for front camera chosen by a Chinese OEM will be VCM based. While this may affect timing of a design win for poLight in the Chinese smartphone market, it confirms the shift towards AF in front-facing cameras. poLight's technology offers several performance advantages compared to VCM which positions TLens as viable solution for AF front application over time.

As per end of December, poLight supported two PoC projects with well recognised mobile phone makers through four different camera module vendors. In addition;

- One PoC was technically finalised and is awaiting a potential real project
- One smartphone vendor began planning of a potential PoC in the quarter
- One smartphone vendor is evaluating the use of TLens, and has commenced performance and design assessments based on experience established by one camera module maker through several PoCs

All ongoing PoCs have reported overall positive performance results. However, xyz-constraints pose challenges for implementing AF solutions in front camera due to the current large-screen focus. The number of camera module vendors evaluating TLens technology is increasing on the back of to inquiries from mobile phone vendors.

The earliest potential release-date for a mobile phone with TLens will likely be late 2019 or first half 2020, which could imply, at the earliest, a design-win in mid-2019. Timing is difficult to predict as it depends on several factors, including results of ongoing PoCs and the technical features prioritized by the mobile phone companies at any point in time. Visibility related to the OEM´s release plans is limited.

More than ten mobile phone vendors have so far shown interest in TLens at different stages and six camera module vendors are currently supporting the interest from mobile phone vendors, some more mature than others.

Barcode
In 2018, poLight made further progress with potential customers in the Barcode reader market. Revenue and cash flow generated from a successful entry to this market could cover a significant part of the company's cost base. Additionally, the company has increased its assessment of financial potential represented by the barcode segment.

At year-end, poLight supported four PoC studies with four makers of barcode readers based on TLens Silver. The reported technical results from the PoCs have been positive. Planning related to specific applications and products continued with two of the PoCs. Another Tier 1 barcode reader maker is evaluating to start a PoC and has purchased an evaluation kit. A barcode product may last for 5-10 years with a potential annual volume ranging from some 10k units and up to 3 million units per account. Two of the ongoing PoC may lead to design-win in 2019.

Augmented reality (AR)
poLight continued its collaboration with augmented reality (AR) vendors considering using TLens for their AR-glasses. At year-end, four AR companies had acquired evaluation kits and progressed to starting PoCs/technical assessment. Two other players are evaluating starting PoCs. Additionally, the dialogue with the maker of smart watches that commenced in the third quarter has progressed to the PoC stage, supported by two different camera module vendors. These processes confirm that poLight may be positioned for several high-volume consumer electronics segments.

Other segments
There are a vast number of businesses from many industries that rely on small high-quality cameras. In 2018, the company sold evaluation kits to explore use of TLens products in a microscope used for biomedical research and for a machine-vision system for manufacturing equipment. This represent an interest from new market segments and confirms that the benefits of TLens are increasingly recognised. The company has also established dialogues with three companies developing smart watch/wearables products, of which one progressed to PoC. poLight's activities towards these market segments accelerated in the second half of 2018 and into 2019.

poLight made further progress towards securing the first customer commitment in 2018 and into 2019. While the maturity of the TLens technology, production ramp-up, and customer activity support a possible design-win in 2019, the timeframe for securing customer commitment remains uncertain, and that there is no guarantee that poLight will reach its target within the indicated time.

Organisation

poLight had 31 full-time and 3 part-time employees at the end of 2018, compared with 31 full-time and 2 part-time employees in 2017. In addition, 2 (3) consultants were hired on a long-term engagement. The employees were located in 5 (5) different countries and represented 10 (11) different nationalities. 26% (24%) of all employees were female. poLight is committed to be a healthy workplace, which provides equal opportunities for development to all employees, irrespective of gender, ethnicity, or other characteristics.

poLight is commitment to the health, safety, and welfare of its employees, their families, and its customers. Absence due to sickness in 2018 was 3.7%, compared with 1.8% in 2017. Absence due to sickness remains well below the national average of approximately 5.8% (2017: 5.9%). No work accidents caused personal injuries or material damage during 2018.

The company completed its IPO on 27 September and the shares started trading on the Oslo Stock Exchange under the ticker "PLT" on 1 October. The company completed the implementation of a professional management system which was initiated late in 2016, to support the change from being an R&D focused company, to an operational company with commercial deliveries and became ISO certified in August 2017.

Financial development, poLight group

The 2018 group revenue was NOK 1,038,000, compared with NOK 613,000 in 2017. The revenue reflected sale of samples and evaluation kits to potential customers.

Cost of sales was NOK 1.5 million in 2018 net of inventory impairments and provisions, compared with NOK 7.4 million in 2017. Cost of sales in 2017 reflected a reduction in inventory value (NOK 3.4 million) and a provision for incurred and expected costs related to unused fabrication capacity at (NOK 4 million). See note 12 and 15 for details.

R&D expenses amounted to NOK 28.9 million, an increase from NOK 21.1 million in 2017. (see Note 5.3 for details).

Sales and marketing expenses was NOK 7.6 million, little changed from 2017, reflecting continued high activity within the sales and marketing organization towards prospective clients. Administrative expenses were NOK 35.8 million (NOK 12.2 million). Administrative expenses for 2018 included the VAT claim and related costs of NOK 16.9 million, IPO expenses of NOK 4.4 million and employee bonuses of NOK 1.2 million. Operational/supply chain costs were NOK 3.4 million (3.3).

Depreciation and amortisation amounted to NOK 1.0 million (1.2 million).

The group operating loss was NOK 77.1 million, compared with an operating loss of NOK 52.1 million in 2017. Net financial items in 2018 were NOK 211,000 (1.5 million), reflecting mainly interest on bank deposits. Tax expenses in 2018 were NOK 243,000 (91,000).

The group net loss amounted to NOK 77.2 million in 2018, compared with NOK 50.7 million in 2017. This represented a loss in 2018 of NOK 13 per share on a fully-diluted basis, compared with a loss of NOK 9 per share in 2017.

Financial position

Total assets at 31 December 2018 were NOK 219.5 million, compared with NOK 171.1 million at year-end 2017. The increase in total assets for the year reflected the equity raised in the IPO partly offset by the net loss for the period. Total equity was NOK 201.5 million, compared with NOK 150 million at year-end 2017.
Intangible assets amounted to NOK 75.8 million at 31 December 2018 (NOK 67.4 million), reflecting capitalised R&D expenses over the year. Trade and other receivables were NOK 6.4 million (NOK 5.3 million), including recognised, not received governmental grants of NOK 5.8 million (NOK 4.4 million).

The cash position at 31 December 2018 was NOK 127.4 million, compared with NOK 93.6 million at the end of 2017. The change was mainly a function of the net cash raised in the IPO partly offset by liquidity consumed by operating activities and investments made through the year.

Long-term liabilities were nil (NOK 0.6 million). Total current liabilities at year-end 2018 were NOK 18.1 million, compared with NOK 20.5 million in 2017. The change reflected an increase in trade and other payables, more than offset reduced provisions related mainly to unused capacity at STMicroelectronics and reduced short-term borrowings.

Cash flow

Net cash flow used in operating activities was NOK 79.9 million in 2018, compared with NOK 46.9 million used in 2017. The 2018 net cash flow used in investing activities was NOK 9.2 million, compared with NOK 25.2 million used in 2017. The decrease was mainly due to lower R&D capital expenditures in the period. Net cash flow from financing was NOK 122.8 million in 2018 (NOK -1.2 million) and reflected net proceeds from the IPO.

Financial development, parent company

Revenue in the parent company was NOK 1.6 million in 2018 (NOK 1.1 million). Operating loss was NOK 79.1 million, compared with a loss of NOK 52.8 million in 2017, after total operating expenses of NOK 79.2 million in 2018 (NOK 46.5 million).

Included in the operating expenses were employee benefit expenses at NOK 28.3 million in 2018, compared with NOK 27.3 million in the preceding year. The parent company had on average 24.0 employees in 2018, compared with 23.3 in 2017. In 2018, other operating expenses net of capitalised R&D expense, amounted to NOK 50.0 million, compared with NOK 18.3 million in 2017. (See Note 3)

The net result for poLight ASA in 2018 was a loss of NOK 76.9 million, compared with a loss of NOK 50.3 million in 2017.

The board proposes that NOK 72.2 million is transferred from share premium and NOK 4.7 million from retained earnings. The board does not propose to pay a dividend for 2018.

Share capital

As at 31 December 2017, poLight ASA had a share capital of NOK 1,623,318.40 consisting of 8,116,592 shares, with a nominal value of NOK 0.20 each.

Date announced	Type of issue	Number of shares	Subscription price per share	Gross proceeds	Date registered
19 September 2018	IPO	2,600,000	NOK 50	NOK 130 million	28 September 2018
19 September 2018	Over-allotment option	93,781	NOK 50	NOK 4.7 million	9 November 2018

As part of the IPO preparations, the EGM on 20 August approved the following:

1. Increase the share capital by a bonus issue through an increase of the nominal value per share from NOK 0.0001 to NOK 0.0002
2. An issue of 505 new shares in a private placement at nominal value of NOK 0.0002 per share
3. A 1,000 to 1 reverse split, increasing the nominal value per share to NOK 0.20 and reducing the numbers of shares outstanding
4. Conversion of the company from a limited company (poLight AS) to a public limited company (poLight ASA)

poLight employees have been granted options to subscribe for shares under share options schemes. The board is authorised to issue shares - in share option schemes - up to total par value of NOK 108 546 (542 280 shares at par value 0.2). As at 31 December, 421 475 share options (equal to 5.2% of shares outstanding) were issued, all at weighted average strike of 52.7 NOK per share. Following the IPO there were no warrants outstanding.

Risks and risk management

poLight's risk management is based on the principle that risk evaluation is an integral part of all business activities. As a technology company with global operations, poLight is exposed to risk factors of financial and operational nature, which may affect business activities, and the company's financial position. The board of poLight places high priority on managing risk and has established routines and policies to limit overall risk exposure. Please see the IPO prospectus dated 19 September 2018 for additional information

Market risk: poLight develops highly innovative technological autofocus lenses for mobile phones and smartphones, and related products. The markets of these products are undergoing rapid technological 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 to ensure high-quality and cost-effective mass production.

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

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

Liquidity risk: poLight operates at a loss. In 2018, the company raised new equity through an initial public offering and subsequent listing on the Oslo Stock Exchange, with net proceeds of NOK 124 million. 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) on 17 October 2018. A separate section of this annual report provides further details on poLight Group's adherence to the corporate governance principles.

Corporate social responsibility

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

Going concern statement, and events in 2019

The Board confirms that the financial statements of the company, as well as of the parent company, have been prepared under the going concern assumption. The Board is confident that the company is well positioned to continue in operational existence, based on the current balance sheet, revenue forecast, and projected expenses. Current cash deposits will likely fund group activities into second quarter 2020.

Outlook

poLight's TLens product is subject to increased attention from a wide range of industries representing multiple applications. In the fourth quarter the company delivered five evaluation kits, and as of year-end poLight had delivered 3,765 units of TLens in 2018, compared to 1,700 in 2017. The increased market activity and interest for TLens products support increased confidence in commercialisation of poLight's technology.

Demand for auto focus (AF) in the front-facing camera remains a key driver for interest from the smartphone market. Additionally, poLight is experiencing interest for using TLens in dedicated high-frame-rate video cameras for smartphones targeting new applications driven by high-capacity 5G networks. The number of ongoing dialogues and PoCs with potential customers increased through 2018. Per end of December, poLight has carried out/is engaged in five PoCs, with one additional project in the planning phase. Further, one new OEM is considering use of TLens based on evaluations carried out by a leading camera module vendor which has worked with poLight for several years and supported several PoCs.

The technical feedback for the PoCs, which is driven by Chinese OEMs, has been overall good. However, the screen-size focus is challenging for TLens and other AF solutions with regards to xyz-dimensions. A compact VCM-solution will most likely be first out for AF front in a Chinese smartphone, but the advantages enabled by TLens will open opportunities for poLight in second generation AF for front facing camera. The earliest potential release date for a smartphone with TLens will likely be late 2019 or first half 2020, which could imply design-win earliest in mid-2019.

Current estimate for first potential design-win in the barcode market is second half of 2019 with product release in 2020. Barcode readers offer more steady and predictable volumes than the mobile phone segment and a design win in this segment may finance a significant part of the of the company's fixed cost. Interest from companies in mass-market segments such as AR and smart-watches confirm that poLight may be positioned for new industrial and high-volume applications. The number of businesses that evaluates TLens for various use-cases continues to increase and represents a significant long-term growth potential for the company.

Statement by the board of directors and the Chief Executive Officer

We confirm to the best of our knowledge that: the consolidated financial statements for 2018 have been prepared in accordance with IAS, as adopted by the EU, as well as additional information requirements in accordance with the Norwegian Accounting Act, and that the financial statements for the parent company for 2018 have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, and that the information presented in the financial statements provides a true and fair view of the company's and the group's assets, liabilities, financial position, and results for the period viewed in their entirety, and that the board of directors' report provides a true and fair view of the development, performance, and financial position of the company and the group, and includes a description of the material risks that the board of directors, at the time of this report, deems to potentially have significant impact on the financial performance of the group.

poLight ASA
Horten, 11 April 2019

Eivind Bergsmyr (sign) **Chair**	**Ann-Tove Kongsnes (sign)** **Deputy chair**	**Per Anell (sign)** **Board member**
Johan Paulsson (sign) **Board member, Independent**	**Grethe Viksaas (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 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 (or the "Board") and the executive management (or the "management") of the company.

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 for companies with shares listed on Oslo Stock Exchange and rules applicable for public limited companies in general.

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

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

Deviations from the code of practice:

- The majority of the members of the nomination committee is not independent of the Company's Board of Directors (section 7)
- The Company has not adopted guidelines for the management's possibility to engage the Company's auditor for non-auditing services (section 15)

The principles and implementation of corporate governance are subject to annual review by the company's Board of Directors. The corporate governance policy was last reviewed and approved 17 September 2018.

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 risk profile for the business 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 which represents the foundation of poLight's corporate culture and defines the core principles and ethical standards for its operations and the integration 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

At 31 December 2018, the company's consolidated equity was NOK 201.5 million, which is equivalent to 92% of total assets. Liabilities were mainly trade receivables and provisions. The Board of Directors is responsible for ensuring that the company 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 to grow the business. 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 20 August 2018, an extraordinary general meeting (EGM) granted the Board of Directors an authorisation to issue new shares to holders of share options in poLight that exercise their rights to subscribe for new shares. The authorization to issue new shares at nominal value NOK 0.20 each up to the share capital equivalent of NOK 108,546 kroner is valid until 20 August 2020.

On 6 September 2018, an extraordinary general meeting (EGM) granted the Board of Directors an authorisation to issue new shares to the share capital equivalent of NOK 200,000 as an over-allotment option for stabilisation activities after the Initial Public Offering (IPO) and public listing of poLight ASA on the Oslo Stock Exchange from 1 October. A share capital increase of NOK 18,756.20 was registered on 9 November following subscription under the over-allotment option which was valid until 31 December 2018.

The EGM on 6 September 2018 granted a general authorisation for the Board to issue shares and to increase the share capital by a maximum of NOK 108,546. The authorisation is valid until the AGM in the spring of 2019, but no later than 30 June 2019. The authorisation had not been utilized as at 31 December 2018.

The EGM also granted an authorisation for Board to buy back shares equal to share capital of NOK 108,546, or 10% of the outstanding share capital. The authorisation is valid until the AGM in the spring of 2019, but no later than 30 June 2019. The authorisation was not utilised as at 31 December 2018.

4. Equal treatment of shareholders and transactions with close associates

Pre-emption rights to subscribe

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

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

Approval of agreements with shareholders and close associates
In the event of transactions that are considered not immaterial between the company and its shareholders, a shareholder's parent company, members of the Board of Directors, executive personnel or close associates to any such party, the Board of Directors shall arrange for an independent third-party valuation. There were no transactions with close non-group associates in 2018. For more details see Note 20 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 shares of the company are freely negotiable.

6. General meetings

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

Notification
The Board will ensure that the resolutions and any supporting material shall be sufficiently detailed and comprehensive allowing shareholders to understand and form a view 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 recommendation from the nomination committee. The shareholders attending may vote for the Chairperson of the general meeting.

The Board of Directors and the chairperson of the general meeting shall ensure that the shareholders are able to vote separately on each candidate nominated for election.

Representatives of the Board of Directors and the leader of the nomination committee shall be present at general meetings. While, the Chair normally will be the chairperson at the general meetings, the Board of Directors will ensure that the general meeting also is able to appoint an independent chairperson.

In 2018, poLight held its AGM on 13 June, and held two EGMs, on 20 August and 6 September.

7. Nomination committee

Composition

The company shall have a nomination committee consisting of two to three members, cf. section 7 of its articles of association. The general meeting elects the members and the chairman of the nomination committee and determines their remuneration.

At 31 December 2018, the nomination committee consisted of the following three members: Erik Hagen, Haakon Jensen and Jan Erik Hæreid. The members were elected by the general meeting with a term until the company's AGM in 2019.

None of the committee members are members of the Board or executive management. The majority of the members of the nomination committee are not deemed independent of the company's Board of Directors and executive management.

Tasks

The nomination committee is responsible for recommending candidates for the election of members and chairman to the Board of Directors, and make recommendations for remuneration to the Board Members, including sub-committees of the Board, as well as recommending members to the nomination committee. 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 to the Board of Directors of poLight ASA. Nominations are submitted by sending an e-mail to erik.hagen@vikingventure.com. Nominations must be received well in advance to be considered for the election at poLight's annual general meeting. All proposals should include information about the candidate, grounds for consideration and contact information to the person the candidate is nominated by.

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 5 members. At 31 December 2018, the Board consisted of the following five members: Eivind Bergsmyr (Chair), Ann-Tove Kongsnes (Deputy Chair), Per Anell, Johan Paulsson and Grethe Viksaas.

The chairman of the board has been elected by the general meeting. The members of the Board of Directors are elected for a term of up to two years at a time and may be re-elected. poLight's annual report and the website provides information to illustrate the expertise of the members of the Board of Directors.

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

Name	Role	Considered independent	Served since	Term expires	Participation Board Meetings 2018	Shares in poLight (direct/ indirect)
Eivind Bergsmyr	Chair	No	September 2010	AGM 2019	100%	1,358,053 (1)
Ann-Tove Kongsnes	Deputy Chair	No	December 2011	AGM 2019	100%	1,608,053 (2)
Per Anell	Board member	No	June 2015	AGM 2019	69%	947,644 (3)
Johan Paulsson	Board member	Yes	August 2010	AGM 2019	92%	600 shares 3,500 options
Grethe Viksaas	Board member	Yes	June 2018	AGM 2019	54%	

1) Eivind Bergsmyr is a partner of Viking Venture which holds 1.36 million shares of poLight ASA
2) Ann-Tove Kongsnes is Investment Director and Head of International Affairs at Investinor AS which holds 1.61 million shares of poLight ASA
3) Per Anell is Investment Manager Technology at Industrifonden which holds 0.95 million shares of poLight ASA

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 the executive management, and to assure that the long-term interests of the shareholders and other stakeholders are served. The Board has the ultimate responsibility for management and the company's activities in general. The main responsibilities include the company's organisation and planning, and the control and supervision of operations.

The Board shall also ensure that the organisation of accounting and funds 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 executive management shall notify the Board of Directors in case of any material direct or indirect interest in a transaction entered by the company.

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

Audit committee

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

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

At 31 December 2018, the remuneration committee consisted of the following three members: Ann-Tove Kongsnes , Grethe Viksaas and Eivind Bergmyr..

Evaluation of the Board
The Board evaluates its performance and expertise annually.

10. Risk management and internal control

The Board places 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 through company's corporate values and ethical guidelines, including corporate social responsibility, into the company's value creation.

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 evaluation is an integral part of all business activities. As a technology company with global operations, poLight is exposed to various risk factors of financial and operational nature, which may affect business activities, and the company's financial position. The 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 reported to the financial market, in accordance with the Oslo Stock Exchange's requirements.
Detailed information on the company's operational and financial risks are included in the annual report and the prospectus dated 19 September 2018 and available at www.polight.com.

11. Remuneration of the Board of Directors

Remuneration of Board members is decided by the annual general meeting based on the nomination committee's recommendation. The remuneration 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 sub-committees to the Board of Directors shall be compensated separately. The company shall not provide loans to board members. Detailed information on the remuneration of the Board members is specified in note 5 of the Financial Statements of the parent company.

Board member Johan Paulsson holds share 3,500 share options in poLight. The options were awarded prior to the company's IPO and adoption of the Code of Practice.

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 appointment as a member of the Board of Directors, but if they do, this shall be disclosed to the full Board. The remuneration for such additional duties will be approved by the Board of Directors.

12. Remuneration of the executive management

The Board of Directors prepares guidelines for the remuneration of executive management of the company. These guidelines are communicated to the annual general meeting. Se note 5 of the Financial Statements of the parent company for further information.

Performance-related remuneration of the 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 value the company's shares. The information shall be presented factually and soberly, and it 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 primary channels for communication are the interim reports, the annual report and the 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 situation, 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 view on the offer.

The Board has established guiding principles for how it will act in the event of a take-over bid which 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 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 the shareholders on whether or not to accept the offer, it should explain the reasons for this. The Board of Director's statement on an offer 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 have excluded themselves from 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 position, but has ceased to hold such a position, is either the bidder or has a particular personal interest in the bid, the Board shall arrange an independent valuation. This shall also apply if the bidder is a major shareholder. Any such valuation should either be enclosed with the Board's statement or reproduced or referred to in the statement.

15. Auditor

The company's external auditor is EY.

The Board of directors ensures the auditor annually presents the main features of the plan for work with the audit of the company to the Board of Directors. Additionally, the Board requires the auditor to participate in meeting(s) of the Board of Directors where any of the following is on the agenda: the annual accounts, 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.

The Board of Directors will at least once a year together with the auditor review the company's internal control procedures, including identification of weaknesses and proposals for improvement.

The Board of Directors has not established guidelines for the executive management's right to use the auditor for other purposes than auditing.

The remuneration paid to the auditor is approved by shareholders at the AGM. The Board of Directors will provide a break-down of the fee paid for audit work and fees paid for other specific assignments, if any, to the general meeting.

GROUP FINANCIAL STATEMENTS

Consolidated statement of income for the year ended 31 December 2018

(in NOK 000)	**Note**	**2018**	**2017**
Sale of goods	4	1 038	613
Revenue		**1 038**	**613**
Cost of sales	12,15	1 488	7 400
Gross profit		**-450**	**-6 787**
Research and development expenses	5.3	-28 918	-21 051
Sales and marketing expenses	5.4	-7 586	-7 610
Administrative expenses	5.5	-35 770	-12 174
Operational / supply chain expenses	5.6	-3 384	-3 322
Depreciation, amortisation and net impairment losses	8,9	-1 025	-1 163
Operating profit		**-77 133**	**-52 107**
Net financial items	5.1,11.2	211	1 541
Profit before tax		**-76 922**	**-50 566**
Income tax expense	6	-243	-91
Profit for the year		**-77 165**	**-50 657**
Attributable to:			
Equity holders of the parent		-77 165	-50 657
Non-controlling interests		0	0
Earnings per share:			
Basic, attributable to ordinary equity holders of the parent (NOK)	7	-12,66	-9,34
Diluted, attributable to ordinary equity holders of the parent (NOK)	7	-12,66	-9,34

Consolidated statement of other comprehensive income for the year ended 31 December 2018

(in NOK 000)	**Note**	**2018**	**2017**
Profit for the year		**-77 165**	**-50 657**
Other comprehensive income			
Exchange differences on translation of foreign operations		-74	592
Income tax effect		0	0
Net other comprehensive income to be reclassified to profit or loss in subsequent periods		**-74**	**592**
Total comprehensive income for the year, net of tax		**-77 239**	**-50 065**
Attributable to:			
Equity holders of the parent		-77 239	-50 065
Non-controlling interests		0	0

Consolidated statement of financial position as at 31 December 2018

(in NOK 000)	Note	2018	2017	2016
ASSETS				
Property, plant and equipment	8	1 605	1 874	2 710
Intangible assets	9	75 829	67 444	42 514
Total non-current assets		**77 434**	**69 318**	**45 224**
Inventories	12	7 372	1 781	0
Trade and other receivables	11.1	6 399	5 260	6 543
Other current assets		901	1 127	826
Cash and cash equivalents	13	127 424	93 647	166 953
Total current assets		**142 095**	**101 816**	**174 321**
Total assets		**219 529**	**171 134**	**219 545**
EQUITY AND LIABILITIES				
Issued capital	14	1 623	542	542
Share premium	14	198 748	148 036	193 312
Other equity		1 085	1 417	1 183
Equity attributable to equity holders of the parent		**201 456**	**149 996**	**195 037**
Non-controlling interests		0	0	0
Total equity		**201 456**	**149 996**	**195 037**
Interest-bearing loans and borrowings	11.2	0	600	1 800
Total non-current liabilities		**0**	**600**	**1 800**
Trade and other payables	11.2	15 172	13 690	21 471
Interest-bearing loans and borrowings	11.2	600	1 200	1 200
Income tax payable	6	225	135	37
Provisions	15	2 076	5 513	0
Total current liabilities		**18 073**	**20 538**	**22 708**
Total liabilities		**18 073**	**21 138**	**24 508**
Total equity and liabilities		**219 529**	**171 134**	**219 545**

Consolidated statement of changes in equity for the year ended 31 December 2018

		Attributable to equity holders of the parent						
(in NOK 000)	Note	Issued capital	Share premium	Retained earnings	Foreign currency translation reserve	Total	Non-controlling interest	Total equity
As at 1 January 2017		**542**	**193 312**	**782**	**401**	**195 037**	**0**	**195 037**
Profit for the period				-50 657		-50 657	0	-50 657
Other comprehensive income					592	592	0	592
Total comprehensive income		0	0	-50 657	592	-50 066	0	-50 066
Value of share option plan	5.2,18			5 024		5 024		5 024
Allocation to retained earnings	14		-45 276	45 276		0	0	0
At 31 December 2017		**542**	**148 036**	**425**	**993**	**149 996**	**0**	**149 996**
Profit for the period				-77 165		-77 165	0	-77 165
Other comprehensive income					-74	-74	0	-74
Total comprehensive income		0	0	-77 165	-74	-77 239	0	-77 239
Value of share option plan	5.2,18			4 719		4 719		4 719
Increase of share capital	14	542	-542			0		0
Issue of share capital	14	539	134 150			134 689		134 689
Transaction costs	14		-10 709			-10 709		-10 709
Allocation to retained earnings	14		-72 187	72 187		0	0	0
At 31 December 2018		1 623	198 748	166	919	201 456	0	201 456

Consolidated statement of cash flows for the year ended 31 December 2018

(in NOK 000)	**Note**	**2018**	**2017**
Operating activities			
Profit before tax		-76 922	-50 566
Non-cash adjustment to reconcile profit before tax to net cash flows:			
Depreciation and impairment of property, plant and equipment	8	966	1 124
Amortisation and impairment of intangible assets	9	59	38
Share option plan expense	18	4 719	5 024
Other items related to operating activities		-300	-1 744
Net foreign exchange differences		-183	555
Movements in provisions and government grants	15,16	-3 456	6 524
Working capital adjustments:			
Increase in trade and other receivables and prepayments		532	-30
Increase in inventories	12	-5 591	-1 781
Decrease in trade and other payables		57	-7 683
Interest received	5.1	1 057	1 752
Interest paid	5.1	-740	-152
Income tax paid		-118	0
Net cash flows from / (used in) operating activities		**-79 919**	**-46 939**
Investing activities			
Purchase of property, plant and equipment	8, 9	-749	-305
Development capital expenditures	5.3, 9	-10 433	-26 021
Receipt of government grants	16	1 989	1 123
Net cash flows from / (used in) investing activities		**-9 193**	**-25 203**
Financing activities			
Issue of share capital	14	134 689	0
Transaction costs on issue of shares	14	-10 709	0
Repayment of borrowings	11.2	-1 200	-1 200
Net cash flows from / (used in) financing activities		**122 780**	**-1 200**
Net increase in cash and cash equivalents		33 667	-73 341
Effect of exchange rate changes on cash and cash equivalents		110	36
Cash and cash equivalents at 1 January	13	93 648	166 953
Cash and cash equivalents at 31 December	13	**127 424**	**93 648**

Notes to the Consolidated Financial statements

1 Corporate information

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

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

The consolidated financial statements of poLight ASA and its subsidiaries (collectively, poLight or the Group) for the year ended 31 December 2018 were authorised for issue in accordance with a resolution of the Board of Directors on 11 April 2019.

2 Significant accounting policies

2.1 Basis of preparation

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

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

Changes in accounting policies and disclosures

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The adoption of IFRS 9 did not have any impact on the financial statements.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

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

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

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

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

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

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

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

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

2.3 Summary of significant accounting policies

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

Current versus non-current classification

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

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

All other assets are classified as non-current.

A liability is current when:

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

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

Revenue from contracts with customers

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

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

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

Foreign currencies

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

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

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

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

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

Government grants

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

Taxes

Current income tax

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

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

Deferred tax

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

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

- When the deferred tax liability arises from the initial recognition of goodwill, or an asset or liability in a transaction that is not a business combination, and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled, and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

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

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

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

Property, plant and equipment

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

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

- Leased building: The duration of the lease agreement (1-2 years)
- Equipment: 3 to 5 years

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

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

Leases

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

Borrowing costs

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

Intangible assets

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

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

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

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

Research and development costs

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

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

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

Patents and licences

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

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

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

Financial instruments

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

i) Financial assets

The Group´s financial assets are trade receivables and cash and cash equivalents.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

The Group classified its financial assets in the category *Financial assets at amortised cost*. Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Groups financial assets at amortised cost includes trade receivables and other short-term deposit. Trade receivables that do not contain a significant financing component are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
    - the Group has transferred substantially all the risks and rewards of the asset, or
    - the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset

ii) Financial liabilities

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

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

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

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

Inventories

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

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

Raw materials:

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

Finished goods and work in progress:

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

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

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

Impairment of non-financial assets

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

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

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

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

The Group bases its impairment calculation on detailed budgets and forecasts. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

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

Cash and short-term deposits

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

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

Provisions

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

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

Pensions and other post-employment benefits

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

Share option plans

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

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

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

3 Significant accounting judgements, estimates and assumptions

Impairment of non-financial assets

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

Share option plans

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

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

Development costs

Development costs are capitalised in accordance with the accounting policy. Initial capitalisation of costs is based on management's assessment that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone, according to an established project management model. Cost of material used in manufacturing line until status "mass production" is achieved is recognised as development costs to the extent that it is not sellable parts. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied, and the expected period of benefits. At 31 December 2018, the carrying amount of capitalised development costs was NOK 75.8 million (2017: NOK 67.3 million, 2016: NOK 42.4 million).

4 Segment information

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

poLight's product TLens® may be used in cameras for smartphones, wearables (such as watches & glasses), and a wide range of industrial applications including medical and retail.

Geographical distribution	**Machinery & equipment**	
(in NOK 000)	**2018**	**2017**
Norway	1 492	1 076
France	7	565
Finland	62	57
Taiwan	25	176
China	19	0
Total	**1 605**	**1 874**

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

5 Other income/expenses and adjustments

5.1 Financial items

(in NOK 000)	**2018**	**2017**
Net foreign exchange gain (losses)	-292	-59
Interest income	1 057	1 752
Finance income	255	0
Interest expense on debts and borrowings	-202	-120
Interest expense on repaid VAT	-539	0
Finance expenses	-69	-32
Net financial items	**211**	**1 541**

5.2 Employee benefits expense

(in NOK 000)	2018	2017
Included in Research and development expenses:		
Wages and salaries	15 887	15 168
Social security costs	2 658	2 520
Pension costs (Note 17)	629	642
Other benefits and social costs	606	697
Value of share option plan (Note 18)	1 290	-1 455
Grants	-2 728	-1 999
Internal development of intangible assets	-2 706	-7 946
Included in Sales and marketing expenses:		
Wages and salaries	4 150	3 630
Social security costs	694	603
Pension costs (Note 17)	164	154
Other benefits and social costs	158	167
Value of share option plan (Note 18)	150	496
Included in Administrative expenses:		
Wages and salaries	7 465	6 024
Social security costs	1 249	1 001
Pension costs (Note 17)	295	255
Other benefits and social costs	285	277
Value of share option plan (Note 18)	2 695	2 575
Included in Operational/supply chain expenses:		
Wages and salaries	1 050	1 014
Social security costs	176	168
Pension costs (Note 17)	42	43
Other benefits and social costs	40	47
Value of share option plan (Note 18)	584	499
Total employee benefits expense	**34 832**	**27 489**
Average number of employees (full time employee)	34	32

5.3 Research and development expenses

(in NOK 000)	2018	2017
Employee benefits expense	21 070	20 483
Other operating expenses	24 113	33 347
Grants	-7 821	-7 880
Capitalised	-8 444	-24 898
Total Research and development expenses	**28 918**	**21 052**

Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are recognised as Research and development expenses. The TLens® Platinum development project was the only project eligible for capitalisation.

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

5.4 Sales and marketing expenses

(in NOK 000)	2018	2017
Employee benefits expense	5 317	5 050
Other operating expenses	2 269	2 561
Total Sales and marketing expenses	**7 586**	**7 610**

5.5 Administrative expenses

(in NOK 000)	2018	2017
Employee benefits expense	11 988	10 132
Other operating expenses	23 782	2 042
Total Administrative expenses	**35 770**	**12 174**

In September 2018, poLight ASA received a VAT claim from the Norwegian Tax Administration (Note 15). As per 31 December 2018 the monetary impact of the ruling amounted to NOK 16.9 million whereof NOK 15.7 million was recognised as administrative expenses.

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

5.6 Operational/supply chain expenses

(in NOK 000)	2018	2017
Employee benefits expense	1 892	1 771
Other operating expenses	1 492	1 551
Total Operational/supply chain expenses	**3 384**	**3 322**

5.7 Auditor's remuneration

(in NOK 000)	2018	2017
Audit fee	280	367
Audit related fee	526	38
Tax fee	245	183
Other service fee	240	100
Total Auditor's remuneration *(including VAT)*	**1 291**	**688**

6 Income tax

The significant components of income tax expense are:

(in NOK 000)	2018	2017
Consolidated statement of profit or loss		
Current income tax expense	243	91
Adjustments in respect of current income tax of previous year	0	0
Deferred tax:		
Relating to origination and reversal of temporary differences	0	0
Income tax expense reported in the statement of profit or loss	**243**	**91**

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

(in NOK 000)	2018	2017
Calculated income tax at statutory rate of 23% (2017: 24%)	-17 692	-12 136
Government grants exempt from tax	-1 194	-699
Tax effect of permanent differences	1 134	1 516
Transaction costs private placement	-2 463	0
Change in unrecognised deferred tax assets	15 444	7 785
Change in tax rate	5 019	4 157
Effect of different tax rates compared with Norwegian tax rate	60	3
Effect on items recognised in OCI	-65	-535
Income tax expense	**243**	**91**
Effective tax rate	**0.3 %**	**0.2 %**

Deferred tax

Deferred tax relates to the following:

	Consolidated statement of financial position			Consolidated statement of income	
(in NOK 000)	**2018**	**2017**	**2016**	**2018**	**2017**
Non-current assets	2 224	1 975	1 845	-250	-130
Current assets	2 609	1 693	0	-917	-1 693
Group receivables	-1 047	-1 030	-540	17	490
Provisions and other liabilities	195	1 437	0	1 242	-1 437
Losses available for offsetting against future taxable income	108 192	92 655	87 640	-15 537	-5 016
Deferred tax expense/(income)				**-15 444**	**-7 785**
Net deferred tax assets/(liabilities)	**112 174**	**96 729**	**88 944**		

Reflected in the statement of financial position as follows:

Deferred tax assets	113 221	97 760	89 484
Deferred tax liabilities	-1 047	-1 030	-540
Unrecognised deferred tax assets net	-112 174	-96 729	-88 944
Deferred tax liabilities net	0	0	0

Total unrecognised deferred tax assets relate to

(in NOK 000)	2018	2017
Norway	105 548	90 070
France	7 673	7 690
Total	**113 221**	**97 760**

7 Earnings per share

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

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

	2018	2017
Weighted average number of ordinary shares for basic EPS	6 096 256	5 422 810[1)]

1) The number of shares is adjusted in accordance with the reversed spit of 1000:1 of 20 August 2018

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)	2018	2017
Earnings per share for income attributable to equity holders of poLight:		
Basic	12.66	-9.34
Diluted	12.66	-9.34

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

8 Property, plant and equipment

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

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

(in NOK 000)	**Building**	**Equipment**	**Total**
Cost at 1 January 2018	287	14 189	14 475
Additions	0	749	749
Disposals at cost	0	-3 092	-3 092
Effect of changes in foreign exchange	0	21	21
Cost at 31 December 2018	**287**	**11 868**	**12 154**
Accumulated depreciation and impairment losses at 1 January 2018	-181	-12 420	-12 601
Depreciation	-106	-861	-966
Impairment losses	0	0	0
Accumulated depreciation and impairment losses disposals	0	3 038	3 038
Effect of changes in foreign exchange	0	-19	-19
Accumulated depreciation and impairment losses at 31 December 2018	**-287**	**-10 262**	**-10 549**
Net book value at 31 December 2018	**0**	**1 605**	**1 605**
Estimated useful lives (years)	**1)**	**3-7**	

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

9 Intangible assets

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

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

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

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

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

In 2018 and 2017, respectively, NOK 8.4 million and NOK 24.9 million were capitalised related to product development of TLens Silver & Platinum.

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

10 Research and development costs

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

(in NOK 000)	**Carrying amount before impairment**	**Carrying amount after impairment**	**Net impairment loss**
CGU: TLens®			
At 31 December 2016	42 438	42 438	0
At 31 December 2017	67 336	67 336	0
At 31 December 2018	75 780	75 780	0

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

Two products based on TLens technology platform are already in production, - TLens Silver and TLens Silver Premium. In addition, the ASIC driver needed to supply voltage to the TLens (any TLens) called PDAF50, is also in production. The third TLens product, TLens Platinum is currently under development, and assumed to be in production by the end of 2019/1st half year 2020. poLight is in dialogue with various mobile phone and camera vendors with regards to potential applications of TLens and the driver. Several Proof of Concept projects has been carried out, some still ongoing and some are under planning/discussion, indicating that poLight products are evaluated to be used in various application by various smartphone vendors.

Introducing new technology to the market is challenging in general and specifically in a dynamic smartphone market, and as such there is an inherent risk for not being able to deploy TLens product into the smartphone market. In addition to the above the company is involved in more than 10 proof of concept projects by product owners in other market areas such as barcode, augmented reality, machine vison, wearables etc. The fact that TLens products increasingly are being considered to be used for broader application areas is a potentially risk reducing factor.

When reviewing indicators of impairment of the TLens ® technology, one of the factors poLight considers, is the relationship between its market capitalisation and its book value. In September 2018, poLight raised a gross NOK 135 million in new equity capital, through an initial public offering, to drive TLens commercialisation. The offer price of the new shares was set to NOK 50, a market capitalisation of NOK 406 million post-money. The market capitalisation was higher than book value, during all days and at year end 2018. However, market capitalisation has in some instances in 2019 been below book value of equity as at 31 December 2018, indicating a potential for impairment.

An impairment of capitalised development costs is recognised if the recoverable amount is lower than the carrying amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. In determining the value in use, a discounted cash flow model is used. Key assumptions when estimating future cash flows is estimated time to commercialisation, future sales price, sales volume and margins. The value in use assessment has been based on a weighted analysis of various business scenarios dependent on the timing and extent of commercialisation of the TLens technology in different potential markets. Future net cash flows are discounted using a weighted average cost of capital (WACC). Additionally, when determining the recoverable amount, poLight also considers recent indicators of fair value. The impairment test did not result in any impairment, but several business scenarios are dependent on additional liquidity beyond current cash deposits.

11 Financial assets and financial liabilities

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

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

Foreign currency risk

Trade and inventory; poLight's contracts with the suppliers of the actuator and the assembly of the TLens®, are in USD. Foreign currency risk will be mitigated by entering sales contracts in USD or using hedging instruments. The group had not entered into any hedging instruments as at 31 December 2018.

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

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

	Change in EUR rate	**Effect on profit before tax**	**Effect on pre-tax equity**
		(in NOK 000)	*(in NOK 000)*
2018	+5%	-550	-310
	-5%	550	310
2017	+5%	-550	-330
	-5%	550	330

	Change in USD rate	**Effect on profit before tax**	**Effect on pre-tax equity**
2018	+5%	-1 057	-1 057
	-5%	1 057	1 057
2017	+5%	-1 473	-1 473
	-5%	1 473	1 473

Credit risk

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

Credit quality of a customer is assessed based on D&B's credit rating scorecard and are regularly monitored. As at 31 December 2018, most of the receivables consisted of government grants with low credit risk.

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

Liquidity risk

At year-end, poLight had a significant cash reserve, with adequate liquidity to operate into second quarter 2020 without additional funding.

11.1 Financial assets

(in NOK 000)	2018	2017	2016
Financial assets at amortised cost:			
Trade receivables	188	334	0
Grants recognised, not received	5 838	4 394	5 405
Other receivables	373	532	1 138
Total financial assets	**6 399**	**5 260**	**6 543**
Total current	6 399	5 260	6 543
Total non-current	0	0	0

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

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

			Past due but not impaired				
(in NOK 000)	Total	Neither past due nor impaired	< 30 days	30–60 days	61–90 days	91–120 days	> 120 days
2018	6 399	6 399	0	0	0	0	0
2017	5 260	5 260	0	0	0	0	0
2016	6 543	6 543	0	0	0	0	0

11.2 Financial liabilities

(in NOK 000)	2018	2017	2016
Financial liabilities at amortised cost, other than interest-bearing loans and borrowings:			
Trade payables	5 496	5 372	9 391
Other payables	9 901	8 452	12 080
Provisions	2 076	5 513	0
Total	**17 473**	**19 338**	**21 471**
Total current	17 473	19 338	21 295
Total non-current	0	0	176

Terms and conditions of the above financial liabilities

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

(in NOK 000)	Interest rate	Maturity	2018	2017	2016
Current interest-bearing loans and borrowings:					
Secured loan, Innovation Norway	5%	< 1 year	600	1 200	1 200
Total			**600**	**1 200**	**1 200**

Maturity analysis

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

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

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

Capital Management

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

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

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

(in NOK 000)	2018	2017	2016
Interest-bearing loans	600	1 800	3 000
Trade and other payables	17 473	19 338	21 471
Less: cash and short-term deposits	-127 424	-93 647	-166 953
Net debt	-109 351	-72 509	-142 482

The Group's capital structure is primarily based on deposits. Current deposits will likely fund the Group into second quarter 2020.

12 Inventories

(in NOK 000)	2018	2017	2016
Work in progress (at cost)	19 233	9 140	0
Work in progress (expensed as cost of sales)	-11 861	-7 360	0
Work in progress (net realisable value)	7 372	1 781	0
Finished goods	0	0	0
Total inventories at the lower of cost and net realisable value	**7 372**	**1 781**	**0**

During 2018, NOK 3.3 million (2017: NOK 7.4 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. The effect in cost of sales have been offset by reversed provision (Note 15).

Materials used in test production are recognised as intangible assets.

13 Cash and short-term deposits

(in NOK 000)	**2018**	**2017**	**2016**
Cash at banks	126 093	92 550	165 663
Restricted cash, taxes withheld	1 072	841	1 035
Restricted cash, deposits	258	257	255
Cash and short-term deposits	**127 424**	**93 647**	**166 953**

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

14 Issued capital and reserves

	2018	**2017**	**2016**
		(in thousands)	*(in thousands)*
Ordinary shares	8 116 592	5 422 810	5 422 810

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

Shares issued and fully paid	**Number of shares**	**Issued capital** *(in NOK 000)*
At 1 January 2017 of NOK 0,0001 each	5 422 810 495	542
Conversion of share premium to issued capital on 20 August 2018. Increase of par value from NOK 0.0001 to 0.0002 per share.	0	542
Private placement on 20 August 2018 of NOK 0.0002 each	505	0
Reverse split (1000:1) on 20 August 2018 from NOK 0.0002 to 0.2 per share	-5 417 388 189	0
Initial Public Offering on 28 September 2018 of NOK 0.2 each	2 600 000	520
Share Capital increase - greenshoe on 31 October 2018 of NOK 0.2 each	93 781	19
At 31 December 2018	**8 116 592**	**1 623**

(in NOK 000)	**Share premium**
At 1 January 2017	193 312
Allocated to retained earnings	-45 276
At 31 December 2017	**148 036**
Conversion to issued capital	-542
Initial Public Offering on 28 September 2018 of NOK 0.2 each	129 480
Decrease due to transaction costs for issued share capital	-10 709
Share Capital increase - greenshoe on 31 October 2018 of NOK 0.2 each	4 670
Allocated to retained earnings	-72 187
At 31 December 2018	**198 748**

Share option schemes

The board is authorised to issue shares - in share option schemes - up to total par value of NOK 108 546 (542 280 shares at par value of NOK 0.2). The company's share option schemes, with the opportunity to subscribe for shares in poLight, have been offered all employees (Note 18).

15 Provisions

(in NOK 000)	**NRE**	**Liability**	**Claims**	**Total**
At 1 January 2017	0	0	0	0
New or increased provisions	2 380	4 000	0	6 380
Utilised	0	-867	0	-867
At 31 December 2017	**2 380**	**3 133**	**0**	**5 513**
New or increased provisions	0	0	13 555	13 555
Utilised	-1 493	-1 194	-12 366	-15 053
Unused reversed as cost of sales	0	-1 939	0	-1 939
At 31 December 2018	**887**	**0**	**1 189**	**2 076**

Expected timing of cash flow

(in NOK 000)	**NRE**	**Liability**	**Claims**	**Total**
Current, < 1 year	887	0	1 189	2 076
Non-current	0	0	0	0
At 31 December 2018	**887**	**0**	**1 189**	**2 076**

Non-recurring engineering (NRE)

Some of the non-recurring product development cost (NOK 2.4 million) associated with the latest TLens driver have been agreed to be added as an additional cost price element on the purchase price. It is expected that the remaining NRE will be paid during the first half of 2019.

Liability

In conjunction with dedicated CAPX investments of USD 4.8 million at the company's wafer manufacturer STMicroelectronics, the company signed on a CAPEX letter giving the company an obligation to pay an amount equal to one-year depreciation of unused capacity. NOK 2.1 million have been paid as a price addition on wafer purchases in 2017 and 2018.

Claims

On September 14, 2018, the Norwegian Tax Administration (Skatt Sør) claimed repayment of refunded VAT, with effect from 1 January 2013 of total NOK 13.6 million. The Norwegian Tax Administration claims that the company is not capable of being profitable, and does therefore not qualify as a "business" pursuant to the Norwegian laws and regulation regarding VAT. In October 2018 poLight repaid VAT of NOK 12.3 million including interest for the period 1 January 2013 – 31 December 2017. poLight has appealed the decision to The Tax Appeals Board (Skatteklagenemda). The additional associated taxes of NOK 1.2 million will not be payable until a final decision is made. A provision of NOK 13.6 million was made in the third quarter of 2018 to cover the entire claim, and the uncollectable VAT receivable at 30th September was recognised in the statement of income in the same period. As per 31 December 2018 the monetary impact of the ruling amounted to NOK 16.9 million. The monetary effect of not being VAT registered was NOK 4 million for 2018, increasing the expenditures recognised in the consolidated statement of income.

16 Government grants

(in NOK 000)	2018	2017
At 1 January	4 394	5 405
Received during the year	-8 366	-8 891
Capitalised	1 989	1 123
Released to the statement of profit or loss	7 821	6 757
At 31 December	**5 838**	**4 394**

The group have received grants for development of an optical image stabilisation solution with TLens® technology and analyses and testing activities to understand better relations between micro failure in optical components and mechanical, physical and electric testing. In 2018 poLight got approved Tax Refunds on a project for creating camera module systems and application reference design enabled by poLight technology.

(in NOK 000)	2018	2017	2016
Current	5 838	4 394	5 405
Non-current	0	0	0
Total	**5 838**	**4 394**	**5 405**

17 Pensions

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

The pension scheme in Norway is based on a defined contribution plan, and the premium is calculated on the basis of the employees' income. In 2018 5.55% of the income between 1G and 7.1G, and 8% of the income between 7.1G and 12G was calculated. The period's contributions are recognised in the Consolidated statement of income as pension cost for the period.

(in NOK 000)	2018	2017
Defined contribution plan	1 029	1 045
Social security	145	147
Total pension cost	**1 174**	**1 193**

18 Share option plans

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

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

The board is authorised to issue shares - in share option scheme - up to total par value of NOK 108 546 (542 280 shares at par value of NOK 0.2).

	2018		2017	
	Number of share options	WAEP	Number[1] of share options	WAEP
Outstanding at 1 January	425 538	112.5	456 302	112.5
Granted during the year	415 420	51.8	43 883	112.5
Forfeited during the year	-8 278	112.5	-25 667	112.5
Cancelled[2] during the year	-333 670	112.5	0	
Exercised during the year	0		0	
Expired during the year	-77 531	112.5	-48 984	112.5
Outstanding at 31 December	**421 475**	52.7	**425 534**	112.5
In % of outstanding shares	**5,19%**		**7,85%**	
Exercisable at 31 December	45 216	66.0	221 385	112.5

1) The number of share options are adjusted in accordance with the reversed spit of 1000:1 of 20 August 2018

2) 18 October 2018 the Board of Directors decided to offer the employees of poLight to exchange their existing share options with new share options at a strike price corresponding to the offer price in the Company's initial public offering of NOK 50 per share. The new share option agreement replaced the old. The vesting started at the date of entering the new agreement.

The weighted average share price (WAEP) for the share options outstanding as at 31 December 2018, was NOK 52.7 (2017: NOK 112.5). At the end of the year, the weighted average share price was NOK 66.0 (2017: NOK 112.5) on exercisable options.

The weighted average remaining contractual life for the share options outstanding as at 31 December 2018 was 4.71 years (2017: 3.08 years). 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 the period has been calculated to NOK 6.9 million, by using the Black-Scholes option pricing model. The incremental fair value (NOK 6.1 million) of the granted replacement share options is the difference between the fair value of the new share option agreement and the net fair value of the cancelled share option agreement, at the date the replacements are granted.

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

	2018	2017
Price at grant date	NOK 50.0	NOK 112.5
Exercise price	NOK 50.0	NOK 112.5
Maximum[1] option life	5 years	5 years
Risk-free interest rate	1.52%	1.05%
Volatility	50%	40%

1) Any vested options shall be exercised no later than 6 months after last day of service

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

19 Commitments and contingencies

Operating lease commitments

poLight has entered into commercial leases with regards to premises and office equipment. In Norway, the company leases lab facilities, including a clean room, and offices are leased in Norway, France, Finland and China. The premises in Norway comprises 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)	**2018**	**2017**	**2016**
Within one year	1 556	1 514	1 575
After one year, but not more than five years	780	827	807
More than five years	0	0	0
Future minimum rentals payable	2 336	2 341	2 382

Lease payments recognised as an expense in the period:

(in NOK 000)	**2018**	**2017**
Minimum lease payments	1 777	1 732
Contingent rents	0	0
Total lease expenses	1 777	1 732

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**	**2018**	**2017**	**2016**
poLight ASA	R&D, Sales and Management	Norway	100%	100%	100%
poLight France SAS	R&D	France	100%	100%	100%
poLight Finland Oy	R&D	Finland	100%	100%	100%
poLight Hong Kong Limited *)	Holding company	HK, China	100%		
poLight (Shenzhen) Technical Service Company Limited	Sales	China	100%		

*) No activity in 2018.

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

poLight ASA is the ultimate parent. None of the shareholders of poLight ASA has control of the company. As of 31 December 2018, the largest shareholder is Investinor AS, with an ownership of 19.8%.

Transactions between group companies

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

	Currency	2018	2017	2016
Subordinated loan agreement	EUR	2 800 000	2 900 000	3 000 000

A subordinated loan agreement of EUR 3,000,000 was concluded on 29 December 2016, replacing all intercompany balance between poLight ASA and poLight France SAS. Only the part that exceeds a prudent level, with regards to both equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual. For the financial year 2018, the entire principal is considered as equity, and not interest-bearing. Since the loan is considered to be a part of the net investment in France, the currency translation effect is recognised in OCI.

Transactions with other related parties

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

Compensation with key management personnel

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

21 Standards issued, but not yet effective

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

- *IFRS 16 Leases*
  IFRS 16 was issued in January 2017, and replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives, and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases, and requires lessees to account for all leases under a single, on-balance sheet model, similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers), and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability), and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, or a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

  IFRS 16 is effective for annual periods beginning on or after 1 January 2019. A lessee can choose to apply the standard, using either a full retrospective, or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  poLight has entered into commercial leases with regards to premises and office equipment. Non-cancellable rental payables are disclosed in Note 19. The group will use the modified retrospective approach and the 'low-value' and short-term leases exempts. For the first time adoption of this standard the group will determine the value of the right-to-use assets equal to the liabilities of the leases at 1.1.2019. The effect on the consolidated financial statement at January 1, 2019 was increased assets and liabilities of NOK 1.9 million. The right-to-use assets are depreciated over the leasing period of 19 months.

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

POLIGHT ASA FINANCIAL STATEMENTS

Statement of income poLight ASA – NGAAP for the year ended 31 December 2018

(in NOK 000)	Note	2018	2017
Sale of goods	2	1 038	613
Rendering of services	2	526	494
Revenue		**1 564**	**1 107**
Cost of sales	12,20	1 488	7 400
Gross profit		**76**	**-6 293**
Research and development expenses		-30 991	-22 595
Sales and marketing expenses		-8 165	-7 610
Administrative expenses		-35 771	-12 081
Operational / supply chain expenses		-3 384	-3 322
Depreciation, amortisation and net impairment losses	9,10	-844	-909
Operating profit		**-79 078**	**-52 811**
Net financial items	7,14	2 172	2 511
Profit before tax		**-76 907**	**-50 300**
Income tax expense	8	0	0
Profit for the year		**-76 907**	**-50 300**
Attributable to:			
Share premium	18	-72 187	-45 276
Retained earnings	18	-4 719	-5 024
Profit for the year		**-76 907**	**-50 300**

Balance Sheet poLight ASA – NGAAP as at 31 December 2018

(in NOK 000)	Note	2018	2017
ASSETS			
Property, plant and equipment	9	1 517	1 252
Intangible assets	10	75 783	67 375
Investments in subsidiaries	11	320	116
Subordinated loan to subsidiaries	13,21	1 000	0
Total non-current assets		**78 620**	**68 743**
Inventories	12	7 372	1 781
Trade receivables	13	188	392
Other receivables	13	6 930	5 967
Cash and cash equivalents	16	123 745	93 210
Total current assets		**138 234**	**101 349**
Total assets		**216 854**	**170 092**
EQUITY AND LIABILITIES			
Issued capital	17,18	1 623	542
Share premium	18	198 748	148 036
Total owners' equity		**200 371**	**148 578**
Retained earnings	18	0	0
Total equity		**200 371**	**148 578**
Interest-bearing loans and borrowings	14	600	1 800
Total non-current liabilities		**600**	**1 800**
Trade payables	13	5 561	7 171
Public duties payable		1 887	1 092
Other payables	13	8 435	11 450
Total current liabilities		**15 883**	**19 714**
Total liabilities		**16 483**	**21 514**
Total equity and liabilities		**216 854**	**170 092**

Statement of cash flows poLight ASA – NGAAP for the year ended 31 December 2018

(in NOK 000)	Note	2018	2017
Operating activities			
Profit before tax		-76 907	-50 300
Depreciation and amortisation expenses	9,10	844	909
Changes in inventories, accounts receivables and accounts payable		-6 996	-4 430
Changes in other accruals		-427	6 331
Net cash flows from / (used in) operating activities		**-83 487**	**-47 489**
Investing activities			
Purchase of property, plant and equipment	9	-1 072	-223
Development capital expenditures	10	-10 434	-26 021
Receipt of government grants	4	1 989	1 123
Proceeds from group borrowings	13,21	962	932
Foundation of subsidiaries	11	-204	0
Net cash flows from / (used in) investing activities		**-8 758**	**-24 189**
Financing activities			
Issue of share capital	18	134 689	0
Transaction costs on issue of shares	18	-10 709	0
Repayment of borrowings	14	-1 200	-1 200
Net cash flows from / (used in) financing activities		**122 780**	**-1 200**
Net increase in cash and cash equivalents		30 535	-72 878
Cash and cash equivalents at 1 January	16	93 210	166 087
Cash and cash equivalents at 31 December	16	**123 745**	**93 210**

Notes to the Financial statement poLight ASA

1 Significant accounting policies

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

Subsidiaries

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

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

Use of estimates

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

Foreign currency translation

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

Revenue recognition

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

Government grants

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

Income tax

The tax expense comprises tax payable and changes to deferred tax. Deferred tax/tax assets are calculated on all differences between the book value and tax value of assets and liabilities. Deferred tax is calculated as 22% of temporary differences and the tax effect of tax losses carried forward. Deferred tax assets are recorded in the balance sheet when it is more likely than not that the tax assets will be utilized. Taxes payable and deferred taxes are recognised directly in equity, to the extent that they relate to equity transactions.

Classification and valuation of balance sheet items

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

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

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

Research and development

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

Fixed assets

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

Investments in subsidiaries

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

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

Inventory

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

Receivables

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

Cash flow statement

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

2 Revenue

(in NOK 000)	2018	2017
By business area		
TLens® for Smartphone and other markets	1 038	613
Group revenue	526	494
Total	**1 564**	**1 107**
Geographical distribution		
USA	27	282
Asia	585	52
Europe	952	774
Total	**1 564**	**1 107**

3 Specification of operating expenses by nature

(in NOK 000)	Note	2018	2017
Capitalised intangible assets in progress	10	-8 444	-24 898
Employee benefits expense	5, 19	28 324	27 302
Depreciation, amortisation and net impairment losses	9, 10	844	909
Other operating expenses	6, 15	58 431	43 205
Total operating expenses		**79 155**	**46 518**

4 Government grants

(in NOK 000)	2018	2017
At 1 January	4 394	5 405
Received during the year	-8 273	-8 053
Capitalised	1 989	1 123
Released to the statement of profit or loss	7 728	5 920
At 31 December	**5 838**	**4 394**

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

5 Employee benefits expense

(in NOK 000)	2018	2017
Wages and salaries	21 258	19 342
Social security costs	3 023	2 733
Pension costs (Note 19)	1 080	1 094
Other benefits and social costs	972	1 108
Value of share option plan	4 719	5 024
Grants	-2 728	-1 999
Internal development of intangible assets	-2 706	-7 946
Total employee benefits expense	**25 618**	**19 355**
Average number of employees	24	23

Management remuneration

(in NOK 000)	Salaries	Bonus	Pension costs	Other benefits	Value share options	Total 2018	2017
Øyvind Isaksen - CEO	2 315	750	81	271	2 168	5 585	4 388
Pierre Craen - CTO	1 558		82	25	372	2 037	2 036
Alf Henning Bekkevik - CFO	1 248	125	78	16	501	1 968	1 795
Joakim Nelson - VP Sales & BD 1)						0	1 341
Marianne Sandal - COO	1 317		91	21	505	1 933	1 760

1) Joakim Nelson acted as VP Sales & Business Development from 1 February 2016 to 30 September 2017.

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

Remuneration members of the board

(in NOK 000)	Fixed pay	Value share options	2018	2017
Eivind Bergsmyr - chair of the board	100		100	0
Ann-Tove Kongsnes - deputy chair of the board	50		50	0
Per Anell	50		50	0
Johan Paulsson	100	42	142	142
Grethe Viksaas 1)	0		0	0

1) Member from June 13, 2018

There are no loans from poLight to the management or members of the board.

Bonus and share options

All employees are included in a bonus programme, with identical bonus criteria for all. The bonus is calculated based on fixed salary, with maximum 50% for the CEO, 30% for management, 20% for department managers and 10% for other employees.

The board is authorised to issue shares - in share option scheme - up to total par value of NOK 108 546 (542 280 shares at par value of NOK 0.2). All employees have been granted options to subscribe for shares under poLight's share option scheme.

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

The fair value of the options granted in the period has been calculated to NOK 6.9 million, by using the Black-Scholes option pricing model. The incremental fair value of the granted replacement share options is the difference between the fair value of the new share option agreement and the net fair value of the cancelled share option agreement, at the date the replacements are granted. The basis for the valuation model comprises several factors that affect the calculated fair value of granted options. The assumptions used in the calculation are:

	2018	2017
Price at grant date	NOK 50.0	NOK 112.5
Exercise price	NOK 50.0	NOK 112.5
Maximum1) option life	5 years	5 years
Risk-free interest rate	1.52%	1.05%
Volatility	50%	40%

1) Any vested options shall be exercised no later than 6 months after last day of service

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

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

	Opening balance	Expired options	Cancelled options	Granted options	Ending balance	Vested options
Øyvind Isaksen - CEO	162 420	0	-162 420	162 420	162 420	13 535
Pierre Craen - CTO	40 000	-17 400	-22 600	40 000	40 000	3 333
Alf Henning Bekkevik - CFO	40 000	0	-40 000	40 000	40 000	3 333
Marianne Sandal - COO	40 000	0	-40 000	40 000	40 000	3 333
Johan Paulsson - member of the board	4 000	-500	0	0	3 500	2 819
	286 420	-17 900	-265 020	282 420	285 920	26 353

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

The exercise price on all issued share options at 31 December 2018, was NOK 50 per share for the management and NOK 112.5 for the board member. No share options were exercised in 2018.

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

6 Auditor's remuneration

(in NOK 000)	**2018**	**2017**
Audit fee	234	342
Audit-related fee	526	38
Tax fee	245	183
Other service fee	240	100
Total *(including VAT)*	**1 245**	**663**

7 Financial items

Finance income

(in NOK 000)	**2018**	**2017**
Interest income from group companies *)	0	0
Other interest income	1 064	1 760
Agio on loan to group companies	280	2 229
Reversal of impairment on group loan	1 682	0
Other financial income (agio)	791	515
Total finance income	**3 818**	**4 504**

*) In 2016, a subordinated loan was concluded, where only the part that exceeds a prudent level, both equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual.

Finance expenses

(in NOK 000)	2018	2017
Other interest expenses	741	120
Impairment of group loan	0	1 297
Other financial expenses (disagio)	906	576
Total finance expenses	**1 646**	**1 993**

8 Income tax

Income tax expense

(in NOK 000)	2018	2017
Current income tax expense	0	0
Adjustments in respect of current income tax of previous year	0	0
Changes in deferred tax	0	0
Total income tax expense	**0**	**0**

Tax base calculation

(in NOK 000)	2018	2017
Profit before income tax	-76 907	-50 300
Permanent differences	6 614	5 079
Transaction costs private placement	-10 709	0
Government grants exempt from tax	-5 192	-2 911
Temporary differences	-1 296	13 574
Tax base	-87 490	-34 558

Temporary differences:

(in NOK 000)	2018	2017
Receivables	0	0
Inventories	11 861	7 359
Fixed assets	2 710	3 172
Intangible assets	7 400	5 413
Group loan	22 095	24 057
Provisions	887	6 248
Tax losses carry forward	456 905	369 416
Net deferred tax assets/(liabilities)	501 859	415 665
22% / 23% deferred tax asset/(liability)	110 409	95 603

Reconciliation of nominal tax rate to effective tax rate:

(in NOK 000)	2018
Calculated income tax at statutory rate of 23%	-17 689
Tax effect of permanent differences	-942
Government grants exempt from tax	-1 194
Change in unrecognised deferred tax assets	14 806
Change in tax rate from 23% to 22%	5 019
Income tax expense	**0**
Effective tax rate	**0,0%**

9 Property, plant and equipment

(in NOK 000)	Building	Equipment	Total
Cost at 1 January 2018	287	11 950	12 237
Additions	0	1 072	1 072
Disposals at cost		-3 028	-3 028
Cost at 31 December 2018	**287**	**9 995**	**10 281**
Accumulated depreciation	-287	-8 249	-8 536
Accumulated impairment losses	0	-229	-229
Accumulated depreciation and impairment losses at 31 December 2018	**-287**	**-8 478**	**-8 764**
Net book value at 31 December 2018	**0**	**1 517**	**1 517**
Depreciation for the year	**106**	**702**	**807**
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 licence	Total
Cost at 1 January 2018	67 336	171	67 507
Additions	8 444	0	8 444
Cost at 31 December 2018	**75 780**	**171**	**75 951**
Accumulated amortisation	0	-168	-168
Accumulated impairment losses	0	0	0
Accumulated amortisation and impairment losses at 31 December 2018	**0**	**-168**	**-168**
Net book value at 31 December 2018	**75 780**	**3**	**75 783**
Depreciation for the year	**0**	**37**	**37**
Estimated useful lives (years)	10	3-7	
Amortisation plan	Linear	Linear	

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

In 2018 and 2017, respectively, NOK 8.4 million and NOK 24.9 million were capitalised, related to product development of TLens Silver & Platinum.

Research and development costs that are not eligible for capitalisation have been expensed in the period incurred and are recognised in Research and development expenses.

11 Investment in subsidiaries

Company	Acquisition date	Location	Share ownership	Voting rights
poLight France SAS	19.08.2010	Lyon, France	100 %	100 %
poLight Finland Oy	15.09.2016	Tampere, Finland	100 %	100 %
poLight Hong Kong Limited	08.12.2016	HK, China	100 %	100 %
poLight (Shenzhen) Technical Service Company Limited	24.04.2017	Shenzhen, China	100 %	100 %

Company	Share capital	Number of shares	Book value	Equity	Net profit 2018
	NOK 000		NOK 000	NOK 000	NOK 000
poLight France SAS	80	10 000	0	-27 550	397
poLight Finland Oy	23	100	23	1 363	749
poLight Hong Kong Limited	202	200 000	202	202	0
poLight (Shenzhen) Technical Service Company Limited	246	200 000	94	675	419

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

12 Inventories

(in NOK 000)	**2018**	**2017**
Work in progress (at cost)	19 233	9 140
Work in progress (expensed as cost of sales)	-11 861	-7 360
Work in progress (net realisable value)	7 372	1 781
Finished goods	0	0
Total inventories at the lower of cost and net realisable value	**7 372**	**1 781**

During 2018, NOK 3.3 million (2017: NOK 7.4 million) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales. The effect in cost of sales have been offset by reversed provision (Note 20).

Materials used in test production is recognised as intangible assets.

13 Intercompany balances with group companies

Receivables

(in NOK 000)	**2018**	**2017**
Trade receivable	0	0
Other receivables	0	445
Total	**0**	**445**

Subordinated loan

(in NOK 000)	**2018**	**2017**
Non-current receivables	27 855	28 537
Impairment	-26 855	-28 537
Total	**1 000**	**0**

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)	**2018**	**2017**
Trade payables	8	1 901
Other payables	0	0
Total	**8**	**1 901**

14 Financial liabilities

Current interest-bearing loans and borrowings:

(in NOK 000)	**Interest rate**	**2018**	**2017**
Secured loan, Innovation Norway	5 %	600	1 800
Total		**600**	**1 800**

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

Pledged assets

(in NOK 000)	**2018**	**2017**
Accounts receivable	188	392
Inventories	7 372	1 781
Equipment	1 517	1 252
Intangible assets	75 783	67 375
Total	**84 859**	**70 800**

15 Operating lease commitments

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

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

(in NOK 000)	**2018**	**2017**
Within one year	1 244	1 205
After one year but not more than five years	780	827
More than five years	0	0
Total	2 024	2 033

16 Cash and short-term deposits

(in NOK 000)	**2018**	**2017**
Cash at banks and on hand	122 414	92 112
Restricted cash, taxes withheld	1 072	841
Restricted cash, deposits	258	257
Cash and short-term deposits	**123 745**	**93 210**

17 Share capital and shareholder information

	Number of shares	Par value	Book value
		NOK	NOK 000
Ordinary shares	8 116 592	0,20	1 623

Shareholders of poLight ASA at December 31, 2018	**Ordinary shares**	**Share ownership**	**Voting rights**
		%	%
Investinor AS	1 608 313	19,8 %	19,8 %
Viking Venture III AS	1 358 053	16,7 %	16,7 %
Northern Trust Global Services Plc[1)] (nominee)	947 644	11,7 %	11,7 %
Nordnet Bank AB (nominee)	396 836	4,9 %	4,9 %
Alliance Venture Polaris AS	380 278	4,7 %	4,7 %
VPF Nordea Avkastning	231 740	2,9 %	2,9 %
Arctic Funds PLC	230 476	2,8 %	2,8 %
Skandinaviska Enskilda Banken AB (nominee)	196 205	2,4 %	2,4 %
T.D. Veen AS	186 415	2,3 %	2,3 %
VPF Nordea Kapital	182 493	2,2 %	2,2 %
MP Pensjon PK	177 085	2,2 %	2,2 %
Sintef Venture III AS	174 129	2,1 %	2,1 %
Åstveit Investor AS	131 875	1,6 %	1,6 %
Verdipapirfondet Pareto Investment	124 458	1,5 %	1,5 %
Citibank, N.A. (nominee)	120 681	1,5 %	1,5 %
Verdipapirfondet Nordea Norge Plus	88 000	1,1 %	1,1 %
Nordea 1 SICAV	84 000	1,0 %	1,0 %
Total	6 618 681	81,5 %	81,5 %
Other (less than 1% ownership)	1 497 911	18,5 %	18,5 %
Total number of shares	8 116 592	100,0 %	100,0 %

1) Industrifonden AB

At 31 December 2018, Øyvind Isaksen, CEO, owned 24,856 shares (0.31%), through his company Oimacon AS.

18 Equity

(in NOK 000)	**Issued capital**	**Share premium**	**Retained earnings**	**Total**
Equity at 31 December 2017	542	148 036	0	148 579
Profit for the period			-76 907	-76 907
Value of share option plan			4 719	4 719
Increase of share capital	542	-542		0
Issue of share capital	539	134 150		134 689
Transaction costs		-10 709		-10 709
Allocation to retained earnings		-72 187	72 187	0
Equity at 31 December 2018	**1 623**	**198 748**	**0**	**200 371**

19 Pensions

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

The pension scheme is based on a defined contribution plan, and the premium is calculated on the basis of the employee's income. 5.5% of the income between 1 and 7.1G and 8% of the income between 7.1 and 12G is calculated. At 31 December 2018, 24 members were covered by the plan.

(in NOK 000)	**2018**	**2017**
Defined contribution plan	1 029	1 045
Social security	145	147
Total pension cost	**1 174**	**1 193**

20 Provisions

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

Expected timing of cash flow

(in NOK 000)	**NRE**	**Liability**	**Claims**	**Total**
Current, < 1 year	887	0	1 189	1 189
Non-current	0	0	0	0
At 31 December 2018	**887**	**0**	**1 189**	**1 189**

Non-recurring engineering (NRE)

Some of the non-recurring product development cost (NOK 2.4 million) associated with the latest TLens driver have been agreed to be added as an additional cost price element on the purchase price. It is expected that the remaining NRE will be paid during the first half of 2019.

Liability

In conjunction with dedicated CAPX investments of USD 4.8 million at the company's wafer manufacturer STMicroelectronics, the company signed on a CAPEX letter giving the company an obligation to pay an amount equal to one-year depreciation of unused capacity. NOK 2.1 million was paid as a price addition on wafer purchases in 2017 and 2018.

Claims

On September 14, 2018, the Norwegian Tax Administration (Skatt Sør) claimed repayment of refunded VAT, with effect from 1 January 2013 of total NOK 13.6 million. The Norwegian Tax Administration claims that the company is not capable of being profitable, and does therefore not qualify as a "business" pursuant to the Norwegian laws and regulation regarding VAT. In October 2018 poLight repaid VAT of NOK 12.3 million including interest for the period 1 January 2013 - 31 December 2017. poLight has appealed the decision to The Tax Appeals Board (Skatteklagenemda). The additional associated taxes of NOK 1.2 million will not be payable until a final decision is made. The provision was made in the third quarter of 2018. The monetary effect of not being VAT registered was NOK 4 million for 2018, increasing the expenditures recognised in the statement of income.

21 Related parties

poLight ASA is the ultimate parent. None of the shareholders of poLight ASA has control of the company. As of 31 December 2018, the largest shareholder is Investinor AS, with an ownership of 19.8%.

Transactions between group companies

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

A subordinated loan agreement (balance 31.12.2018: EUR 2,800,000) was concluded on 29 December 2016, replacing all intercompany balance between poLight ASA and poLight France SAS. Only the part that exceeds a prudent level, with regards both to equity and subordinated loan combined, shall be regarded as loan in respect to interest accrual. For the financial year 2018, 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.

Horten, 11 April 2019
THE BOARD OF DIRECTORS OF POLIGHT ASA

Eivind Bergsmyr (sign)
Chair

Ann-Tove Kongsnes (sign)
Deputy chair

Per Anell (sign)
Board member

Johan Paulsson (sign)
Board member, Independent

Grethe Viksaas (sign)
Board member, Independent

Øyvind Isaksen (sign)
Chief Executive Officer

INDEPENDENT AUDITOR'S REPORT

Building a better working world

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Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of poLight ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of poLight ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2018, the income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

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Valuation of capitalized development costs

poLight recognized internally generated development costs of NOK 8.4 million in 2018. Accumulated capitalized development costs at December 31, 2018 amounts to NOK 75.8 million, which is 35 % of the total assets. poLight has not recognized significant revenues prior to December 31, 2018, and the timing and extent of future revenues and margins are uncertain. Due to the materiality of the assets recognized and the level of management judgement involved, the assessment on capitalization criteria for development costs and the impairment assessment were a key audit matter.

We assessed the process and procedures related to the recognition criteria for capitalization of development costs and the impairment assessment. We evaluated the key assumptions used by management on the capitalization criteria and tested the underlying evidence of capitalized development costs. We evaluated the impairment model applied and the estimates made on the timing and extent of future revenues and margins in the various scenarios used by management, and tested the calculations and mathematical accuracy of the cash flow model applied. We also assessed the disclosure information in note 10 in the consolidated financial statements.

Other information

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

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

Responsibilities of management for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

Opinion on registration and documentation

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

Tønsberg, 11 April 2019
ERNST & YOUNG AS

Morten Mobråthen
State Authorised Public Accountant (Norway)

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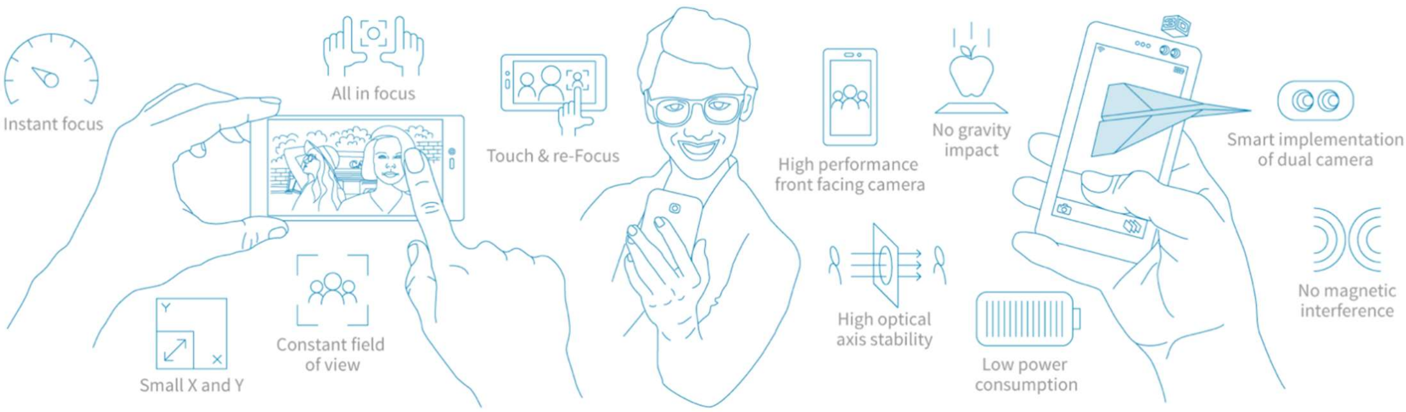

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