THIN FILM ELECTRONICS ASA

(a Norwegian public limited liability company organized under the laws of Norway with business registration number 889 186 232)

Listing of 227,272,727 Private Placement Shares issued in a Private Placement
Offering and listing of up to 63,636,363 Offer Shares in a Subsequent Offering to Eligible Shareholders
Subscription Period: From 15 June 2020 to 29 June 2020 at 16.30 CET

The information contained in this prospectus (the "**Prospectus**") relates to (i) the listing on Oslo Børs, a stock exchange operated by Oslo Børs ASA (the "**Oslo Børs**") of 227,272,727 new shares (the " **Private Placement Shares**"), at a subscription price of NOK 0.11 per Private Placement Share (the "**Subscription Price**"), each with a nominal value of NOK 0.11, in Thin Film Electronics ASA ("**Thinfilm**" or the "**Company**", and together with its consolidated subsidiaries, the "**Group**"), issued in a private placement directed towards certain investors for gross proceeds of NOK 24,999,999.97 (the "**Private Placement**"), and (ii) a subsequent offering (the "**Subsequent Offering**") and listing of up to 63,636,363 shares in the Company (the "**Offer Shares**", and together with the Private Placement Shares, as hereinafter defined, the "**New Shares**"), at a Subscription Price per Offer Share of NOK 0.11, each with a nominal value of NOK 0.11 for gross proceeds of up to NOK 7 million pursuant to the terms and conditions set out in this Prospectus.

Subsequent Offering, offer size…………	Up to 63,636,363 Offer Shares
Subscription Price………………………	NOK 0.11 per Offer Share
Subscription Period…………………….	From 15 June 2020 to 16.30 (CET) on 29 June 2020 (the "**Subscription Period**")

Each Private Placement Share and each Offer Share will be granted two warrants ("**Warrants**"), where the first ("**Warrant A**") will have an exercise price of NOK 0.11 per share and be exercisable at any time from the date of grant until 31 December 2020, and the second ("**Warrant B**") will have an exercise price of NOK 0.25 and be exercisable at any time from the date of grant until 20 August 2021.

In the Subsequent Offering, the Company will, subject to applicable securities law, allocate the Offer Shares to subscribers who were registered as holders of shares in the Company ("**Shares**") in the Company's register of shareholders with the Norwegian Securities Depositary (Nw. *Verdipapirsentralen*) (the "**VPS**") as of expiry of 30 April 2020 (T+2) (the "**Record Date**") who did not participate in the Private Placement, and who are not resident in a jurisdiction where such offering would be unlawful or, for jurisdictions other than Norway, would require any prospectus, filing, registration or similar action (each such shareholder an "**Eligible Shareholder**", and collectively, "**Eligible Shareholders**"). For each Share recorded as held in the Company as of expiry of the Record Date, each Eligible Shareholder will be entitled to allocation of approximately 1.11458462 transferable subscription rights (the "**Subscription Rights**") that, subject to applicable law, provide preferential rights to subscribe for and be allocated Offer Shares in the Subsequent Offering. One (1) Subscription Right will give the right to subscribe for and be allocated one (1) Offer Share. The Shares of the Company began trading exclusive of Subscription Rights from and including 29 April 2020. Hence, the last day of trading inclusive of Subscription Rights was 28 April 2020. For the purposes of determining eligibility to Subscription Rights, the Company will look solely to its register of shareholders as of expiry of the Record Date, which will show shareholders as of expiry of 28 April 2020. Oversubscription and subscription without subscription rights is permitted. Oversubcription and unexercised subscription rights will be allocated as determined by the Board of Directors. The Subscription Rights will not be tradable on Oslo Børs.

The due date for the payment of the Offer Shares is expected to be on or about 7 July 2020. Delivery of the Offer Shares is expected to take place on or about 10 July 2020 through the facilities of the VPS.

Trading in the Private Placement Shares on Oslo Børs is expected to commence on 15 June 2020, while trading of the Offer Shares on Oslo Børs is expected to commence on or about 10 July 2020. The Warrants will be transferable, however, will not be admitted to trading on Oslo Børs.

Investing in the Company's Shares, including the Private Placement Shares and the Offer Shares, involves a high degree of risk. See Section 2 "*Risk Factors*".

12 June 2020

IMPORTANT NOTICE

For the definition of terms used throughout this Prospectus, please see Section 15 "*Definitions and Glossary of Terms*", which also applies to the front page.

This Prospectus has been prepared to provide information about the Company and its business in relation to the Private Placement and the Subsequent Offering and the listing of the New Shares and to comply with the Norwegian Securities Trading Act of 29 June 2007 no.75 (the "**Norwegian Securities Trading Act**") and related legislation and regulations, including Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, as implemented in Norway (the "**EU Prospectus Regulation**") by Section 7-1 of the Norwegian Securities Trading Act. This Prospectus has been prepared solely in the English language.

The Prospectus has been reviewed and approved by the Financial Supervisory Authority of Norway (Nw. *Finanstilsynet*) (the **"Norwegian FSA**") on 12 June 2020 as a competent authority under the EU Prospectus Regulation. The Norwegian FSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the EU Prospectus Regulation. Such approval shall not be considered as an endorsement of the issuer that is the subject of this Prospectus. Any investor should make their own assessment as to the suitability of investing in the securities.

This Prospectus has been drawn up as part of the simplified prospectus regime in accordance with Article 14 of the EU Prospectus Regulation.

The information contained herein is current as of the date hereof and subject to change, completion and amendment without notice. There may have been changes affecting the Company or the Group subsequent to the date of this Prospectus. Significant new factors, material mistakes or inaccuracies relating to the information included in this Prospectus, which are capable of affecting the assessment of the Shares between the time when this Prospectus is approved, and the listing of the New Shares at Oslo Børs and offering of the Offer Shares, will be included in a supplement to this Prospectus. Neither the publication nor distribution of this Prospectus shall under any circumstances create any implication that there has been no change in the Group's affairs or that the information herein is correct as of any date subsequent to the date of this Prospectus.

Unless otherwise indicated, the source of information included in this Prospectus is the Company. The contents of this Prospectus shall not be constructed as legal, business or tax advice. Each reader of this Prospectus should consult its own legal, business or tax advisor as to legal, business or tax advice. If the reader is in any doubt about the contents of this Prospectus, a stockbroker, bank manager, lawyer, accountant or other professional advisor should be consulted.

All inquiries relating to this Prospectus, the Private Placement and the Subsequent Offering should be directed to the Company. No other person has been authorized to give any information about, or make any representation on behalf of, the Company in connection with the Private Placement and/or the Subsequent Offering and, if given or made, such other information or representation must not be relied upon as having been authorized by the Company.

The distribution of this Prospectus may be restricted in certain jurisdictions. Accordingly, this Prospectus may not be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable law and regulations. The

Company requires persons in possession of this Prospectus to inform themselves about, and to observe, any such Prospectus distribution restrictions.

Readers are expressly advised that the Company's Shares are exposed to risk and they should therefore read this Prospectus in its entirety, in particular Section 2 "*Risk Factors*". An investment in the Company is suitable only for investors who understand the risk factors associated with this type of investment and who can afford a loss of all or part of their insvestment.

The Prospectus and the terms and conditions of the Private Placement and the Subsequent Offering as set out herein shall be governed by and construed in accordance with Norwegian law. The courts of Norway, with Oslo as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Prospectus.

TABLE OF CONTENTS

1 EXECUTIVE SUMMARY

1.1 SECTION A – INTRODUCTION AND WARNINGS

Introduction and warnings	This Summary contains all sections required to be included in a Summary for this type of securities and issuer. This Summary should be read as an introduction to the Prospectus. Any decision to invest in the Company should be based on consideration of the Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the applicable national legislation in its Member State, have to bear the costs of translating this Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the Summary including any transactions thereof, but only where the Summary is misleading, inaccurate or inconsistent when read together with the other parts of this Prospectus or where it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
The securities	The Company's shares are subject to trading on the Oslo Stock Exchange under ticker code "THIN". International securities identification numnder (ISIN): NO 0010299068
The issuer/offeror	Name of the issuer/offeror: Thin Film Electronics ASA Business registration number: 889 186 232 Address: c/o House of Business, Fridtjof Nansens plass 4, 0160 Oslo, Norway Tel: +47 23 27 27 00 Website: www.thinfilmsystems.com
Date of approval of the Prospectus	This Prospectus was approved by the Norwegian FSA on 12 June 2020. Contact information: Financial Supervisory Authority of Norway Address: Revierstredet 3, Postboks 1187 Sentrum, 0107 Oslo, Norway Tel: +47 22 93 98 00 E-mail: post@finanstilsynet.no

1.2 SECTION B – KEY INFORMATION ON THE ISSUER

Who is the issuer of the securities?

Corporate information	Thin Film Electronics ASA (**“Thinfilm”** or the **“Company”**). Thinfilm is registered as a public limited liability company incorporated under the laws of Norway and subject to the Norwegian Public Limited Companies Act of 13 June 1997 no.45 (*Nw.*:“*allmennaksjeloven*”) (the “**Norwegian Public Limited Liability Companies Act**”). The Company was incorporated on 22 December 2005 with the name Thin Film NewCo ASA, which name was changed to Thin Film Electronics ASA on 11 May 2006. The Company’s LEI (legal entity identifier) is 5493007QXMCG0WPKFC96.
Principal activities	Thinfilm is focused on becoming a premier provider of energy storage solutions designed for wearable devices and connected sensors. The Company’s principal business activities include the design, development, production, and sale of battery solutions based on Thinfilm solid-state lithium battery (SSLB) technology. The Company’s design and development activities take place at its global headquarters in Silicon Valley (San Jose, California, USA). The Company intends to scale the manufacturing of SSLB products in its Silicon Valley flexible electronics fabrication facility. Thinfilm’s strategy is to develop a new class of premium microbatteries based on SSLB technology and market these to companies developing portable electronics for use in existing market segments as well as emerging applications.
Major shareholders	As of 4 June 2020, the following registered shareholders have holdings in excess of the statutory threshold for disclosure requirements.[1] Note: The list may include nominee shareholders, which holdings may belong to one or several beneficial owners. In case of nominee shareholders, the disclosure requirement applies to the beneficial owner of the Shares. **Name of registered shareholder** / **Number of Shares held** / **%** USB Switzerland AG / 51,678,921 / 17.71% Tigerstaden AS / 45,454,545 / 15.58% Alden AS / 45,454,545 / 15.58% Middelborg Invest AS / 18,181,818 / 6.23% Robert Keith has disclosed that he owns 45,454,545 Shares in the Company, which represents 15.90% of total number of outstanding Shares following the Private Placement. UBS Switzerland AG is a nominee shareholder. The Company is not aware of the number or identity of any beneficial owners of shares held by said nominees. To the best of the Company’s knowledge and belief, no shareholder, or group of shareholders, controls the Company, directly or indirectly.

[1] The overview does not include the Offer Shares.

Key management	The Company's key management comprise of the following members: **Name** — **Position** Kevin Barber — Chief Executive Officer David Williamson — Acting Chief Financial Officer Arvind Kamath — Executive Vice President – Technology Shannon Fogle — Human Resources and Administration
Statutory auditor	The Company's statutory auditor is Deloitte AS, with registered address at Dronning Eufemias gate 14, 0191 Oslo, Norway.

What is the key financial information regarding the issuer?

Financial Statements

Profit and Loss	First three months		Full year
Amounts in USD (1,000)	2020	2019	2019
Total revenue	558	781	1 181
Gross margin	491	(12)	(1 998)
Loss before interest, tax, depreciation and amortization (EBITDA)	(2 076)	(10 839)	(30 761)
Net loss for the period	(2 827)	(11 775)	(78 446)
Loss per share, basic and diluted (USD)	(0,05)	(0,20)	(1,34)

Financial position	31 March 2020	31 March 2019	31 December 2019
Total assets	7 252	69 951	12 238
Total equity	(22 686)	47 528	(19 660)
Net financial debt	13 200	-	13 200

Cash flow	First three months		Full year
Amounts in USD 1,000	2020	2019	2019
Net cash flows from operating activities	(3 373)	(9 982)	(29 054)
Net cash flows from investing activities	22	(2 229)	(4 919)
Net cash flows from financing activities	(956)	(458)	10 257

Pro forma financial information	Not applicable. There is no pro forma financial information.
Qualifications in audit report	The audit report includes qualifications as follows. The Group and parent historically operated at a loss and are in immediate need of cash. Failure to obtain funding would adversely affect the ability to continue as a going concern and the parent company might enter into liquidation. Further, the Company's liquidity situation, along with other matters set forth in the notes to the Group's financial statements and the Board of Director's report, indicate that a material uncertainty exist that may cast significant doubt on the Company's ability to continue as a going concern.

What are the key risks that are specific to the issuer?

Key risks specific to the issuer	• Thinfilm is in need of further financing within approximately three months, however, the timing of securing the Private Placement and Subsequent Offering on or about the end of Q2 2020 is critical to ensuring continued operations for this period of time.
	• Thinfilm has recently decided a shift in business strategy, focusing on deployment of its technology in battery development and production, where the Company has a limited history and the success of this strategy is uncertain
	  o The technology needs to be developed
	  o The Company does not have specific experience with production of SSBL batteries
	  o Market opportunities are not matured
	• Thinfilm's markets are undergoing rapid technological change, and the Company's future success will depend on its ability to meet the changing needs of the industry
	• The Company is currently developing its energy storage products. Until proven, the technology, the market, and the profitability of the Company are based on assumptions.
	• Thinfilm is highly dependent on IP and the Company's methods of protecting its IP may not be adequate

1.3 SECTION C – KEY INFORMATION ON THE SECURITIES

What are the main features of the securities?

Type of class of securities being offered	The Company has one class of Shares, and all Shares carry equal rights as set out in Section 4-1 (1) first sentence of the Norwegian Public Limited Companies Act. The Shares are registered in the VPS and carry the securities identification code ISIN NO 0010299068. The New Shares are in all respects equal to the existing Shares of the Company.
Currency	The Shares are issued in NOK and are quoted and traded in NOK on the Oslo Stock Exchange.
Number of shares, par value and denomination	Following the Private Placement, Thinfilm's share capital is NOK 32,089,823,15 divided into 291,725,665 ordinary Shares, each Share is fully paid and has a par value of NOK 0.11. The Company's Extraordinary General Meeting resolved on 20 May 2020 to issue minimum 9,090,909 and maximum 63,636,363 Shares in connecion with the Subsequent Offering, at a subscription price per share of NOK 0.11.
Warrants	Each Private Placement Share and each Offer Share is granted two Warrants, each with a right to subsribe one new Share in the Company. The first warrant, Warrant A, has an exercise price of NOK 0.11 and will be exercisable at any time by notice to the Company from the date

	of grant until 31 December 2020. The second warrant, Warrant B, has an exercise price of NOK 0.25 and is exercisable at any time by notice to the Company from the date of grant until 20 August 2021. The Warrants are transferable, however, will not be admitted to trading on Oslo Børs.
Rights attached	The New Shares are ordinary Shares in the Company, i.e., the same class as the Shares already in issue and listed on Oslo Stock Exchange. The New Shares will obtain rights to receive dividends from the time the share capital increase in connection with the issuance of New Shares is registered in the Company Registry. The Company's shares have equal rights to the Company's profits, in the event of liquidation and to receive dividends unless all the shareholders approve otherwise. Each Share in the Company gives the holder the right to cast one (1) vote at the general meetings of shareholders of the Company.
Restrictions on free transferability	The Company's Shares and the Warrants are freely transferable according to Norwegian law and the Company's Articles of Association.
Dividend policy	Thinfilm does not have an established dividend policy in place except to say that the Company's aim and focus is to enhance shareholder value and provide an active market in its shares. Thinfilm has not yet declared or paid any dividends on its Shares. The Company does not anticipate paying any cash dividends on its shares in the next few years.

Where will the securities be traded?

Listing and admission to trading	The Company's Shares have been listed on Oslo Børs since 27 February 2015 under the ticker symbol "THIN". The listing on Oslo Stock Exchange of the New Shares is subject to the approval of the Prospectus by the Norwegian FSA under the rules of the Norwegian Securities Trading Act and the EU Prospectus Regulation. Such approval was granted on 12 June 2020. The first day of trading of the Private Placement Shares is expected to be on or about 15 June 2020. The first day of trading of the Offer Shares is expected to be on or about 10 July 2020. Thinfilm's shares are not listed on any other regulated market place, and Thinfilm does not intend to seek such listing. Thinfilm shares are currently traded on OTCQX International Venture Market exchange under the ticker symbol "TFECY", but will be moved to OTCQB with effect on or about 23 June 2020. The Warrants are not listed or traded at any regulated market.

What are the key risks that are specific to the securities?

Key risks specific to the securities	• Future issuance of Shares upon exercise of all or a significant amount of outstanding Warrants will dilute the existing shareholders significantly and could materially affect the price of the Shares.

1.4 SECTION D – KEY INFORMATION ON THE OFFER OF SECURITIES TO THE PUBLIC AND THE ADMISSION OF SECURITIES TO TRADING ON A REGULATED MARKET

Under which conditions and timetable can I invest in this security?

<table>
<tr>
<td>Terms and conditions of the offer</td>
<td>
On 20 May 2020, Thinfilm raised NOK 24,999,999.97 in gross proceeds through the issuance of 227,272,727 Shares, each with a par value of NOK 0.11 and a Subscription Price of NOK 0.11 per Share.
Below is an overview of the terms and timetable for the Private Placement:
<table>
<tr><td>Number of Private Placement Shares:</td><td>227,272,727</td></tr>
<tr><td>Subscription Price:</td><td>NOK 0.11 per Private Placement Share</td></tr>
<tr><td>Payment Date:</td><td>On or about 22 May 2020</td></tr>
<tr><td>Registration of share capital increase:</td><td>29 May 2020</td></tr>
<tr><td>Delivery of Private Placement Shares and Warrants:</td><td>On or about 15 June 2020</td></tr>
<tr><td>Trading of the Private Placement Shares:</td><td>15 June 2020</td></tr>
<tr><td>Number of Shares pre Private Placement:</td><td>64,452,938 Shares, each with a par value of NOK 0.11</td></tr>
<tr><td>Number of Shares post Private Placement:</td><td>291,725,665 Shares, each with a par value of NOK 0.11</td></tr>
<tr><td>Rights of the Private Placement Shares:</td><td>The Private Placement Shares are in all respects equal to the ordinary Shares of the Company.</td></tr>
<tr><td>Gross proceeds from the Private Placement:</td><td>NOK 24,999,999.97</td></tr>
<tr><td>Dilution</td><td>The Private Placement resulted in a dilution of the then existing shareholders of the Company of approximately 78%.</td></tr>
</table>
Below is an overview of the terms and timetable for the Subsequent Offering:
<table>
<tr><td>Number of Offer Shares in the Subsequent Offering:</td><td>Maximum 63,636,363 and minimum 9,090,909 Offer Shares to be issued, each with a par value of NOK 0.11</td></tr>
<tr><td>Subscription Price:</td><td>NOK 0.11 per Offer Share, equal to the Subscription Price in the Private Placement</td></tr>
<tr><td>Subscription Period:</td><td>Commences on 15 June 2020 and ends on 29 June 2020</td></tr>
<tr><td>Eligible Shareholders:</td><td>Shareholders in the Company as of 28 April 2020, who were not allocated shares in the Private Placement and who are not resident in a jurisdiction where such offering would be unlawful or (other than Norway) would require any filing, registration or similar action.</td></tr>
</table>
</td>
</tr>
</table>

	Subscription Rights:	1.11458462 Subscription Right for every Share held registered as held by an Eligible Shareholder as of 28 April 2020. The holders of Subscription Rights will be entitled to subscribe for one (1) Offer Share for every Subscription Right held within the end of the Subscription Period.
	Allocation criteria:	Offer Shares shall be allocated on the basis of used Subscription Rights. Oversubscription and subscription without Subscription Rights are allowed.
	Payment date:	Payment for the Offer Shares falls due on 7 July 2020.
	Delivery Date of Offer Shares and Warrants:	The Offer Shares and Warrants are expected to be delivered to the subscriber's VPS account on or about 10 July 2020, provided that all subscribers have paid for the subscribed and allocated Offer Shares.
	Trading of Offer Shares:	Expected first day of trading of the Offer Shares on Oslo Børs is on or about 10 July 2020.
	Number of Shares pre Subsequent Offering	291,725,665 Shares, each with a par value of NOK 0.11, assuming that the Subsequent Offering is fully subscribed.
	Number of Shares post Subsequent Offering:	355,362,028 Shares, assuming the Subsequent Offering is fully subscribed, each with a par value of NOK 0.11
	Rights of the Offer Shares:	The Offer Shares are in all respects equal to the ordinary Shares of the Company.
	Gross proceeds from the Subsequent Offering:	Up to NOK 7 million
	Dilution	Together with the Private Placement, the Subsequent Offering will, assuming its fully subscribed, result in a dilution of the shareholders of the Company, to the extent such shareholders chose not to participate in the Subsequent Offering, of approximately 82%.
Estimated expenses	The estimated expenses relating to the Private Placement and Subsequent Offering will be about NOK 1,000,000 including Prospectus costs. No expenses will be charged to the investors by the Company.	

Why is this Prospectus being produced?

Use of proceeds	The proceeds from the Private Placement and Subsequent Offering will be used to fund operating and capital expenditures required by the Company's business plan with the near term objective of producing functional samples (and by showing such progress to enable the Company to attract additional capital to continue to advance the business plan) and also to repay the interim bridge loan, which the Company secured to finance operations until the completion of the Private Placement.
Net proceeds	The gross proceeds to the Company for the Private Placement Shares issued in the Private Placement and the Subsequent Offering will be approximately NOK 32 million, including NOK 25 million in the Private Placement and NOK 7 million in the Subsequent Offering, assuming full subscription of the Subsequent Offering. The total costs are expected to be approximately NOK 1 million, implying net proceeds from the Private Placement and the Offer Shares of about NOK 31 million, assuming full subscription of the Subsequent Offering.
Material interests in the offer	The Company is not aware of any material interest of any natural or legal persons involved in the Private Placement or the Subsequent Offering.
Underwriting agreements	No underwriting agreements have been concluded in connection with the issuance of the New Shares.

2 RISK FACTORS

Investment in Shares, including the New Shares, in the Company involves a high degree of risk. An investor in the Company's Shares should carefully consider the following risk factors, being the principal known risks and uncertainties faced by the Company as of the date hereof that the Company believes are the material risks relevant to an investment in the New Shares, as well as the other information contained in this Prospectus, including information incorporated hereto by reference, see Section 14.5 "Incorporation by reference", and other publicly available information regarding the Company that the Company displays on its website or makes available through Oslo Børs' information system, www.newsweb.no, before deciding to invest in the Shares.

Should any of the following risks occur, it could have a material adverse effect on the Group's business, prospects, results of operations, cash flows and financial position, and the price of the Shares may decline, causing investors to lose all or part of their invested capital.

The risk factors presented in this Section 2 are not exhaustive with respect to all risks relating to the Company and the Shares, but are limited risk factors that are considered specific to the Company and the Shares. The risk factors are presented in a limited number of categories, where each risk factor is sought placed in the most appropriate category based on the nature of the risk it represents. Within each category the risk factors deemed most material for the Company and/or the Shares, taking into account their potential negative effect for the Company and its subsidiaries and the probability of their occurrence, are set out first. This does not mean that the remaining risk factors are ranked in order of their materialility or comprehensibility, nor based on the probability of their occurrence.

Before making any decision to invest in the Company's shares, an investor must take into account that a number of general risks not mentioned in this Section 2 still apply to the Company and the Shares.

An investment in the Shares is suitable only for investors who understand the risk factors associated with this type of investment and who can afford a loss of all or part of their investment.

2.1 Risks Related to the Company's Financial Condition

2.1.1 The Private Placement will only provide funds for a limited period of operation

The Private Placement and the Subsequent Offer are only intended to provide adequate time to demonstrate initial key milestones set up by Company. These milestones are;

> a) to file multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and;
>
> b) build the first (prototype) solid-state lithium battery device using Thinfilm equipment.

A successful demonstration of these two milestones, will enable the Company to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its business according to the previously presented business plan. At such time, the Company plans to seek additional funds from the investor market.

If the Company is not able to successfully complete such new fundraising within or shortly after Q2 2020, significant uncertainty would exist as to whether the Company can continue to operate. A new round of financing would need to be committed by July 2020, and the Company would likely require another bridge loan to continue its operations until the financing is closed. If the

Company fails to obtain such additional funding commitments, the Board would consider proposing a dissolution of the Company. This is viewed as the most significant risk facing the Company at the present time.

2.1.2 Thinfilm's future business is difficult to evaluate because the Company ventures into a new market

The Company's new energy storage strategy represents a business opportunity, which needs to be matured to commercial phase. Thinfilm's revenue and income-producing potential is unproven, and the Company's business model and strategy continue to evolve. To date, Thinfilm has earned only insignificant revenues on previous products. Future revenues are contingent upon several factors, such as the Company's ability to mature its new technology and production processes, develop relationships with customers, and secure widespread commercial acceptance of the Company's technology. Historic performance will provide limited guidance to the Companys prospects with its current business strategy. An investor in the Shares must evaluate the Company's prospects based on limited operating and financial information while considering the risks and difficulties frequently encountered by early stage companies in new and rapidly changing markets.

2.1.3 Thinfilm will need additional capital, which, if obtainable, may dilute the ownership interest of investors

The Company has raised approximately NOK 25 million in gross proceeds from the Private Placement, and expects to raise up to NOK 7 million in gross proceeds from the Subsequent Offering, assuming full subscription of the Subsequent Offering. Combined with the proceeds received from the Private Placement, such subscription will only secure financing of the Company into Q3 2020 – after which substantial new financing must be obtained in order to fulfill current plans to produce solid-state lithium battery (SSLB) products in its San Jose, California production facility. In order to continue the SSLB strategy throughout 2020, Thinfilm expects its cash requirements to be approximately NOK 10 million to NOK 12 million per month until such time the Company begins to generate revenue from the sales of SSLB products. Thinfilm expects its future cash requirements to be primarily sourced from new investments, supplemented by the Company's continued efforts to monetize its NFC assets.

Since its incorporation in 2005, the Company has experienced negative cash flow. Cash proceeds from the Private Placement are insufficient to fund the Company's operations beyond the initial key milestones described above. Thinfilm will need to raise additional funds through the issuance of equity, equity-related or convertible debt securities. Thinfilm cannot be certain that such additional financing will be available to the Company on acceptable terms when required, or at all.

Depending on the structure of any future offering, certain existing shareholders may not have the ability to purchase additional equity securities. If the Company raises additional funds by issuing additional equity securities, the holdings and voting interests of existing shareholders could be diluted.

2.2 Risks Related to the Company's Business Activities and Industry

2.2.1 Thinfilm's business plan depends heavily on revenues from new technology that is commercially unproven, so delays in development may negatively affect the Company's ability to generate revenues

Thinfilm's future growth depends on the commercial success of its technology. The Company has made a strategic shift towards the development and deployment of its solid-state lithium battery (SSLB) technology in diverse applications. The Company is pursuing market opportunities for this technology. Thinfilm will not be successful unless the Company manages to develop its technology and generate recurring revenue and grow its business. Implementation of the energy storage technology process is in an early phase, susceptible to both technology and market risks. The success of this strategy will depend on the Company's ability to develop and adapt its technology and deliver products which meet market demand and acceptance, at profitable pricing. The Company does not have a proven track record with respect to the technology and target markets. Further, Thinfilm's resources, facilities and investments may not be adequate in order to achieve the targeted level of manufacturing and commercialization set out in the Company's business plan. If the Company is unsuccessful in the timely development of products based on its SSLB technology, it may not achieve targeted levels of revenue and profitability.

2.2.2 Future growth may place a significant strain on Thinfilm's management systems and resources

In support of its SSLB strategy, Thinfilm will need to refine and develop its technology, product, sales and marketing functions, and adapt to customer demands to achieve the Company's business plan. Future growth may place a significant strain on Thinfilm's management systems and resources. Thinfilm will need to continuously manage organizational changes, improve its financial and managerial controls and reporting systems and procedures, and expand, train and manage its work force.

Thinfilm's business results depend on its ability to successfully manage ongoing organizational changes. The financial projections assume successfully executing certain of these organizational changes, including the motivation and retention of key employees and recruitment of qualified personnel, which is critical to the business success.

Factors that may affect the Company's ability to attract and retain talented leadership, key individual contributors, and sufficient numbers of qualified employees include:

• employee morale,
• our reputation,
• competition from other employers, and
• availability of qualified personnel.

The Company's success is dependent on identifying, developing and retaining key employees to provide uninterrupted leadership and direction for our business. This includes developing and retaining organizational capabilities in key technology areas, where the depth of skilled or experienced employees may be limited and competition for these resources is intense.

If the Company fails to manage any of these aspects of its growth, its ability to deliver on technology and product development goals may be limited and the Company may not achieve targeted levels of revenue and profitability.

2.3 Risks Related to the Company's Markets

2.3.1 Thinfilm's technology is not well established in target markets

Many of the markets that Thinfilm targets in connection with its new energy storage strategy, will require time in order to gain traction, and there is a potential risk of delays in the timing of sales. Risks and delays may include, but are not limited to:

• Uncertain global economic conditions may adversely impact demand for the products or cause customers and other business partners to suffer financial hardship, which could cause delays in market traction and adversely impact the Company's business.

• Thinfilm's ability to meet growth targets depends on successful product, marketing, and operations innovation and successful responses to competitive innovation and changing consumer habits that may result in changes in the customers' specifications.

The Company cannot assure that the business will be successful or that it will be able to generate significant revenue. If the Company fails to establish and build relationships with customers, or customers' products which utilize the Company's technology do not gain widespread market acceptance, the Company may not be able to generate significant revenue. The Company does not aim to sell any products to end users, and it does not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate its solutions. Instead, the Company designs various devices and products that OEM customers incorporate into their products, and Thinfilm depends on such OEM customers to successfully manufacture and distribute products incorporating the Company's solutions and to generate consumer demand through marketing and promotional activities.

As a result of this, the Company's success depends almost entirely upon the widespread market acceptance of its OEM customers' products that incorporate Thinfilm devices.

Thinfilm's ability to generate significant revenue from new markets will depend on various factors, including the following:

• The development and growth of these markets;

• The ability of the Company's technologies and product solutions to address the needs of these markets, the price and performance requirements of OEMs, and the preferences of end users; and

• Its ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

If the Company is unable to successfully establish its technology and products in key markets, it may not be able to achieve targeted levels of revenue and profitability.

2.4 Risks Related to Legal and Regulatory Matters

2.4.1 Thinfilm is highly dependent on IP and the Company's methods of protecting its IP may not be adequate

Thinfilm relies on a combination of patent laws, trade secrets, confidentiality procedures and contractual provisions to protect the Company's IPR.

Thinfilm cannot be certain that it will be able to obtain patent protection on the key components of its SSLB and stainless steel-based flexible electronics manufacturing technology or that the Company will be able to obtain patents in key jurisdictions such as the United States, China, Japan or EU. Thinfilm cannot give assurances that the Company will develop new products or technologies that are patentable, that any issued patent will provide the Company with any competitive advantages or will not be challenged by third parties, or that the patents of others will not impair the Company's ability to do business.

Unauthorized parties may attempt to copy or obtain and use the Company's technology. Policing the unauthorized use of Thinfilm's technology is difficult, and there can be no assurance that the steps taken by the Company will prevent misappropriation of its technology. In the event of misappropriation, the Company may choose to enter into legal proceedings, at its own expense, to defend its IPR, but there is no guarantee that such proceedings will be successful. If the Company's technology is not adequately protected or is misappropriated, the Company may not be able to sufficiently differentiate itself from competitors and may not be able to achieve targeted levels of revenue and profitability.

2.4.2 Thinfilm faces risks of claims for IP infringement

Thinfilm's competitors or other persons may have already obtained or may in the future obtain patents relating to one or more aspects of the Company's technology. If Thinfilm is sued for patent or other intellectual property right infringement, the Company may be forced to incur substantial costs in defending itself. If litigation were to result in a judgment that Thinfilm infringed a valid and enforceable patent or other intellectual property right, a court may order the Company to pay substantial damages to the owner of the patent or other intellectual property right and to stop using any infringing technology or products. This could cause a significant disruption in Thinfilm's business and force the Company to incur substantial costs to develop and implement alternative, non-infringing technology or products, or to obtain a license from the patent or other intellectual property right owner. This could also lead Thinfilm's licensees and customers to bring warranty claims against the Company.

2.5 Risk factors relating to the Shares

2.5.1 Future issuances of Shares upon exercise of warrants and/or incentive subscription rights could dilute the holdings of shareholders and could materially affect the price of the Shares

As of the date of this Prospectus, a total of 4,997,339 incentive subscription rights are issued and outstanding under the Company incentive subscription rights plans, 454,545,454 Warrants have been issued in connection with the Private Placement and a maximum of 127,272,726 Warrants may be issued in connection with the Subsequent Offering. Any issuance of new Shares upon the exercise of incentive subscription rights and Warrants will result in the dilution of the ownership interests of the Company's existing shareholders.

3 STATEMENTS

3.1 Responsibility statement

The Prospectus has been prepared by the Board of Directors in Thin Film Electronics ASA (the "**Board**" or the "**Board of Directors**") to provide information to shareholders and investors of the Company in connection with the Private Placement and the listing of the Private Placement Shares, and the offering and listing of the Offer Shares in the Subsequent Offering, both as described herein.

The Board of Directors accepts responsibility for the information contained in this Prospectus. The Board of Directors hereby declears that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import.

The Board of Directors of Thin Film Electronics ASA

Oslo, 12 June 2020

Morten Opstad
chairman

Jon S. Castor
board member

Kelly S. Doss
board member

Preeti Mardia
board member

4 GENERAL INFORMATION

4.1 Approval of the Prospectus

This Prospectus has been approved by the Norwegian FSA under the EU Prospectus Regulation. The Norwegian FSA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the EU Prospectus Regulation. Such approval shall not be considered as an endorsement of the issuer or the quality if the securities that are the subject of this Prospectus. All investors should make their own assessments as to the suitability of investing in the securities.

This Prospectus has been drawn up as part of the simplified prospectus regime in accordance with Article 14 of the EU Prospectus Regulation.

4.2 Cautionary note regarding Forward-looking Statements

This Prospectus includes statements regarding future developments, including, without limitation, projections and expectations regarding the Group's future financial position, business strategy, plans and objectives, all of which are based on information available to the Company, and views and assessments of the Company, as of the date of this Prospectus ("**Forward-looking Statements**"). Except as required by the applicable stock exchange rules or applicable law, the Company does not intend, and expressly disclaims any obligation or undertaking, to publicly update, correct or revise any of the information included in this Prospectus, including forward-looking information and statements, whether to reflect changes in the Company's expectations with regard thereto or as a result of new information, future events, changes in conditions or circumstances or otherwise on which any statement in this Prospectus is based.

When used in this document, the words "anticipate", "believe", "estimate", "expect", "seek to" and similar expressions, as they relate to the Company, its Subsidiaries or its management, are intended to identify Forward-looking Statements.

Prospective investors in the Shares are cautioned that Forward-looking Statements are not guarantees of future performance and that the Group's actual financial position, operating results and liquidity, and the development of the industry in which the Group operates, may differ materially from those made in or suggested by the Forward-looking Statements contained in this Prospectus. The Company cannot guarantee that the intentions, beliefs or current expectations upon which its Forward-looking Statements are based will occur. Given the aforementioned uncertainties, prospective investors are cautioned not to place undue reliance of these Forward-looking Statements.

Such Forward-looking Statements are included in various places of the Prospectus, and in particular in Sections 2 and 6.

5 INFORMATION CONCERNING THE SECURITIES BEING ADMITTED TO TRADING

5.1 The background for, the purpose of and the use of proceeds

The proceeds from the Private Placement and Subsequent Offering will be used to fund operating and capital expenditures required by the Company's business plan with the near term objective of producing functional samples (and by showing such progress to enable the Company to attract additional capital to continue to advance the business plan) and also to repay the interim bridge loan, which the Company secured to finance operations until the completion of the Private Placement. In addition, a specific purpose of the Subsequent Offering is to reduce the dilutive effect of the Private Placement by offering shareholders in the Company who were not offered to participate in the Private Placement, the possibility to subscribe for Offer Shares.

5.2 The Private Placement

5.2.1 Overview

The full terms and conditions of the Private Placement are set out in Section 5.2.5.

The Company conducted a Private Placement on 28 April 2020 of 227,272,727 Private Placement Shares towards investors, including certain existing shareholders. The Private Placement was approved by an Extraordinary General meeting in the Company on 20 May 2020. The Private Placement Shares were subscribed for at a Subscription Price of NOK 0.11 per Share, each share having a par value of NOK 0.11. The total gross proceeds from the Private Placement amounted to NOK 24,999,999.97.

The Board considers it is appropriate that the existing shareholders' preferential rights to subscribe for Private Placement Shares and Warrants are waived in favor of the subscribers in the Private Placement because of the immediate need of financing in order for the Company to secure and continue its operations. While the subscription price is less than resolved by the 15 April 2020 Extraordinary General Meeting, the Board believes that the proposed subscription price – which equals the minimum subscription price proposed by the Board ahead of the 15 April 2020 Extraordinary General Meeting – is at the level necessary in order for the Company to obtain funding given the Company's current financial condition and the Company's debt facility, which has been the sole source of funding over the last year.

At the Extraordinary General Meeting Meeting in the Company on 15 April 2020, the shareholders approved a private placement of shares of a minimum amount of NOK 25,000,000 at a minimum subscription price per share of NOK 0.94. In regard to the latter, the Board of Directors of Thinfilm had proposed a minimum subscription price per share equal to the par value of the share, NOK 0.11 (following the reduction in par value per share resolved earlier at the EGM); however, the general meeting voted down this proposal and set the minimum subscription price at NOK 0.94 per share. Subsequent to the EGM, the Board attempted to build sufficient support for a private placement of shares on such terms, but the Company was not able to secure sufficient interest to reach the minimum subscription amount and minimum subscription price per share. Therefore, the terms of the Private Placement are deemed to be the best terms available to the Company.

Prior to the Private Placement the Company's share capital was NOK 7,089,823.18 divided into 64,452,938 Shares, each with a par value of NOK 0.11. Following registration of the share capital increase in connection with the Private Placement, the Company has an issued share capital of NOK 32,089,823.15 divided into 291,725,665 Shares, each with a par value of NOK 0.11.

5.2.2 Subscription Price

The Subscription Price of NOK 0.11 per Private Placement Share was set in the offer from a consortium of investors who subscribe for shares in the Private Placement. The Subscription Price was announced through Oslo Stock Exchange' electronic information system on 28 April 2020.

No expenses or taxes were specifically charged to the subscribers.

5.2.3 Subscription and Payment for the Private Placement Shares

The Private Placement Shares were subscribed for in subscription forms within the subscription deadline on 22 May 2020.

The contemplated Private Placement was announced on 28 April 2020 through Oslo Stock Exchange' electronic information system. Completion of the Private Placement was subject to approval by the Extraordinary General Meeting on 20 May 2020. The Private Placement and allocation were formally approved by the Company's Extraordinary General Meeting on 20 May 2020. Payment of the share contribution in the Private Placement was made in full by the investors within the payment deadline on 22 May 2020. The associated share capital increase was registered in the Company Registry on 29 May 2020 with a subsequent announcement on the same day regarding the registration of the share capital increase in the Company Registry. Pending publication of this Prospectus, the Private Placement Shares are issued and delivered to the subsribers in the VPS under a separate ISIN, not tradable on Oslo Børs. Upon approval of the Prospectus, the Private Placement Shares will be delivered to the subscribers in the form of newly issued ordinary Shares, which will be registered on the Company's ordinary ISIN NO 0010299068 and be admitted to trading on Oslo Børs, which is expected to take place on or about 15 June 2020.

The Private Placement did not include any retail tranche or tranche for Company employees and no allotment method was consequently used by over-subscription of such tranches. No subscription period was applied in connection with the Private Placement other than the subscription deadline for the investors participating in the Private Placement. Multiple subscriptions were not admitted as the Private Placement was formalized by way of an application agreement.

The following investors were allocated more than 5% of the Private Placement Shares:

Name of investor	**Number of Private Placement Shares allocated**	**Number of Warrant A subscribed for**	**Number of Warrant B subscribed for**	**% of the Private Placement**
Tigerstaden AS	45,454,545	45,454,545	45,454,545	20%
Alden AS	45,454,545	45,454,545	45,454,545	20%
Robert N. Keith	45,454,545	45,454,545	45,454,545	20%
Middelborg AS	18,181,818	18,181,818	18,181,818	8%
Simen Thorsen	12,272,727	12,272,727	12,272,727	5.4%

In addition to the above-mentioned subscribers, the following members of the Company's management, supervisory or administrative bodies were allocated Private Placement Shares and Warrants in the Private Placement:

Name of investor	Number of Private Placement Shares allocated	Number of Warrant A subscribed for	Number of Warrant B subscribed for	% of the Private Placement
Morten Opstad, Chairman	1,181,182	1,181,182	1,181,182	0.52%
Kevin Barber, CEO	909,091	909,091	909,091	0.4%
Jan Castor, Board member	909,091	909,091	909,091	0.4%
Kelly Doss, Board member	454,545	454,545	454,545	0.2%

5.2.4 Admission to trading

The Company's shares are listed on Oslo Stock Exchange under the ticker-code "THIN".

The listing on Oslo Stock Exchange of the Private Placement Shares is subject to the approval of the Prospectus by the Norwegian FSA under the rules of the Norwegian Securities Trading Act. Such approval was granted on 12 June 2020.

The first day of trading of the Private Placement Shares on Oslo Stock Exchange, under Oslo Stock Exchange ticker Symbol "THIN", will be on or about 15 June 2020. None of the Company's shares (including the Private Placement Shares) are offered or admitted to trading at any other regulated market than Oslo Stock Exchange.

The registrar for the Shares is DNB Bank ASA, Verdipapirservice, Dronning Eufemias gate 30, NO-0191 Oslo, Norway.

5.2.5 Resolutions to issue the Private Placement Shares and Warrants

The issuance of the Private Placement Shares was approved by the Company's Extraordinary General Meeting on 20 May 2020 through the following resolution:

> *The Company's share capital shall be increased with NOK 24,999,999.97 from NOK 7,089,823.18 to NOK 32,089,823.15, by issuance of 227,272,727 new shares, each share having a par value of NOK 0.11, at a subscription price per of NOK 0.11. The total subscription amount is NOK 24,999,999.97, all constituting share capital. The new shares may be subscribed for by the investors set out in Attachment 1 to the minutes from the Extraordinary General Meeting. Existing shareholders' preferential right to subscribe for shares according to Section 10-4 of the PLCA is waived.*
>
> *Subscription for the new shares shall be made on a separate subscription form by 22 May 2020 (or such later date as agreed by the Board of Directors, but no later than 15 July 2020). The subscription price shall be paid within 22 May 2020 (or such later date as agreed by the Board of Directors, but no later than 15 July 2020) to a separate bank account specified by the Company in writing, cf. Section 10-13 of the PLCA. In case of non-payment from the subscriber, the Board may transfer such subscriber's rights to other subscriber(s).*

The new shares shall carry shareholder rights, including right to dividends or other distributions that are declared, from registration of the share capital increase in the NorwegianRegister of Business Enterprises.

This resolution is conditional upon the Extraordinary General Meeting approving the warrant issuance in section 5.

The estimated costs related to the private placement are approximately NOK 1,000,000, including costs related to the preparation of a prospectus

The Warrants were issued by the following resolution of the Extraordinary General Meeting dated 20 May 2020:

1. *The Company shall issue warrants in accordance with Section 11-12 of the PLCA to investors participating in the private placement and Subsequent Offering in accordance with sections 3 and4 above. The number of warrants which may be issued shall be two warrants for each share subscribed for and allocated in the Private Placement and Subsequent Offering in accordance with sections 3 and 4 of the minutes of this Extraordinary General Meeting. The first warrant ("Warrant A") has an exercise price of NOK 0.11 per share and will be exercisable at any time from the date of grant until 31 December 2020. The second warrant ("Warrant B") has an exercise price of NOK 0.25 per share and will be exercisable at any time from the date of grant until the date 15 months following the date of this Extraordinary General Meeting.*

2. *The maximum number of warrants that may be issued is 581,818,180, including both Warrants A and Warrants B.*

3. *In connection with the issuance of warrants, and the exercise of any of the warrants and the resulting share capital increase in the Company, the existing shareholders waive their preferential right to subscribe for warrants or shares, as the case may be, according to Section 11-13 of the PLCA.*

4. *Each warrant shall entitle the holder to demand the issuance of one share in the Company;provided, however, that in the event the Company's share capital or number of shares is changedby way of a capitalization issue, stock split, stock consolidation etc., the maximum number of warrants (see subsection 2 above) that may be issued in accordance with section 2, and the consideration for the shares to be issued in the Company upon exercise of the warrants, shall be adjusted accordingly and rounded downwards to the nearest whole number.*

5. *The warrants for participants in the private placement set out in section 3 must be subscribed for on or before 22 May 2020 (or such later date as determined by the Board of Directors, but no later than 15 July 2020). The warrants for participants in the subsequent offering set out in section 4 must be subscribed for on or before the expiration date of the subscription period in the Subsequent Offering.*

6. *The warrants will be granted for no charge.*

7. *The warrants are transferable, however, will not be admitted to trading on Oslo Børs.*

8. *Any shares that are issued by the Company under this resolution shall carry rights to dividends declared subsequent to the subscriber having paid the subscription price and the associated share capital increase having been registered in the Register of Business Enterprises. All other shareholderrights associated with these shares, hereunder those referenced in Section 11-12 (2) no.9 of the PLCA, shall attach from the date of issuance of the said shares.*

5.2.6 Dilution

The dilutive effect following the issuance of the Private Placement Shares represents an immediate dilution of approximately 78% for existing shareholders who did not participate in the Private Placement.

5.3 The Subsequent Offering

5.3.1 Overview

The Subsequent Offering consists of an offer to Eligible Shareholders by the Company to issue up to 63,636,363 Offer Shares at a subscription price of NOK 0.11 per share, being equal to the subscription price in the Private Placement. Subject to all Offer Shares being issued, the Subsequent Offering will result in gross proceeds of approximately NOK 7 million. This will be in addition to the gross proceeds from the Private Placement.

Eligible Shareholders based on their registered holding of Shares in VPS at the end of the Record Date will, in accordance with Section 10-4 of the Norwegian Public Limited Companies Act, be granted transferable Subscription Rights providing a preferential right to subscribe for and be allocated Offer Shares in the Subsequent Offering. The Company will issue 1.11458462 Subscription Rights per one (1) Share registered as held in the Company by an Eligible Shareholder on the Record Date.

The number of Subscription Rights issued to each Eligible Shareholder will be rounded down to the nearest whole number of Subscription Rights. Each Subscription Right grants the owner the right to subscribe for and be allocated one (1) Offer Share in the Subsequent Offering. Over-subscription and subscription without Subscription Rights are permitted. However, there can be no assurance that Offer Shares will be allocated for such subscriptions, as allocations for over-subscriptions (if any) and subscriptions without Subscription Rights will be made at the discretion of the Board of Directors. If not all Offer Shares are subscribed for on the basis of Subscription Rights, and over-subscriptions are made, allocations will be made among Eligible Shareholders who have over-subscribed, other shareholders and/or other investors at the discretion of the Board of Directors, as set out in Section 5.3.8 "*Allocation criteria*". The final size, allocation and issuance of the Offer Shares will be subject to formal approval of the Board following expiry of the Subscription Period.

Furthermore, the recipient of each new Offer Share will be granted two Warrants. The first warrant ("Warrant A") has an exercise price of NOK 0.11 per share and will be exercisable at any time from the date of grant until 31 December 2020. The second warrant ("Warrant B") has an exercise price of NOK 0.25 per share and will be exercisable at any time from the date of grant until 20 August 2021.

Each Warrant shall entitle the holder to demand the issuance of one share in the Company; provided, however, that in the event the Company's share capital or number of shares is changed by way of a capitalization issue, stock split, stock consolidation etc., the number of Warrants that may be issued, and the consideration for the shares to be issued in the Company upon exercise of the Warrants, shall be adjusted accordingly and rounded downwards to the nearest whole number.

Any shares that are issued by the Company upon exercise of Warrants shall carry shareholder rights subsequent to the subscriber having paid the excercise price and the associated share capital increase having been registered in the Register of Business Enterprises.

The below timetable sets out certain indicative key dates for the Subsequent Offering, subject to change:

Event	**Date**
Last day of trading in the Shares incl. Subscription Rights	28 April 2020
First day of trading in the Shares excl. Subscription Rights	29 April 2020
Record Date for determination of Eligible Shareholders	30 April 2020
Extraordinary General Meeting	20 May 2020
Start of Subscription Period	15 June 2020
End of Subscription Period	29 June 2020
Allocation of Offer Shares	30 June 2020
Distribution of allocation letters	30 June 2020
Payment Date for the Offer Shares	7 July 2020
Registration of share capital increase	9 July 2020
Delivery of the Offer Shares to the investors VPS' accounts	10 July 2020
Listing and first day of trading of the Offer Shares on Oslo Stock Exchange	10 July 2020

5.3.2 Resolutions regarding the Subsequent Offering and issue of Offer Shares

The Extraordinary General meeting resolved on 20 May 2020 the following for the Offer Shares:

1. *The Company's share capital may be increased with maximum NOK 7,000,000, by issuance of up to 63,636,363, each share having a par value of NOK 0.11, for a subscription price per share equal to the subscription price per share in the Private Placement, being NOK 0.11. The minimum amount of share capital increase shall be NOK 1 million and the minimum number of shares issued shall be 9,090,909.*

2. *Shareholders in the Company as per the date of the Private Placement, as shown in the Company's shareholders' register in the VPS following ordinary T+2 settlement on the date of the Private Placement (the "**Record Date**") who were not allocated shares in the Private Placement and who are, in the opinion of the Company, not resident in a jurisdiction where such offering would be unlawful or (for other jurisdictions than Norway) would require a prospectus filing, registration or similar action, may subscribe for shares in the Subsequent Offering ("**Eligible Shareholders**"). Eligible Shareholders will be granted subscription rights that give preferential rights to subscribe for shares in the Subsequent Offering. Eligible Shareholders shall receive subscription rights proportionate to the number of shares in the Company that are registered as held by such Eligible Shareholder on the Record Date. A right to subscribe for a fraction of a share shall be rounded down to the nearest whole share. Oversubscription and subscription without subscription rights is permitted. Oversubscription and unexercised subscription rights will be allocated as determined by the Board of Directors pursuant to criteria to be set out in a prospectus to be approved by the Norwegian Financial Supervisory Authority (the "**FSA**") of Norway pursuant to chapter 7 of the Norwegian*

*Securities Trading Act and published prior to the commencement of the subscription period in the Subsequent Offering (the "***Prospectus***"). Unless the Board decide otherwise, the Prospectus shall not be registered with or be approved by authorities outside Norway.The subscription rights are transferable, but will not be admitted for trading on Oslo Børs.*

3. *The existing shareholders' preferential rights pursuant to Section 10-4 of the PLCA is deviated from.*

4. *The subscription period for the Subsequent Offering will commence on 11 June 2020 and end on 25 June 2020 at 16:30 hrs (CET) (or at such later date as determined by the Board, but not later than commencing 16 July 2020 and ending on 30 July 2020). In the event that the Prospectus related to the share capital increase has not been approved by the FSA by the end of 10 June 2020, the subscription period will commence on the first trading day on Oslo Børs following such approval and end at 16:30 hrs (CET) 14 days later. Subscription shall be made by signing and returning the subscription form to be attached to the Prospectus.*

5. *Payment of the subscription price shall be made within five (5) days after the expiration of the subscription period. When completing the subscription form, each subscriber domiciled in Norway shall provide a one-time irrevocable authorization to DnB Bank to debit a specific bank account with a Norwegian Bank for the amount payable for the shares allocated to the subscriber. The debiting will be done on or about the deadline for payment. For subscribers without a Norwegian bank account, payment shall be made pursuant to the instructions included in the subscription form attached to the Prospectus.*

6. *The new shares shall carry right to dividend or other distributions that are declared following registration of the share capital increase with the Norwegian Register of Business Enterprises (Nw.: Foretaksregisteret). The estimated costs related to the share capital increase will depend on the total subscription in the Subsequent Offering, such costs being an amount up to NOK 1,000,000, including costs related to the private placement and preparation of a prospectus.*

7. *Following completion of the Subsequent Offering, the Board is authorized to amend Section 4 of the Articles of Association to state the share capital and number of shares following the Subsequent Offering.*

8. *The share capital increase is conditional upon the Extraordinary General Meeting resolving the private placement in accordance with the Board's proposal in section 3 above.*

See 5.2.5 of the Prospectus for the resolution by the Extraordinary General Meeting dated 20 May 2020 on the issuance of Warrants.

The final size, allocation and issuance of Offer Shares will be subject to formal approval by the Board of Directors following expiry of the Subscription Period and will be published as described in Section 5.3.13 "*Publication of information relating to the Subsequent Offering*", expected to be on or about 30 June 2020. The completion of the Subsequent Offering is not subject to any other conditions or may otherwise be revoked or suspended.

5.3.3 Offer Shares, Subscription Rights and warrants

Eligible Shareholders of the Company as of the end of 28 April 2020, as registered in the VPS on the Record Date, will be granted Subscription Rights giving a preferential right to subscribe for, and be allocated, Offer Shares in the Subsequent Offering. Each Eligible Shareholder will, subject to applicable securities laws, be granted 1.11458462 Subscription Right for each Share registered as held by each such Eligible Shareholder on the Record Date, rounded down to the nearest whole Subscription Right.

Each Subscription Right will, subject to applicable securities law, give the right to subscribe for and be allocated one (1) Offer Share. No fractional Offer Shares will be issued. Fractions will not be compensated, and all fractions will be rounded down to the nearest integer that provides issue of whole Offer Share to each participant.

The Subscription Rights will be credited to and registered on each Eligible Shareholder's VPS account on or about 15 June 2020 under ISIN NO0010885031. The Subscription Rights will be distributed free of charge to Eligible Shareholders, and the recipient will not be debited any costs. The Subscription Rights are transferable, but will not be listed on any regulated marketplace.

The Subscription Rights may be used to subscribe for Offer Shares in the Subsequent Offering before the expiry of the Subscription Period on 29 June 2020 at 16.30 hours (CET). Eligible Shareholders will be allowed to subscribe for more Offer Shares than the number of Subscription Rights held by Eligible Shareholders. Oversubscription and unexercised subscription rights will be allocated as determined by the Board of Directors. See Section 5.3.8 "*Allocation criteria*" for allocation criteria.

The Subscription Rights must be used to subscribe for Offer Shares before the end of the Subscription Period (i.e., 29 June 2020 at 16.30 hours (CET)). Subscription Rights that are not exercised before 29 June 2020 at 16.30 hours (CET) will have no value and will lapse without compensation to the holder. Holders of Subscription Rights should note that subscription for Offer Shares must be made in accordance with the procedures set out in this Prospectus. The Subscription Rights are transferable.

5.3.4 Subscription Period

The Subscription Period for the Subsequent Offering will commence on 15 June 2020 and end at 16.30 hours (CET) on 29 June 2020 and may not be closed prior to this. The Subscription Period may not be extended.

5.3.5 Subscription Price

The Subscription Price in the Subsequent Offering is NOK 0.11 per Offer share, equal to the Subscription Price in the Private Placement.

5.3.6 Eligible Shareholders and Record Date

The Company will issue Subscription Rights to Eligible Shareholders, being the Company's shareholders as of close of trading on 28 April 2020, as registered in the VPS on 30 April 2020 (the Record Date), who are not resident in a jurisdiction where such offering would be unlawful, or would (in jurisdictions other than Norway) require any prospectus filing, registration or similar action and who were not allocated shares in the Private Placement. Transactions in the existing Shares, which have not been registered in the VPS within the Record Date, will be disregarded for the purposes of determining the allocation of Subscription Rights.

5.3.7 Subscription procedures and subscription office

Subscriptions for Offer Shares must be made on a Subscription Form attached hereto as Appendix 1. The Prospectus is available at www.thinfilmsystems.com and www.newsweb.no, and at the offices of Advokatfirmaet Ræder AS, Dronning Eufemias gate 11, Oslo, Norway.

Subscribers who are Norwegian citizens may also subscribe for Offer Shares by following the link provided in the Subscription Form, which will redirect the subscriber to the VPS online subscription system. In order to use the online subscription system, the subscriber must have, or obtain, a VPS account number. All online subscribers must verify that they are Norwegian citizens by entering their national identity number (Nw*: personnummer*).

Online subscriptions must be submitted, and accurately completed Subscription Forms must be received by the DNB Bank ASA by 16.30 (CET) on 29 June 2020. The Company will have no responsibility for postal delays, unavailable fax lines, internet lines or servers or other logistical or technical problems that may result in subscriptions not being received in time or at all. Subscription Forms received after the end of the Subscription Period and/or incomplete or incorrect Subscription Forms and any subscription that may be unlawful may be disregarded at the sole discretion of the Company without notice to the subscriber.

Subscriptions are binding and irrevocable, and cannot be withdrawn, cancelled or modified by the subscriber after having been received by DNB Bank ASA, or in the case of subscriptions through the VPS online subscription system, upon registration of the subscription. The subscriber is responsible for the correctness of the information filled into the Subscription Form. By signing and submitting a Subscription Form, the subscribers confirm and warrant that they have read this Prospectus and are eligible to subscribe for Offer Shares under the terms set forth herein.

There is no minimum subscription amount for which subscriptions in the Subsequent Offering must be made. Oversubscription (i.e., subscription for more Offer Shares than the number of Subscription Rights held by the subscriber entitled the subscriber to be allocated) and subscription without Subscription Rights are permitted. However, there can be no assurance that Offer Shares will be allocated for such subscriptions as allocations for over-subscriptions (if any) and subscriptions without Subscription Rights will be made at the discretion of the Board and in accordance with the allocation criteria as set out in Section 5.3.8 "*Allocation criteria*".

Multiple subscriptions (i.e. subscriptions on more than one Subscription Form) are allowed. Please note, however, that each separate Subscription Form submitted by the same subscriber with the same number of Offer Shares subscribed for on both Subscription Forms will only be counted once, unless otherwise explicitly stated in one of the Subscription Forms. In the case of multiple subscriptions through the VPS online subscription system or subscriptions made both on a Subscription Form and through the VPS online system, all subscriptions will be counted.

Subscription Forms received after the end of the Subscription Period may be disregarded at the sole discretion of the Company without prior notice to the subscribers. The Company may, without prior notice to the subscribers, in its sole discretion disregard any incomplete and/or incorrect Subscription Forms or any subscription that may be unlawful. In the event that DNB Bank ASA needs to verify the identification of a subscriber under the Anti-Money Laundering Legislation, the subscriber is responsible for providing DNB Bank ASA with the necessary documentation. Non-compliance with these requirements may lead to the subscriber not being allotted Offer Shares in the Subsequent Offering.

5.3.8 Allocation criteria

Allotment of the Offer Shares is expected to take place on or about 30 June 2020 and will be allocated based on the number of Offer Shares subscribed for on the basis of Subscription Rights. In the event that not all Offer Shares are subscribed for on the basis of Subscription Rights, the remaining Offer Shares will be allocated among Eligible Shareholders who have over-subscribed, other shareholders and/or other investors at the discretion of the Board. The final size, allocation and issuance of the Offer Shares will be subject to formal approval by the Board following expiry of the Subscription Period.

Subscription Rights that are not used to subscribe for Offer Shares before the expiry of the Subscription Period will have no value and will lapse without compensation to the holder.

No fractional Offer Shares will be allocated and Subscription Rights for less than a whole Offer Share will hence not provide for guaranteed allocation. There is no pre-determined preferential treatment to certain classes of investors or certain affiliated groups (including friends and family programs) in the Subsequent Offering.

The Company reserves the right to reject or reduce allocation of Offer Shares based on subscriptions not covered by Subscription Rights, as described above.

General information regarding the result of the Subsequent Offering is expected to be published on or about 30 June 2020 in the form of a stock exchange release through www.newsweb.no. Notifications of allocated Offer Shares and the corresponding subscription amount to be paid by each subscriber are expected to be distributed by post on or about 30 June 2020. Subscribers having access to a VPS account will be able to check the number of Offer Shares allocated to them on or about 30 June 2020.

5.3.9 Payment

Each subscriber must provide a one-time authorization to DNB Bank ASA to debit a specified bank account with a Norwegian bank for the amount (in NOK) payable for the Offer Shares allotted to such subscriber by signing the Subscription Form when subscribing for Offer Shares. The amount will be debited on or about 7 July 2020. Subscribers not having a Norwegian bank account or subscribers subscribing for Offer Shares for more than NOK 5 000 000 must ensure that payment for their Offer Shares with cleared funds is made on or before 16.30 hours CET on 7 July 2020.

If there are insufficient funds on a subscriber's bank account or if it is impossible to debit a bank account for the amount the subscriber is obligated to pay, the allotted Offer Shares will be withheld. Interest will in such event accrue at a rate equal to the interest on late payment, currently 9.5% per annum. If payment for the allotted Offer Shares is not received when due, the Offer Shares will not be delivered to the subscriber, and the Board reserves the right, at the risk and the cost of the subscriber, to cancel the subscription in respect of the Offer Shares for which payment has not been made, or to sell or otherwise dispose of the Offer Shares, and hold the subscriber liable for any loss, cost or expense suffered or incurred in connection therewith. The original subscriber remains liable for payment of the entire amount due, including interest, costs, charges and expenses accrued.

5.3.10 Warrants

Warrants will be granted free of charge to the subscribers of the Offer Shares on the delivery of the Offer Shares.

5.3.11 Publication of information relating to the Subsequent Offering

Publication of information related to any changes in the Subsequent Offering and the amount subscribed, will be published on www.newsweb.no under the Company's ticker code "THIN", and will also be available on the Company's website www.thinfilmsystems.com. The announcement regarding the amount subscribed for and the final size of the Subsequent Offering (based on subscription received before expiry of the Subscription Period) is expected to be made on or about 30 June 2020.

5.3.12 VPS Registration

The Offer Shares will be registered electronically in book entry form with VPS under ISIN NO 0010299068.

The Offer Shares will not be delivered to the subscriber's VPS accounts before they are fully paid, registered with the Norwegian Company Registry and registered in the VPS.

The registrar for the Shares is DNB Bank ASA, Securities Services, Dronning Eufemias gate 30, NO-0191 Oslo, Norway.

5.3.13 Delivery and listing of the Offer Shares

All subscribers subscribing for Offer Shares must have a valid VPS account (established or maintained by an investment bank or Norwegian bank that is entitled to operate VPS accounts) to receive Offer Shares.

Subject to timely payment by the subscribers, the Company expects that the share capital increase pertaining to the Subsequent Offering will be registered with the Norwegian Company Registry on or about 9 July 2020 and that the Offer Shares will be delivered to the VPS accounts of the subscribers to whom they are allocated on or about the same date. The final deadline for registration of the share capital increase pertaining to the Subsequent Offering with the Norwegian Company Registry, and hence for the delivery of the Offer Shares, is, pursuant to the Norwegian Public Limited Companies Act, three (3) months from the expiry of the Subscription Period, i.e. on 29 September 2020. The Offer Shares will be listed on Oslo Stock Exchange as soon as the share capital increase pertaining to the Subsequent Offering has been registered with the Norwegian Company Registry and the Offer Shares have been registered in the VPS under ISIN NO 0010299068, which the Company expects will take place on or about 10 July 2020. None of the Company's shares (including the Offer Shares) are offered or admitted to trading at any other market than Oslo Børs.

5.3.14 Dilution

The dilutive effect of the Private Placement for those shareholders who participate in the Subsequent Offering based on their Subscription Rights will be approximately 64%. For shareholders who do not participate in neither the Private Placement nor the Subsequent Offering, the dilutive effect will be approximately 82%.

The net asset value in the Financial Statements on 31 March 2020 was negative USD 22,686,000, which translates to approximately negative USD 0.0778 per share outstanding subsequent to the Private Placement, but prior to the Subsequent Offering. The Subscription Price in the Private Placement and the Public Offering is NOK 0.11.

5.3.15 Transferability of the Offer Shares

The Offer Shares may not be transferred or traded on Oslo Børs before they are fully paid, the connected share capital increase has been registered with the Norwegian Company Registry, and the Offer Shares have been registered in the VPS and delivered to the subscribers. The Offer Shares are expected to be delivered to the subscriber's VPS accounts on or about 10 July 2020.

5.3.16 Selling and transfer restrictions

The Company is not taking any action to permit an offering of the Subscription Rights or the Offer Shares (including the Warrants) (pursuant to the exercise of the Subscription Rights or otherwise) in any jurisdiction other than Norway. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information purposes only and should not be copied or redistributed. Persons outside Norway should consult their professional advisors as to whether they require any governmental or other consent or need to observe any other formalities to enable them to subscribe for Offer Shares. No compensation will be given to shareholders not being eligible to exercise their Subscription Rights.

It is the responsibility of any person wishing to subscribe for Offer Shares under the Subsequent Offering to satisfy himself or herself as to the full observance of the laws of any relevant jurisdiction in connection therewith, including obtaining any governmental or other consent which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The Subscription Rights, Offer Shares and Warrants have not been registered, and will not be registered, under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") and may not be offered, sold, taken up, exercised, resold, delivered or transferred, directly or indirectly, within the United States, except pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act and in compliance with the securities laws of any state or other jurisdiction of the United States. The Subscription Rights, Offer Shares and Warrants have not been and will not be registered under the applicable securities laws of Australia, Canada or Japan and may not be offered, sold, taken up, exercised, resold, delivered or transferred, directly or indirectly, in or into Australia, Canada or Japan or any other jurisdiction in which it would not be permissible to offer the Offer Shares, except pursuant to an applicable exemption from the registration requirements and otherwise in compliance with the securities laws of such country or other jurisdiction. This Subscription Form does not constitute an offer to sell or a solicitation of an offer to buy Offer Shares in any jurisdiction in which such offer or solicitation is unlawful. A notification of exercise of Subscription Rights and subscription for Offer Shares and Warrants in contravention of the above restrictions may be deemed to be invalid. By subscribing for the Offer Shares and Warrants, persons effecting subscriptions will be deemed to have represented to the Company that they, and the persons on whose behalf they are subscribing for the Offer Shares and Warrants, have complied with the above selling restrictions.

5.4 Shareholder's rights relating to the New Shares

The Private Placement Shares are, and the Offer Shares will be when issued, ordinary Shares in the Company, each having a par value of NOK 0.11. The Private Placement Shares are, and the Offer Shares will be, issued electronically in registered form in accordance with the Norwegian Public Limited Companies Act.

The rights attached to the New Shares, will be the same as those attached to the Company's existing Shares.

5.5 LEI number

The Company's legal entity identifier (LEI) is 5493007QXMCG0WPKFC96.

5.6 Lock-up, underwriting, stabilization and market-making

No lock-up agreements have been entered into in connection with the Private Placement and the Subsequent Offering.

The Company has not entered into any underwriting agreement, stabilization agreements, market-making agreements or similar agreements for trading of its shares on Oslo Børs. The Shares are not listed or traded on any other regulated market or stock exchange than Oslo Børs.

5.7 Expenses and net proceeds

Transaction costs and all other directly attributable costs in connection with the Private Placement and the Subsequent Offering that will be borne by the Company is estimated to approximately NOK 1 million, thus resulting in net proceeds of approximately NOK 31 million from the Private Placement and the Subsequent Offering, assuming full subscription in the Subsequent Offering.

The Company will not charge any expenses directly to any investor in connection with the Private Placement and the Subsequent Offering.

5.8 Advisors

Advokatfirmaet Ræder AS, Dronning Eufemias gate 11, P.O. Box 2944 Solli, 0191 Oslo, Norway serves as the Company's Norwegian legal adviser in connection with the Private Placement and the Subsequent Offering.

DnB Bank ASA, Dronning Eufemias gate 30, NO-0191 Oslo, Norway, is acting as the Company's settlement agent in connection with the Subsequent Offering.

5.9 Jurisdiction and choice of law

The Private Placement Shares have been, and the Offer Shares will be, issued in accordance with the rules of the Norwegian Public Limited Companies Act.

This Prospectus, the Private Placement, the Subsequent Offering including the Subscription Form, and the New Shares are subject to Norwegian law, unless otherwise indicated herein. Any dispute arising in respect to this Prospectus, the Private Placement, the Subsequent Offering including the Subscription Form, and the New Shares, shall be referred to the ordinary courts of Norway and is subject to the exclusive jurisdiction of Oslo City Court as legal venue.

5.10 Interest of Natural and Legal Persons involved in the Private Placement and the Subsequent Offering

Two members of the investor consortsium in the Private Placement, who were not shareholders in the Company prior to the Private Placement, provided a bridge loan to the Company of USD 500,000 on 6 May 2020, which is now repaid by the Company.

The Company is not aware of any other interest (including conflict of interests) of any natural and legal persons involved in the Private Placement and the Subsequent Offering.

6 THE COMPANY AND ITS BUSINESS

6.1 Principal Activities

Thinfilm is focused on becoming a premier provider of energy storage solutions designed for wearable devices and connected sensors. In January 2020, the Company announced a strategic shift from the development of NFC products and services to the design, development, and production of energy storage products based on SSLB technology. As of the date of this Prospectus, the Company's principal business activities include the design, development, production, and sale of battery solutions based on Thinfilm solid-state lithium battery (SSLB) technology. The Company's design and development activities take place at its global headquarters located at 2581 Junction Avenue, San Jose, California, USA. The Company intends to scale the manufacturing of SSLB products in its proven flexible electronics fabrication facility located at its San Jose, California headquarters.

The Company believes that energy storage innovation is critical to enabling future generations of wearable devices and connected sensors. Modern portable electronic devices are a combination of a small number of essential components: input collection (user input and/or sensing), memory and processing, wireless communication, display (optional), and a battery. Of these key elements, batteries have experienced a relatively slow pace of technology innovation compared to other critical system components. Today's electronic devices typically rely on batteries using chemistries developed decades ago, and fundamental electrochemical limitations hinder improvement in certain characteristics essential for the design of thinner, safer, longer-lasting, and more comfortable wearable devices, including medical devices.

To address this opportunity, Thinfilm's strategy is to develop a new class of premium microbatteries based on SSLB technology and market these to companies developing portable electronics for use in existing market segments as well as emerging applications. Thinfilm's rechargeable batteries are designed to overcome certain limitations of traditional rechargeable batteries that are currently used in wearable electronics and distributed sensor applications. Specifically, Thinfilm SSLB products are designed to be fundamentally safe (without risk of excessive heat buildup, fire, or explosion), ultrathin, and believed to be capable of storing more energy in a fixed volume compared to others in their class.

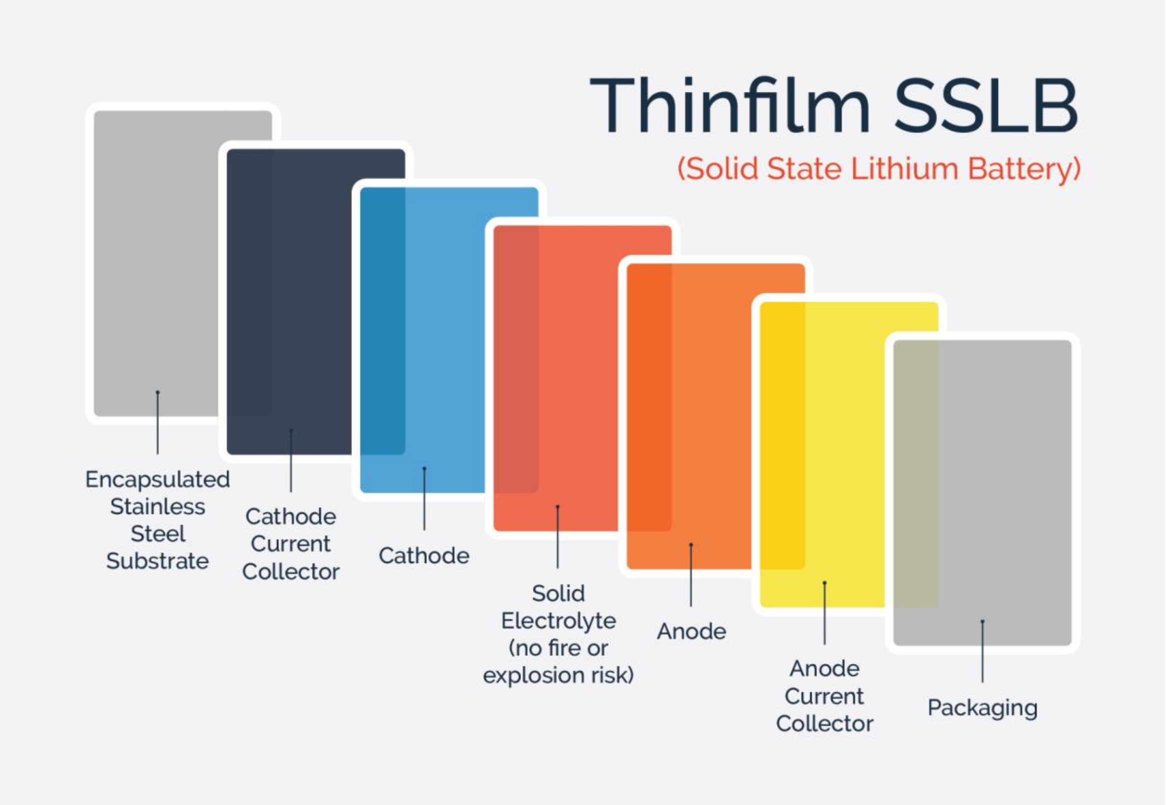
Thinfilm markets its rechargeable energy storage products to companies involved in the design and production of portable electronic devices and may also engage in paid joint development activities when the Company determines that such activities support the Company's business objectives.

Once commercial production of SSLB products has commenced, the Company expects the sales of SSLB devices to represent its primary source of revenue. Alongside product sales, the Company also intends to pursue other sources of revenue. Due to what Thinfilm believes is a unique manufacturing process based on stainless steel substrates, the Company believes that it has a positively differentiated capability to manufacture batteries in custom shapes and sizes, enabling superior energy storage options for thin and comfortable wearable form factors. The Company therefore expects to pursue additional revenue related to the development of custom products for space-constrained end products for which typical rectangular or circular shapes are impractical or undesirable and when Thinfilm's manufacturing platform can provide a superior alternative. Furthermore, the Company may also participate in government or industry grant processes when these activities support or extend Thinfilm's strategy.

6.1.1 Solid State Lithium Battery (SSLB) technology

Thinfilm's microbattery products are based on solid-state lithium battery (SSLB) technology. The technology was originally pioneered in the 1990s by Oak Ridge National Laboratory in Tennessee, USA in order to enable rechargeable batteries with high volumetric energy density[2], good cycling capability, high peak current output, improved performance at sub-freezing temperatures, and superior safety compared to alternatives.

The core advantage of SSLB technology is the use of a solid electrolyte that is stable and highly reliable. "Solid state" refers to the fact that a critical layer of the battery stack – the *electrolyte* – consists of a solid material. This contrasts with the use of a liquid or gel electrolyte in typical lithium-ion or lithium-polymer rechargeable batteries.



Battery cells based on solid electrolytes can provide several advantages over those based on liquid electrolytes, including superior safety, more extensive cell shape options, and improved performance and reliability. Safety has been a critical issue for rechargeable lithium-ion batteries used in portable electronics. The US Federal Aviation Administration reported increasing numbers of lithium-ion battery incidents each year between 2013 and 2018[3], reaching a level of approximately one incident per week in 2020. Unlike the liquid and gel polymer electrolytes responsible for these incidents, the solid electrolyte material used in SSLB products does not cause smoke, fire, excessive heat, or explosion and is not susceptible to leakage. These safety advantages are critical for on-skin and near-skin wearable applications.

Beyond safety, the solid electrolyte has superior performance in sub-freezing temperatures. Liquid electrolyte performance decreases at subfreezing temperatures, effectively shortening battery life,

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[2] *Volumetric energy density* is typically measured in units of energy storage per unit volume, often measured in units defined as *watt-hours per liter*

[3] "Events with smoke, fire, extreme heat or explosion involving lithium batteries", US Federal Aviation Administration, https://www.faa.gov/hazmat/resources/lithium_batteries/media/Battery_incident_chart.pdf

while solid electrolytes retain a superior ability to deliver charge[4]. In addition, Thinfilm's SSLB manufacturing process enables shapes beyond standard rectangular and circular shapes, allowing for batteries that fit the exact shapes and sizes of sleeker, form-fitting wearable devices to deliver superior battery life and user comfort. Finally, Thinfilm SSLB devices are designed to operate across 1000+ charge/discharge cycles. In contrast, lithium-ion batteries are typically rated for only 300-500 cycles. To support wireless communication, Thinfilm devices are designed to support high peak currents that satisfy the power requirements of Bluetooth, Wi-Fi, and low-power wide area network (LPWAN) technologies.

Since the inception of SSLB technology, multiple companies worldwide have attempted to commercialize SSLB technology for the microbattery market. However, limited commercialization has been achieved to date, on a limited basis and at a relatively small scale, leading to usage of SSLB microbatteries primarily in niche applications including backup power for real-time clocks. The Company has concluded that despite the fundamental advantages of SSLB technology, the wide availability of SSLB microbatteries has been limited due to low manufacturing capacity, high costs, and limited energy storage capacity.

To unlock the advantages and potential of SSLB technology in the microbattery space with meaningful commercial scale, Thinfilm believes that its installed and operational factory, encompassing both sheet- and roll-based production equipment, uniquely positions the Company to efficiently commercialize milliamp-hour class microbatteries for wearable devices and connected sensors.

6.1.2 Sheet- and roll-based electronics manufacturing on stainless steel substrates

Flexible electronics is a branch of electronics manufacturing that combines traditional semiconductor and additive manufacturing techniques, to produce electronic components on flexible substrates. Thinfilm has a core technology focus and a significant history of developing intellectual property (IP) in the area of flexible and roll-based electronics manufacturing.

Thinfilm's approach to both sheet- and roll-based flexible electronics manufacturing leverages the Company's demonstrated expertise in manufacturing electronic devices on stainless steel substrates, which have advantages compared to conventional substrate materials such as silicon, ceramic, polyimide, or glass.

In January 2020, the Company announced a strategy of leveraging its San Jose, California factory to manufacture innovative solid-state lithium batteries (SSLBs) on stainless steel substrates. Steel is a preferred substrate for SSLB production due to its abundance, mechanical robustness, flexibility, high-temperature performance, and intrinsic moisture barrier properties. The mechanical and thermal properties of stainless steel, when suitably encapsulated using Thinfilm's patented techniques, are particularly well suited to SSLB production. Mechanical robustness enables large-area batteries without experiencing cracking possible in devises based on silicon wafers, while the flexibility of ultra-thin steel enables roll-based production and scale up. Furthermore, the thermal performance of steel is well suited for high-temperature processes that can increase the energy density of the batteries.

In order to produce a new generation of safe, thin, and scalable SSLB products, Thinfilm is applying its IP and knowhow in the field of flexible electronics manufacturing on stainless steel

[4] "Why Electric Cars Struggle in the Cold – and How to Help Them", Wired, 30 January 2019, https://www.wired.com/story/electric-cars-cold-weather-tips/

substrates and generating new, complementary IP specific to SSLB manufacturing. In April 2020, the Company announced the filing of multiple provisional patent applications directly related to SSLB devices. In addition to manufacturing innovation, Thinfilm has also filed patents based on inventions in core battery technology, including solid-state battery materials and cell stack design. These core innovations are the work of Thinfilm's technical team, which has been expanded to include solid-state battery expertise. Thinfilm is preparing additional patent filings in new and adjacent areas to expand the Company's IP portfolio in SSLB design and manufacturing.

6.1.3 Cell stacking

In addition to the development of individual cells on stainless steel substrates, the Company is developing proprietary cell stacking techniques that combine multiple cells into a single, multilayer battery. Because individual Thinfilm SSLB cells are fundamentally thin, a vertical stack of multiple Thinfilm cells can store significantly more energy within the volume of competitors' single-layer products.

A stack of multiple layers of SSLB cells can achieve up to ten times the areal energy density of competing SSLB cells within the same or less overall thickness. Each cell, when layered, serves to increase the overall energy storage capacity of the battery, enabling longer battery life. By way of example, a ten-layer stack of Thinfilm SSLB cells would remain as thin or thinner than a competing SSLB product with a single layer, 750-micron thickness.

6.1.4 Product overview

To effectively serve its target markets, Thinfilm's initial go-to-market approach has two key elements: customized development services to maximize battery fit and performance in applications where form factor is critical, and the parallel development of a family of off-the-shelf rechargeable SSLB products. The Company expects that customers designing ultra-small, conforming, or other specialized devices will request customization services in order to specify a fit-for-purpose battery addressing critical requirements such as shape, size, and thickness. To support less constrained designs, Thinfilm's initial off-the-shelf SSLB product family is planned to consist of thin, rectangular products with capacities between 0.5 to 5 milliamp-hours (mAh). The Company intends to promote these products as examples of Thinfilm's SSLB capabilities, prototyping tools, and production-ready options for rapid integration into new and existing designs.

From an electrical standpoint, Thinfilm SSLB products are designed to be integrated into electronic systems in place of rechargeable lithium-ion or lithium-polymer batteries with minimal to no required changes to system-level design. To this end, Thinfilm SSLB products are designed to operate at voltages comparable to existing rechargeable lithium-ion batteries and to be charged by commonly available charging circuits. As a consequence, the Company does not believe that it is dependent on the creation of a new ecosystem of electronic components in order to effectively market its SSLB products. Thinfilm does, however, intend to collaborate with key participants in the electronic design ecosystem to promote the use of Thinfilm SSLB products in target markets.

6.2 Principal Markets

Thinfilm has identified target market segments that value safety, ultrathin form factors, and high energy storage capacity relative to currently available microbattery alternatives. In general, Thinfilm pursues opportunities in established and growing markets where the pace of innovation demands continual improvement in component performance and reduction in component size.

6.2.1 Wearable Devices and Medical Wearables

Thinfilm has selected the wearable devices market, including the medical/healthcare wearables market, as an initial go-to-market focus due to its size, growth rate, and alignment to the core benefits of Thinfilm SSLB technology. IDTechEx forecasts the wearables market to grow to $92 billion by 2024 at a 9.5% CAGR[5] and the value of the market addressable by rechargeable batteries, including thin & flexible devices, to grow from $3 billion in 2020 to $3.5 billion in 2024[6]. Wearable applications include diabetes monitoring (including continuous glucose monitoring), cardiac monitoring, electronic skin patches, temperature sensing, sweat analysis, and motion sensing.

Thinfilm's analysis of the wearables market concludes that successful batteries must deliver on safety, form factor, product lifetime, charging time, wireless functionality, battery life, and commercial viability. Safety is particularly critical in medical, on-body, and near-body applications where the risk of excessive heat, fire, explosion, or electrolyte leakage introduces significant liability. Form factor options, including ultrathin devices and custom shapes, are critical to maximizing user comfort in all wearable applications, particularly on-skin and near-skin products. Batteries should reliably store as much energy as possible in the smallest possible form factor while delivering consistent performance across several years of frequent charging. In addition to supporting accelerated recharging, batteries must support peak discharge currents sufficient to enable wireless data transmission operations.

According to Dr. Xiaoxi He of industry analyst IDTechEx, "batteries are the main bottleneck of wearables." She states that current battery options are "bulky, heavy, rigid" and suffer from low energy storage capacity despite their large volumes.[7] Thinfilm believes that its safe, robust, thin SSLB products are well positioned to address the key requirements of the wearables and medical wearables industry.

6.2.2 Connected Sensors

The connected sensors market represents a broad range of applications broadly considered to be part of the "Internet of Things". ABI Research estimates that the number of connected devices will continue to grow rapidly, from approximately 30 billion in 2020 to 45 billion in 2023[8]. Each year, ABI forecasts the sale of five billion new connected devices that can enable such applications as smart parking, bicycle sharing, and asset position (track-and-trace) and condition monitoring. In addition to smart mobility applications, connected sensors can be deployed in smart home, smart (commercial) building, smart factory, and smart city applications to detect, record, and share data on location, temperature, humidity, noise and activity levels, and air quality. Sensor nodes may be connected to the network via short-range technologies such as Bluetooth and WiFi or longer-range radios and a potentially broad range of wireless sensors based on 5G wireless technology. ABI forecasts nearly 4 billion low-power wide area networking connections, driven primarily for asset tracking, for the smart factory by 2030.[9]

Thinfilm's analysis of the connected sensors market concludes that successful batteries must deliver sufficient power to support short- and long-range wireless communication, tolerate frequent recharging based on energy harvesting techniques, and provide a long service lifetime.

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[5] "Wearable Technology Forecasts, 2019-2029", IDTechEx, July 2019

[6] "Flexible, Printed and Thin Film Batteries 2019-2029: Technologies, Markets and Players", IDTechEx, October 2018

[7] "Flexible, Printed and Thin Film Batteries 2019-2029: Technologies, Markets and Players", IDTechEx, October 2018

[8] "Moving into the Billions: Cellular Technologies in the Internet of Things", ABI Research, November 2019

[9] "Unlocking the Value of Industry 4.0", ABI Research, October 2019

At the system level, connected sensors need batteries that can operate in two distinct modes: a background data collection mode, where the current draw from the battery is consistently small, and a communication mode, where wireless radios are activated and higher currents are required. Primary (non-rechargeable) lithium-based batteries can support background standby and sensing operations but often lack the peak current output capability required to enable wireless transmission of the collected data through the network. In contrast, Thinfilm has designed its rechargeable SSLB products to have a very low self-discharge current to minimize wasted energy in low-power standby or sensing modes, while providing the necessary peak electrical currents to power wireless transceiver operations. Furthermore, Thinfilm has designed its products to support a larger number of charge/discharge cycles to enable a longer in-service lifetime compared to typical lithium-ion rechargeable batteries.

6.2.3 Additional Markets

Beyond Thinfilm's initial focus in wearable devices and connected sensors, the Company sees opportunities in defense applications and in-mold electronics (IME). Industry analyst IDTechEx estimates a $1.7 billion market for wearable defense electronics[10] related to 'smart soldier' initiatives and forecasts a $1 billion market for in-mold electronics[11]. The Company has identified promising alignment between its SSLB technology and the needs of these markets and plans to engage selectively to efficiently access appropriate opportunities.

In-mold electronics can benefit from SSLB products due to the strict form factor requirements of devices using in-mold manufacturing techniques and IME process requirements that exceed the thermo-mechanical limits of lithium-ion pouch batteries. Where batteries are completely encapsulated by the molded material, the application favors reliable rechargeable batteries capable of many charge/discharge cycles due to the inability to access the battery for service or replacement.

6.3 Competitive Position

As a manufacturer of solid-state lithium battery products, the Company competes in part with companies that develop technology and/or manufacture products based on thin battery and/or solid-state lithium battery technology.

Thinfilm believes that it has a unique in-house sheet- and roll-based manufacturing platform, which makes the Company positioned to manufacture its own high-performance microbattery products at commercially relevant production capacity and at production-grade yields. Thinfilm therefore differentiates itself from other companies that, to the Company's knowledge, have promoted solid-state lithium battery technology for microbattery applications. The Company believes that competitors generally rely on third-party 'foundry' manufacturing in multipurpose facilities using substrates and equipment that are not well suited to scale production of SSLB products for wearable and connected sensor applications. As the Company is developing its products to meet customer needs that are not effectively addressed by existing technologies, the Company expects to pursue a value-oriented pricing strategy based on what is believed to be a premium positioning of its energy storage products. The Company expects to compete favorably on a cost-performance basis compared to other rechargeable microbattery technologies in high-volume applications.

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[10] 2020 market size estimate, "Wearable Technology Forecasts, 2019-2029", IDTechEx, July 2019

[11] 2029 market size estimate, "IDTechEx Research Analyzes In-Mold Electronics: Starting Simple to Reach 1 Billion Dollars", IDTechEx press release, 18 Feb 2020

Therefore, Thinfilm's competitive position in solid-state lithium battery development and production rests on three main pillars:

1) Patented IP and manufacturing process know-how, especially in the areas of barrier technology and sheet- and roll-based manufacturing on stainless steel substrates, and applications thereof. The advantages of steel substrates are explained previously in this Prospectus.

2) Validated capability to manufacture electronic devices on both in-house sheet- and roll-based equipment to enable rapid process and product development and to scale production.

3) Installed, in-house manufacturing scale to serve target markets on the order of tens of millions of milli-amp hours annual capacity at low variable costs.

6.4 Industrialization Strategy - key milestones

To manufacture SSLB products and scale volume production, the Company utilizes its own flexible electronics manufacturing facility located at 2581 Junction Avenue, San Jose, California, USA. The facility, originally owned by Qualcomm, was leased for 12 years beginning in October 2016. This specialized fabrication facility, which earned the 2018 Technical Development Manufacturing award from leading industry analyst firm IDTechEx[12], features high-quality cleanrooms and a chemistry lab.

The Company's specialized San Jose fabrication facility takes advantage of Thinfilm's expertise in manufacturing electronic devices on stainless steel substrates. The Company believes that the use of a steel substrate can result in products that are thinner, more robust, and more scalable than competing devices built on silicon, ceramic, polyimide, or glass substrates. Stainless steel substrates are made from abundant, inexpensive materials and can be encapsulated with proven metal diffusion barrier materials to support device fabrication with high-temperature processes that help increase energy density. To support the most demanding end-product form factors, the steel can also be cut into various shapes and thinned. The flexibility of steel enables roll-based production and its durability can improve product reliability by virtually eliminating failures due to substrate cracking.

The facility is outfitted with two manufacturing lines: the first based on 300x300mm sheet processing and the second based on 320mm-wide roll-to-roll processing. While both lines have been previously used to manufacture radio frequency (RF) circuits in support of Thinfilm's previous product initiatives, they are particularly well suited to developing and scaling production of Thinfilm SSLB products. The approximate capital costs required to enable SSLB production are estimated at less than $ 100 thousand. The combination of sheet- and roll-based processing provides a combination of accelerated R&D and prototyping capability alongside volume production, enabling flexible scaling based on demand.

Thinfilm's San Jose clean room occupies approximately 20,000 square feet of the headquarters facility and can be expanded if required. At present, the Company estimates that the factory has installed capacity to manufacture 10s of millions of mAh-class cells on an annual basis. Management believes this current capacity is sufficient to support the Company's business plan well beyond the point of cashflow breakeven. As warranted by future demand, the factory is capable of further expansion to significantly increase capacity with modest capital expenditures.

[12] https://www.printedelectronicsworld.com/articles/15843/idtechex-printed-electronics-usa-2018-award-winners

Since Thinfilm's announcement of its SSLB strategy in January 2020, the Company has been consistently focused on the development of its new SSLB technology. As a result, trend information regarding production, inventory, and sales of SSLB products is not currently available. Since the Company's most recent financial reports, issued 20 May 2020 for the period ended 31 March 2020, the Company has continued to develop its SSLB technology in order to demonstrate the production of a complete SSLB battery, with no change to the Company's plan to achieve initial product revenue in the second half of 2021. At this time, there are no known trends, uncertainties, demands, commitments, or events known to the Company that would lead to a revision of the Company's product sales or revenue plans.

The Company's industrialization strategy is intended to aggressively accelerate from process and product development to commercialization and production scaling. The Company expects to begin commercial shipment during the second half of 2021. While the pace of progress is partially dependant on the extent of the impact of COVID-19 on the ability of Thinfilm employees to access facilities and conduct necessary development activities, the ability of suppliers and supply chain partners to support the Company's activities in a timely fashion, and the timing of customer commercialization cycles for devices containing Thinfilm SSLB products, the Company currently targets following industrialization and commercialization milestones:

• Q2 2020 : multiple battery-specific IP filings
• Q2 2020: demonstrate complete battery on Thinfilm equipment
• Q3 2020: customer engineering samples
• Q4 2020: customer design-ins (2+)
• 2H 2021: first SSLB product revenue
• End-2022: cashflow breakeven
• 2023+: increasing volumes (10M+ units) drive strong cash generation

6.5 Intellectual Property Rights (IPR)

The Company maintains a substantial patent portfolio in order to protect the essential technologies of the Company and in order to ensure that competitors are sufficiently prevented from utilizing or developing technology that would threaten the Company's commercial assets and market position. The Company and its business are dependent on its patent portfolio. The portfolio consists partly of granted patents and partly of pending patent applications. Pending patent applications may be subject to amendments before being granted, or may, in worst case, not be granted.

6.5.1 Intellectual property portfolio

Thinfilm has an intellectual property portfolio encompassing registered and pending patents as well as extensive know-how related to key manufacturing processes relevant to SSLB production and assembly. Patents are registered or pending in several countries and regions, in most cases including the US, Japan, and the EU. Certain patents are also registered in Korea, China, and other jurisdictions. All patents are in the name of the Company.

Thinfilm's existing portfolio of Intellectual Property contains multiple patent families and related trade secrets and knowhow that help enable the production of advanced, differentiated energy storage products on stainless steel substrates. Such key intellectual property includes:

- Barrier materials and methods of depositing the same
- Processing on sheet- and/or roll-based steel substrates

- Solid-state lithium battery (SSLB) materials and manufacturing processes
- Stacking methods for SSLB production

In April 2020, Thinfilm disclosed the filing of multiple provisional patent applications related to the Company's work in developing SSLB products on stainless steel substrates. Specifically, the patent filings represent key Thinfilm intellectual property related to the encapsulation, assembly, and stacking of SSLB products based on stainless steel substrates.

As of the date of this Prospectus, the Company is actively developing further Intellectual Property related to solid-state lithium battery manufacturing. Certain newly developed IP is expected to build on Thinfilm's established materials and processing expertise to address the manufacture of SSLBs. In addition to IP built on Thinfilm's established expertise, the Company intends to develop entirely new families of IP focused on the design and manufacture of innovative solid-state lithium battery products and, for this purpose, has recently added SSLB expertise to its technical team.

6.6 Discontinuation of Previous Product Lines

As discussed in Thinfilm's financial reporting, public announcements, and strategy presentations, the Company is no longer actively developing Near Field Communication (NFC) hardware or software products, or related IP. As of the date of the Prospectus, the Company is negotiating with potential acquirers to monetize assets relating to the Company's former NFC business. With respect to the Company's Electronic Article Surveillance (EAS) label business, the Company has monetized substantially all of its EAS inventory during the first quarter of 2020.

6.7 Material Contracts Outside the Ordinary Course of Business

On 12 September 2019, the Company announced an equipment term loan facility with Utica Leaseco, LLC ("Utica") entered into by the US subsidiary, Thin Film Electronics, Inc., for financing of up to $13.2 million. As of 30 September 2019, Thinfilm had secured funding for the full amount of $13.2 million. The financing under the Master Lease Agreement with Utica established four-year term loans that funded in two tranches of $5.6 million and $7.6 million on 11 September 2019 and 17 September 2019, respectively. Interest-only monthly payments were due for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. As a result of the financial impact of COVID-19 on Thinfilm's cash position, Management has renegotiated the payback terms of the loans, in principle, to be established under an amendment to the Master Lease Agreement and is intended to be signed during the second quarter of 2020. The negotiated agreement extends interest only payments through November 2020. The cash savings during the aforementioned period will be spread over the remaining amortization of the loan. In connection with the new arrangement, the Company will pledge additional collateral to secure the amended payment terms. In addition to the existing collateral pledge, which includes the roll-to-roll production line equipment and certain sheet-line tools, Thinfilm will pledge all remaining unsecured equipment located in the San Jose, California facility. Further, Utica will take a first security position in certain of Thin Film Electronics ASA's intellectual property. Thinfilm Group is using the proceeds from the loans as well as the short term cash savings resulting from the renegotiation of payment terms for working capital to fund ongoing operations and to support its execution of strategic initiatives.

During the last two years and up until the date of this Prospectus, neither Thinfilm nor any Group company has entered into any other material contracts outside of the ordinary course of business. The Company or any Group company has not entered into any other contract which contains a provision under which any member of the Group has any obligation or entitlement which is material to the Group as of the date of the Prospectus.

6.8 Regulatory disclosures

In addition to annual and interim reports, and associated announcements, the Company has made the following public disclosures pursuant to the requirements of the Norwegian Securities Trading Act over the last 12 months that are relevant as of the date of this Prospectus:

Capitalization issues and other corporate actions

Date	Title	Desciption
17 June 2019	Thin Film Electronics ASA – Contemplated Private Placement	Announcement of contemplated private placement of shares of up to USD 16 million directed towards Norwegian and international investors. The private placement was intended to, combined with sales proceeds the Company targets to realise from the roll-to-roll printed dopant polysilicon (PDPS) facility in 2019, fully fund the Company until cash break-even in 2021.
21 June 2019	Thin Film – Cancellation of Private Placement	The Company announced the cancellation of the private placement announced on 17 June 2019, after dialogues with existing and potential new shareholders.
1 July 2019	THIN - Change in CFO position	Announcement that Mallorie Burak was appointed as new CFO with effect from 1 July 2019, and that Ole R. Thorsnes stepped down from his position as CFO and transitioned into an advisory role.
2 October 2019	Thin – Notice of Extraordinary General Meeting 23 October 2019	Announcement of Extraordinary General Meeting to be held on 23 October 2019 to, inter alia, approve a reverse share split in the Company's shares.
1 November 2019	Ex reverse split and new face value 01.11.2019	The Company announced that the shares in the Company is traded with new par value of 2.20 as of 1 November 2019.
25 March 2020	THIN – Notice of Extraordinary General Meeting 15 April 2020	The Company announced an Extraordinary General Meeting to be held on 15 April, to approve, inter alia, share capital reduction, and intent of Private Placement.
28 April 2020	Thin Film Electronics ASA has secured and proposes a private placement of shares	Announcement of the Private Placement of NOK 25 million. The Board received on 27 April 2020 an offer from a consortium of investors, who have provided a

	raising NOK 25 million on amended terms	commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants. The offered and committed subscription price per share is NOK 0.11, equaling the par value of the share following the share capital reduction approved by 15 April 2020 EGM. In addition, the Company has received binding commitments for at least NOK 5 million on the same terms from certain other investors, including from members of the Board and management. Given the critical financial situation of the Company, the Board recommended to the Company's shareholders that the offer is approved as it constitutes the only meaningful investment offer on the table. The Company further announced a completated Subsequent Offering at the same subscription price as in the Private Placement of maximum NOK 7 million. The Company had also secured interim financing to bridge the Company to the upcoming extraordinary general meeting.
28 April 2020	New face value 29.04.2020	The Company announced that the Company's shares would be traded with new face value as of 29 April 2020, following reduction of par value being NOK 0.11.
29 April 2020	THIN – Notice of Extraordinary General Meeting 20 May 2020	Announcement of Extraordinary General Meeting on 20 May 2020, regarding the approval of the Privat Placement, Subsequent Offering and issuance of Warrants.
14 May 2020	Thin Film Electronics ASA – Share Issue	Announcement of issuance of 5,859,357 shares under Board authorization, at NOK 0.11 per shares, equaling the subscription price in the Private Placement, in order to secure the commitment by the consortium of investors participating in the Private Placement.
18 May 2020	Thin Film Electronics ASA – Registration of Share Capital Increase	The Company announced the registration of share capital increase in connection with the issuance of shares announced on 14 May 2020.
27 May 2020	THIN – Change in CFO position	Announcement that Mallorie Burak will step down as CFO in the Company with effect from 28 May 2020, and that David

		Williamson has been appointed as acting CFO with effect from such date.
30 May 2020	Thin Film Electronics ASA – Registration of Share Capital Increase	The Company announces the registration of the share capital increase in connection with the Private Placement. Following the registration, the Company's share capital is NOK 32,089,823.15 divided into 291,725,665 shares, each having a par value of NOK 0.11.

Inside information

Date	Title	Desciption
19 July 2019	Thinfilm announces corporate restructuring	Announcement of corporate restructuring, according to which the Company planned to maintain its focus on developing and building market adoption of its brand protection and consumer engagement solutions and maximizing the value of its Junction Avenue, San Jose, CA roll-to-roll printed electronics technology and factory.
12 September 2019	Thinfilm closes debt financing of up to USD 13.2 million, under an agreement with Unica Leaseco, LLC, and provides strategic update	Announcement that the Company's wholly owned US subsidiary closed an equipment term loan with Unica Leaseco, LLC for financing of up to USD 13.2 million, which was expected to fund in two tranches during the month of September 2019, the first of which was secured through a Master Lease Agreement with Utica, securing an initial $5.6 million four-year term loan that funded on September 11, 2019. Interest-only monthly payments were due for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. The subsidiary intends to borrow the second tranche of $7.6 million prior to September 30, 2019, under substantially the same terms and conditions. The proceeds were used for working capital to fund ongoing operations and to support its execution of strategic initiatives.
30 January 2020	Thinfilm to energize innovation in the wearables and sensor markets with ultrathin, flexible, safe batteries	The Company announced its updated corporate strategy, focused on the design, development, and production of innovative battery solution, targeting existing market demand with differentiated solutions to power wearable devices and connected sensors and using the Company's patented

		process technology innovations and state-of-the-art, production-scale roll-to-roll flexible electronics factory located in San Jose, California.
14 April 2020	Thinfilm announces multiple solid-state lithium battery patent filings	Announcement of filing of multiple provisional patent applications related to the encapsulation, assemply, and stacking of SSLB products based on stainless steel substrates. Thinfilm also made patent filings based on investions in core battery technology, including solid-state battery materials and cell stack design.

Further, in the period from 30 September 2019 and up to the date of the Prospectus, four announcements has been issued by Thinfilm in relation to changes in shareholdings by primary insiders, and six announcements on behalf of large shareholders in respect to transactions in the share causing a statutory threshold to be reached or passed by such shareholders.

7 BOARD OF DIRECTORS, MANAGEMENT AND EMPLOYEES

7.1 Board of Directors and management, other corporate committees

7.1.1 Board of Directors

The Company's Articles of Association provide that the number of directors shall be between three (3) and nine (9) members, as decided by the Company's general meeting.

At the general meeting of shareholders, the Board members are normally elected to serve for a term of one or two years from the time of election. There are presently four (4) Board members including the Chairman. Morten Opstad (Chairman) was re-elected for a new term of two years at the Annual General Meeting on 28 May 2019, at which time Jon S. Castor and Kelly S. Doss were elected as new Board members for a period of two years. Further Preeti Mardia, a current member of the Board of Directors, is elected for the period until the Annual General Assembly in 2020.

Morten Opstad, Chairman

Mr. Opstad has served as Chairman of the Board in Thinfilm since 2 October 2006. He is a partner in the lawfirm Advokatfirmaet Ræder AS in Oslo. He has rendered legal assistance with respect to establishing and organizing several technology and innovation companies within this line of business. He is also Chairman of the Board in IDEX Biometrics ASA, a publicly listed technology company. His directorships over the last five years include current Board positions in Nikki AS (Chairman), Marc O Polo Norge AS (Chairman), Dobber Corporation AS (Chairman), K-Konsult AS (Chairman), Forenede Industrier Finans AS (Board member), Hammerfestgaten 1 AS (deputy), and Chaos Capital AS (deputy). He previously served as Chairman of the Board of Directors in Cxense ASA and Advokatfirmaet Ræder AS, in addition to previous directorships in Fileflow Technologies AS, Solli Consultants I AS and A.Sundvall ASA. Mr. Opstad has a legal degree (Cand.Jur.) from the University of Oslo from 1979. He was admitted to the Norwegian Bar Association in 1986. Mr. Opstad is a Norwegian citizen and has a business address at Dronning Eufemias gate 11, NO-0191 Oslo, Norway.

Preeti Mardia, Board member

Ms. Mardia has been a Board member in Thinfilm since 8 May 2013. She has executive and non executive Board experience across diverse sectors including Semi-conductors, Telecoms, Aerospace, and Food Industries. Ms. Mardia is a Non-Executive Board Director for GFinity Plc a publicly listed UK company. Previous senior executive positions include IDEX ASA, Moseley Wireless Group Inc., Filtronic Plc and Cadbury Schweppes Plc. She has technology and operational expertise in world-class high volume manufacturing and scaling businesses to commercial success. She has a degree in Food Science & Technology and Masters degree in Executive Management from Ashridge, UK. Ms. Mardia is a British citizen and maintains a business address at Fridtjof Nansens plass 4, 0160 Oslo, Norway.

Jon S. Castor, Board member

Mr. Castor has been a Board member in Thinfilm since 28 May 2019. Mr. Castor is an entrepreneur and active independent private and public company director. His 25 years of senior leadership experience has included building both classic Silicon Valley venture funded startups and two new divisions for Fortune 500 companies. He also has considerable private and public company M&A experience, including leading the team of a venture he co-founded through a double exit. Mr. Castor's industry experience includes ICs, systems, and software, digital media, consumer electronics and services, and multiple forms of advanced and renewable power generation. Jon's Silicon Valley venture successes include Omneon, where the team built the world leader in broadcast video servers, and TeraLogic, a pioneering HDTV venture supported by Sony, Mitsubishi, and Samsung, where he was co-founder and CEO. He holds an MBA from Stanford's Graduate School of Business, and a BA with Distinction from Northwestern University. Mr. Castor is a US citizen, and maintains a business address at 2581 Junction Avenue, San Jose, California 95134, USA.

Kelly S. Doss, Board member

Ms. Doss has served on the Board of Thinfilm since 28 May 2019. Ms. Doss is a senior marketing executive and brand consultant. She has over 25 years of experience in global brand management with a strong track record of delivering breakthrough revenue and sales growth in various channels of distribution. She has considerable expertise across the marketing, innovation, & operational functions in both the Alcohol Beverage and Beauty categories. Her industry experience includes 15 years in the global spirits category leading marketing for Beam Suntory in both EMEA (based in Madrid) and North America, and 10 years in the beauty industry across hair care, skin care. Over the course of her career, leading cross-functional teams, she has launched well over 100 new products & multiple global packaging restages. Ms. Doss holds a Masters in International Management from the Thunderbird School of Global Management, and a BA with honors from the University of Michigan. Ms. Doss is a US citizen, and maintains a business address at 2581 Junction Avenue, San Jose, California 95134, USA.

The composition of the Board complies with Oslo Stock Exchange's terms of listing and the applicable independency requirements. The Board also meets the statutory gender requirements.

7.1.2 Management

Kevin Barber, Managing Director (CEO)

Mr. Barber has served as the Managing Director (CEO) since 26 November 2018, and is situated in Thinfilm's Headquarters in San Jose, California. He is responsible for driving worldwide strategic growth, scaling product innovation and manufacturing operations while increasing market penetration and identifying new business opportunities. Prior to joining Thinfilm, from January 2011 through November 2018, Mr. Barber was Senior Vice President and General Manager; Corporate officer at Synaptics, where he drove the strategy, business development, M&A, growing revenue fourfold to more than 1 billion USD annually. Previously, Mr. Barber was CEO of ACCO Semiconductor, a venture capital funded startup. Prior to ACCO, he served as Senior Vice President, General Manager Mobile Business at Skyworks Solutions, where he led the strategy - achieving top RF power amplifier market share in the high growth mobile market. Before joining Skyworks, Mr. Barber served as Senior Vice President, Operations at Conexant, where he led strategic efforts of global manufacturing scale, technology development, and supply chain management, enabling Conexant to become a leader in diverse markets. His directorships over the last five years include a current board position in Intevac (director/member of audit committee and chairman of compensation committee). Mr. Barber holds a Bachelor of Science degree in Electrical Engineering from San Diego State University and a Master's degree in Business Administration from Pepperdine University. Mr. Barber is a US citizen and maintains a business address at 2581 Junction Avenue, San Jose, California 95134, USA.

David Williamson, Acting Chief Financial Officer (CFO)

Mr. Williamson joined Thinfilm in February 2020, and was appointed Acting Chief Financial Officer (CFO) in May 2020, and is situated in Thinfilm's headquarters in San Jose, California. He is an experienced financial executive with years of vice president and senior controller experience at large public international companies in addition to successful venture backed companies. Prior to joining Thinfilm, Mr. Williamson, inter alia, provided financial services to companies in high tech and was Assistant Corporate Controller in InvenSense, Inc, which was acquired by TDK Corporation in 2017. Mr. Willamson has established a reputation for building world-class teams and for aligning financial and business metrics to support business strategy and growth. He holds a Bachelor of Science in Accounting from the San Jose State University and a Master of Business Administration from the University of Phoenix. He is a US citizen and maintains a business address at 2581 Junction Avenue, San Jose, California 95134, USA.

Shannon Fogle, VP of Global Human Resources and Administration
Ms. Fogle leads the Human Resources functions for Thinfilm. She joined Thinfilm in 2014 as part of Thinfilm's acquisition of Kovio's Technology and the opening of Thinfilm's NFC Innovation Center in San Jose. Ms. Fogle lead the Human Resources functions at Kovio from 2007 until 2014. Prior to Kovio, Ms. Fogle worked in various Operations roles at Spansion Inc. and Advanced Micro Devices. She holds a Bachelor of Science degree in Business Management from San Jose State University and is Certified by the Society of Human Resource Management. Ms. Fogle is a US citizen and maintains a business address at 2581 Junction Avenue, San Jose, CA 95134, USA.

Dr. Arvind Kamath, EVP Technology Development
Dr. Kamath joined Thinfilm in January 2014 from Kovio Inc. in San Jose where he served as Sr. Director, Technology Development. At Thinfilm he has built and led several teams in the areas of Technology Development, Engineering and Operations. Most recently he was responsible for the flexible substrate roll to roll PDPS (Printed Dopant Polysilicon) manufacturing scale-up and led the teams that built a global ecosystem to enable this. At Kovio his primary responsibility was in leading materials, process and integration of a revolutionary silicon ink based printed electronics platform from initial feasibility to qualified product and yield. Prior to Kovio, Dr. Kamath worked at LSI Logic R&D, Santa Clara in various managerial and individual contributor roles. This spanned process engineering, group management, R&D operations and SRAM integration and yield enhancement. Dr. Kamath earned a B.Tech degree in Metallurgical Engineering from the Indian Institute of Technology, Chennai and a Ph.D in Materials Science and Engineering from the microelectronics program at The University of Texas at Austin. Dr. Kamath is a US Citizen, and maintains a business address at 2581 Junction Avenue San Jose, CA 95134, USA.

7.2 Conflicts of Interest

The Chairman of the Board, Morten Opstad, is a partner in the Norwegian lawfirm Advokatfirmaet Ræder AS, which in the past has rendered and currently renders legal services for Thinfilm. Mr. Opstad and the Board are attentive to the fact that this, arguably, could represent a potential conflict of interest and monitor the situation closely to ensure that no conflict of interest materializes. No commitment has been made by the Board in relation to the use of Advokatfirmaet Ræder AS for future legal services and the Board selects the Company's professional advisors with the Company's best interests as the overriding priority. The legal services rendered by Advokatfirmaet Ræder AS are to a large degree performed by other lawyers than Mr. Opstad. Mr. Opstad will abstain from voting on any Board matters concerning the Company's affiliation with Advokatfirmaet Ræder AS.

The Company has had an agreement with the Chairman for remuneration for extra services beyond the role as Chairman of the board. This was ended by the end of December 2019. As part of the refinancing and funding of the Company, a new agreement will be put in place for the Chairman effective as of 1 January 2020. To be in a position to save cash, the Company is also in the process of proposing a program for issuing shares in exchange for part of the cash remuneration.

Members of the Board and management hold a number of Shares and/or Subscription Rights/warrants in the Company. The following table sets forth the number of such equity instruments held or controlled by the members of the Board and management as at the date of this

Prospectus. The numbers include rights held or controlled by the respective persons' close associates, as that term is defined in the Norwegian Securities Trading Act.

Name/position	Shares	Warrants A	Warrants B	ADRs	Incentive Subscription Rights
Morten Opstad, Chairman	1,917,529	1,818,193	1,818,193	-	-
Preeti Mardia, Board member	7,761	-	-	-	-
Jon Castor, Board member	909,090	909,090	909,090	-	400,000
Kelly Doss, Board member	454,545	454,545	454,545	-	200,000
Kevin Barber, CEO	909,090	909 090	909,090	-	2,330,120
David Williamson, Acting CFO	-	-	-	-	132,000
Arvind Kamath, EVP Technology Development & Manufacturing	-	-	-	-	376,264
Shannon Fogle, VP Human Resources & Administration	-	-	-	-	183,006

Other than the foregoing, and to the best of the Company's knowledge, there are no potential conflicts of interests between any duties to the Company and private interest or other duties of the members of the Board or management. There are no family relationships among the directors, management or key employees.

There is no arrangement or understanding in existence with major shareholders, customers, suppliers or others, pursuant to which members of the Board or management were selected for their respective positions.

7.3 Convictions for fraudulent offences, bankruptcy, etc.

None of the members of the Company's Board or management have during the last five years preceding the date of this Prospectus:

- Any convictions in relation to indictable offences or convictions in relation to fraudulent offences;
- received any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company; or
- been declared bankrupt or been associated with any bankruptcy, receivership or liquidation in his or her capacity as a founder, director or senior manager of a company.

8 FINANCIAL INFORMATION

8.1 Overview and basis of presentation

The financial information in the summary has been extracted from the Group's audited consolidated financial statements as of and for the year ended 31 December 2019 (the "**Financial Statements**"), and the unadited consolidated statements as of and for the three months' periods ending on 31 March 2019 and 31 March 2020 (the "**Interim Financial Statements",** together referred to as the "**Financial Information**"). The Financial Information is incorporated herein by reference (see Section 14.5 "*Incorporation by reference*").

Financial Statements

Profit and Loss	First three months		Full year
Amounts in USD (1,000)	2020	2019	2019
Total revenue	558	781	1 181
Gross margin	491	(12)	(1 998)
Loss before interest, tax, depreciation and amortization (EBITDA)	(2 076)	(10 839)	(30 761)
Net loss for the period	(2 827)	(11 775)	(78 446)
Loss per share, basic and diluted (USD)	(0,05)	(0,20)	(1,34)

Financial position	31 March 2020	31 March 2019	31 December 2019
Total assets	7 252	69 951	12 238
Total equity	(22 686)	47 528	(19 660)
Net financial debt	13 200	-	13 200

Cash flow	First three months		Full year
Amounts in USD 1,000	2020	2019	2019
Net cash flows from operating activities	(3 373)	(9 982)	(29 054)
Net cash flows from investing activities	22	(2 229)	(4 919)
Net cash flows from financing activities	(956)	(458)	10 257

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and the Norwegian Accounting Act, and audited by Deloitte AS, the Group's independent auditor, see Section 14.2 "*Auditor*".

The unaudited report for the three-month's periods ending 31 March 2019 and 31 March 2020 has been prepared in accordance with International Accounting Standard 34 ("**IAS 34**").

The amounts are presented in USD, rounded to the nearest housand unless otherwise stated. USD is the reporting as well as the functional currency of the Group and the Company.

8.2 Auditor and information subject to audit

The Company's auditor Deloitte AS, ref. Section 14.2, has audited the financial Statements. The auditor's reports are included in the Financial Statements. The auditor's opinion for 2019 was qualified as follows because the Company has insufficient working capital for a 12 month period and it exists significant uncertainty regarding ability for the Company and the consolidated entity to continue as going concerns:

The Group and the parent historically operated at a loss and are in immediate need of cash. There is no assurance that management will be successfull in raising funds. Failure to obtain funding would adversely affect the ability to continue as a going concern and consequently the Group and the parent might enter into liquidation. As stated in Note 2 in the financial statements of the Group and in Note 1 in the financial statements of the parent and in the Board of Directors report, the liquidity situation, along with other matters as set forth in the notes and the Board of Directors report, the liquidity situation, along with other matters as set forth in the notes and the Board of Directors' report, indicate that a material uncertainty exists that may cast significant doubt on the Company`s ability to continue as a going concern.

These concerns are reflected and elaborated in 2 *"Risk factors"* and 6 *"Company and its business"*.

Deloitte AS has not audited Interimim Financial Statements.

8.3 Significant changes since 31 March 2020

On 12 September 2019, the Company announced an equipment term loan facility with Utica Leaseco, LLC ("Utica") entered into by the US subsidiary, Thin Film Electronics, Inc., for financing of up to $13.2 million. As of 30 September 2019, Thinfilm had secured funding for the full amount of $13.2 million. The financing under the Master Lease Agreement with Utica established four-year term loans that funded in two tranches of $5.6 million and $7.6 million on 11 September 2019 and 17 September 2019, respectively. Interest-only monthly payments were due for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. As a result of the financial impact of COVID-19 on Thinfilm's cash position, Management has renegotiated the payback terms of the loans, in principle, to be established under an amendment to the Master Lease Agreement and is intended to be signed during the second quarter of 2020. The negotiated agreement extends the interest only payments through November 2020. The cash savings during the aforementioned period will be spread over the remaining amortization of the loan. In connection with the new arrangement, the Company will pledge additional collateral to secure the amended payment terms. In addition to the existing collateral pledge, which includes the roll-to-roll production line equipment and certain sheet-line tools, Thinfilm will pledge all remaining unsecured equipment located in the San Jose, California facility. Further, Utica will take a first security position in certain of Thin Film Electronics ASA's intellectual property. Thinfilm Group is using the proceeds from the loans as well as the short term cash savings resulting from the renegotiation of payment terms for working capital to fund ongoing operations and to support its execution of strategic initiatives.

On 15 May 2020, the management became aware that its Thin Film Electronics Hong Kong Limited entity was victim to a cybersecurity breach resulting in the loss of approximately USD 236 thousand. Thinfilm maintains both crime and cyber insurance policies that are expected to cover the loss. The Company has contacted the relevant legal authorities and has reviewed its internal controls and policies related to cybersecurity risks and incidents. Accordingly, additional controls have been implemented to mitigate future risk of cyber incidents.

Further, in the opinion of the Company’s management, to the best of its knowledge, there have been no material changes in recent trends as regards the operations of the Company, since 31 March 2020 to the date of this Prospectus.

8.4 Investments

Thinfilm has no financial investments or off-balance sheet assets. Cash is held in the bank.

Thinfilm made significant investments in both 2017 and 2018 as well as the first three months of 2019, mostly related to equipment for the new roll-based production line at the San Jose site. The roll-to-roll line comprises of 20 modules and the Company has at the date of this Prospectus ordered all modules and received 17.

The future development and commercialization activities will be conducted by the Group, its production partners and various technical and academic laboratories and institutions. The future programs are committed only insofar as the staff has been employed and hired. There is little or no basis for estimating whether the results of future development projects will satisfy the criteria for capitalization.

Thinfilm intends to fund the future development activities through its own sources, supplemented by equity and/or debt financing if and when obtained.

8.5 Dividend Policy

Thinfilm has no established dividend policy in place except to state that the Company’s aim and focus is to enhance shareholder value and provide an active market in its Shares.

Thinfilm has not yet declared or paid any dividends on its shares. The Company does not anticipate paying any cash dividends on its shares in the next few years. Thinfilm intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay dividends will depend on the Group’s and the Company’s financial condition, results of operations and capital requirements.

9 CAPITAL RESOURCES AND INDBETEDNESS

9.1 Capitalization and Indebtedness prior to the Subsequent Offering

The Group is funded by equity and supplier credit, and short term financing. The unsecured current debt, which comprises financial liabilities as reported in the balance sheet, consists of accounts payable, accrued expenses and similar working capital items.

On 12 September 2019, the Company announced an equipment term loan facility with Utica Leaseco, LLC ("Utica") entered into by the US subsidiary, Thin Film Electronics, Inc., for financing of up to USD 13.2 million. As of 30 September 2019, Thinfilm had secured funding for the full amount of USD 13.2 million. The debt facility is described in more detail in Section 8.3. Thinfilm Group is using the proceeds from the loans as well as the short term cash savings resulting from the renegotiation of payment terms for working capital to fund ongoing operations and to support its execution of strategic initiatives.

The Company had approximately USD 3.7 million of unsecured debt for trade and other payables as of 31 March 2020.

Since 31 March 2020, new equity and liquidity from the Private Placement in a net amount of NOK 25 million has been injected into the Company. The normal operations have consumed cash by payment of expenses, and increased cash through the collection of receivables and an increase in accounts payable.

In connection with the Private Placement, certain of the investors, at the time of committing to the subscription, provided the Company with a short-term bridge loan until the funds from the Private Placement become available to the Company.

There are no other material changes to the capitalization and indebtedness of the Group.

9.1.1 Captitalization and indebtness

The following table shows the Group's capitalization and indebtedness as of 31 March 2020 (03.31.2020) and significant changes since 31 March 2020 (04.30.2020) (unaudited):

Capitalisation and Indebtedness
In thousands of USD

	31 March 2020	Adjustments after 31 Mar 2020	As Adjusted
Total Current Debt and liablities	**5 863**	**1 186**	**7 049**
Guaranteed			
Secured - Current portion	2 119	502	2 621
Unsecured	3 744	684	4 428
Total Non-Current debt (excluding current portion of long –term debt)	**24 075**	**(672)**	**23 403**
Guaranteed	-	-	-
Secured - Non-current portion	11 081	(502)	10 579
Unsecured (financial lease)	12 994	(170)	12 824
Shareholder's equity:	**(22 686)**	**(545)**	**(23 231)**
a.......Share capital........................	18 660	2 705	21 365
b........Legal Reserve....................			
c.......Other Reserves..................	(41 346)	(3 250)	(44 596)
Total debt and shareholders' equity	**7 252**	**(31)**	**7 221**

The adjustments since 31 March 2020 consist of the following:

The increase of USD 502 thousand in Secured - Current portion of debt is offset by the same amount in Secured - Non-current portion as additional amounts become current.

Unsecured liabilities increased by USD 684 thousand due primarily to interest accruals on the equipment debt of USD 453 thousand and payroll related accruals of USD 299 thousand.

The decrease of USD 170 thousand in Unsecured (financial lease) is the result of normal monthly amortization relating to the Company's building lease in San Jose, California.

Share capital increased by the Private Placement additional shares at NOK 25.7 million or USD 2,705 thousand.

Other Reserves decreased by USD 3,250 thousand. This amount represents the losses incurred during the period since 31 March 2020.

Net financial indebtedness
In thousands of USD

	31 March 2020	Adjustments after 31 Mar 2020	As Adjusted
A. Cash	4 565	639	5 204
B. Cash equivalent (Detail)	-	-	
C. Trading securities	-	-	
D. Liquidity (A) + (B)+(C)	**4 565**	**639**	**5 204**
E. Current Financial Receivable	**559**	**15**	**574**
F. Current Bank debt	-	-	
G. Current portion of non current debt	2 119	502	2 621
H. Other current financial debt			
I. Current Financial Debt (F)+(G)+(H)	**2 119**	**502**	**2 621**
J. Net Current Financial Indebtedness (I)-(E)-(D)	(3 005)	(152)	(3 157)
K. Non current Bank loans	11 081	(502)	10 579
L. Bonds Issued	-	-	
M. Other non current loans	12 994	(170)	12 824
N. Non current Financial Indebtedness (K)+(L)+(M)	**24 075**	**(672)**	**23 403**
O. Net Financial Indebtedness (J)+(N)	**21 070**	**(824)**	**20 246**

The adjustments after 31 March 2020 consist of the following:

Liquidity increase by USD 639 thousand as a result of the Private Placement. Of the USD 2,705 thousand raised in the Private Placement, USD 2,066 thousand was used to fund operational needs for the period.

Current financial receivables were nearly unchanged for the period.

The increase of USD 502 thousand in Secured Current portion of debt is offset by the same amount in Secured - Non-current portion as additional amounts become current.

The decrease of USD 170 thousand in Unsecured financial lease is the result of normal monthly amortization relating to the company's building lease in San Jose, California.

The foregoing three items amount to a combined net decrease in net current financial indebtness of USD 152 thousand.

In total, the net indebtness of the Group has decreased by USD 824 thousand.

Secured Debt: In September 2019, the subsidiary in the US, Thinfilm Electronics Inc, closed an equipment term loan facility with Utica for USD 13,200 thousand secured by fixed assets, including the roll to roll manufacturing equipment located in the San Jose, California facility.

The trade and other payables consists of accounts payable and accrued expenses as well as deferred revenue.

Thinfilm entered into a lease agreement in November 2016 relating to the property building of its new US headquarters in San Jose, California. The building element of the lease agreement was classified as a financial lease, and with the implementation of the new accounting standard, IFRS 16, from 1 January 2019 the land element is also classified as a lease in the balance sheet. As of 31 March 2020, a USD 13,978 million lease liability is booked in the balance sheet. This liability is not included in the table above.

Thinfilm does not have any financial loans or credit lines. There is an internal loan between Thinfilm and TFE Inc., where the latter borrows USD 9,445 thousand as of 31 March 2020. The internal loans are eliminated on Group level and are hence not shown in the table above.

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued to the new landlord. The Company has in addition entered into a Tenancy Guarantee with the new landlord. The guarantee is given to secure payment of the lease rent. The initial guarantee liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at the date of the Prospectus, the guarantee liability amounts to USD 4 million. Apart from that, Thinfilm has not issued guarantees or mortgages.

On 12 September 2019, the Company announced an equipment term loan facility with Utica Leaseco, LLC ("Utica") entered into by the US subsidiary, Thin Film Electronics, Inc., for financing of up to $13.2 million. The debt facility is described in more detail in Section 8.3.Thinfilm Group is using the proceeds from the loan as well as the short term cash savings resulting from the renegotiation of payment terms for working capital to fund ongoing operations and to support its execution of strategic initiatives.

9.1.2 Net financial indebtness

Amounts in USD 1,000	Principal and Interest Due							
31 March 2020	Within 1 year			1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years
	Q2 2020	Q3 2020	Q4 2020					
Principal obligations due	-	682	706	3 084	3 544	5 184	-	-
Interest payments	1 136	454	430	1 461	1 000	497	-	-
Lease payments	490	490	490	1 996	2 120	2 182	2 245	9 008
Total	1 626	1 626	1 626	6 541	6 664	7 863	2 245	9 008

9.2 Working capital statement

The Company is of the opinion that it does not have sufficient working capital for its present requirements and is actively undertaking initiatives to raise funds necessary for continued operation. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million (including restricted cash of USD 1.6 million), which is sufficient to fund the company into Q2 2020. In connection with the proposed NOK 32 million equity investment approved at the 20 May 2020 Extraordinary General Meeting, lead participants in the investor consortium agreed to and have provided the Company with a NOK 20 million commitment as well as a USD 500 thousand bridge loan to ensure that the Company has sufficient levels of cash to continue its operations until such time that the equity financing closes. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and Management, at a subscription price per share equal to the subscription price in the Private Placement. In addition, the Company also expects to issue a Subsequent Offering of NOK 7 million. In aggregate, the proposed equity offerings total NOK 32 million. Following the successful completion of both the Private Placement and Subsequent Offering, the Company believes it will have sufficient working capital to continue operations until the end of July 2020.

As noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company adapted its focus to raising only sufficient funds to provide adequate time to demonstrate its initial milestones in order to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company’s existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan.

Beyond funds raised in this Private Placement and Subsequent Offering, the Company believes it will require additional funds in the range of USD 9 - 12 million to support the business plan into the second quarter of 2021. Sources of funding may include new and existing investors, including the US market, the potential exercise of warrants issued as part of this Private Placement, and the Company’s planned monetization of NFC assets.

However, if the Company is not able to successfully complete future fundraising as planned, significant uncertainty would exist as to whether the Company will continue as a going concern.

10 CORPORATE INFORMATION AND DESCRIPTION OF SHARE CAPITAL

10.1 Company corporate information

The Company's legal name is Thin Film Electronics ASA. In less formal circumstances and in the context of marketing, the Company/Group is often referred to as "Thinfilm". The Company is organized as a public limited liability company in accordance with the Norwegian Public Limited Companies Act, and is registered with the Company Registry under company organization no. 889 186 232.

The Company's registered office is at Fridtjof Nansens plass 4, 0160 Oslo, Norway. The Company can be reached on telephone + 47 22 42 45 00.

The Company was incorporated on 22 December 2005 with the name Thin Film NewCo ASA, which name was changed to Thin Film Electronics ASA on 11 May 2006. The Company's website can be found at https://thinfilmsystems.com/. Except as incorporated by reference, see Section 14.5, the information on the Company's website is not part of the Prospectus.

10.2 The Shares

The Company's Shares have been listed and traded on Oslo Stock Exchange since February 27, 2015. Prior to this, since 30 January 2008, the Company's Shares had been listed on Oslo Axess.

In addition, Thinfilm has established a sponsored Level 1 American Depositary Receipt ("**ADR**") program. On 24 March 2015, Thinfilm's ADRs were available for trading in the United States on the OTCQX International under the symbol "TFECY". However, Thinfilm's ADR will be moved to OTCQB with effect on or about 23 June 2020.

The Company's Shares are not listed on any other stock exchange, regulated market or other equivalent markets and no such other listing is sought or contemplated.

The Company only have one class of shares and all Shares have equal rights, including voting rights and right to the Company's capital, in the event of liquidation and to receive dividends, unless all the shareholders approve otherwise. The Shares are issued under Norwegian law and pursuant to the Norwegian Public Limited Companies Act. All Shares have been fully paid. See Section 11 "*Shareholder Matters and Company and Securities Law*" for further details of the rights relating to the Shares. The Company's Articles of Association as of the date of this Prospectus are incorporated hereto by reference, see Section 14.5 "*Incorporation by reference*".

There are no dividend restrictions or specific procedure for non-Norwegian resident shareholders in the Norwegian Public Limited Companies Act or otherwise applicable for the Company.

For the Private Placement Shares and the Offer Shares issued under the Private Placement and the Subsequent Offering, the subscribers will obtain rights to receive dividends from the time at which the share capital increase was registered in the Company Registry, being 29 May 2020 and on or about 9 July 2020, respectively.

The Private Placement Shares and the Offer Shares are freely transferable according to Norwegian law and the Company's Articles of Association. There are no voting restrictions in the Company. The Articles of Association of the Company does not contain any provisions restricting foreign ownership of Shares.

The Company is not aware of any shareholder agreements or other similar understandings among its shareholders that may result in a change of control in Thinfilm. To the best of the Company's knowledge and belief, no shareholders, or group of shareholders, control the Company, directly or indirectly.

10.3 Board Authorization to issue Shares

On 3 June 2020, the Annual General Meeting approved two Board authorizations to issue shares. The first authorization provided the Board a right to issue shares for up to 10% of the registered share capital in connection with private placements or rights issues. At the date of the decision, the authority extended to new shares to a registered capital of NOK 3,208,982.31. Exisisting shareholders' pre-emptive right was deviated from in case of private placements. As of the date of this Prospectus, the authorization has not been used.

At the Annual General Meeting on 3 June 2020, the Board was granted a second authorization to issue shares in connection with the 2020 Employee Share Purchase Plan. The authority allows issue of new shares for up to NOK 644,529.39 in total nominal value, corresponding to 10% of the registered capital as of the date of the Notice of the Annual General Meeting, in connection with the award of shares to employees under the 2020 Employee Share Purchase Plan in return for the employees accepting a corresponding reduction in their cash employee remuneration. The Board authoirization was first approved at the 15 April 2020 Extraordinary General Meeting, but for registration purposes was ratified and restated at the 3 June 2020 Annual General Meeting. The number of shares that may be awarded to the employee shall be calculated based on the volume-weighted average price of the share over the 10 trading days immediately preceding the subscription date. The authorization is valid until the Annual General Meeting in 2021, but not later than 30 June 2021. As of the date of this Prospectus, the authorization has not been used.

There are no other board authorizations to issue shares in effect as of the date of this Prospectus.

10.4 Subscription Rights, Warrants and other financial instruments

10.4.1 Subscription Rights

The 28 May 2019 Annual General Meeting resolved a right to issue subscription rights under the 2019 Plan to employees of the Group and to individual consultants that held issued, outstanding and not expired subscription rights granted under the plans from 2014 to 2018 ("**Existing Subscription Rights**"), provided that the individual holder of Existing Subscription Rights waived any right to claim Shares under the Existing Subscription Rights. The Company could issue up to one (1) new subscription right under the 2019 Plan for each Existing Subscription Right. Of the subscription rights issued pursuant to the said resolution, 33.3% are to be considered vested at the date of grant of the new subscription rights under the 2019 Plan. The remaining subscription rights vest 22.3% one year from the Vesting Commencement Date, and 22.2% shall vest the two following years, respectively. The exercise price for each granted subscription right under the 2019 Plan in exchange for Existing Subscription Rights shall be either (i); the average closing price of the Company's share, as reported by Oslo Stock Exchange, over ten trading days immediately preceding a) the date of the Annual General Meeting in 2019 or b) the date the Board adopts the 2019 Subscription Rights Incentive Plan, (ii) the closing price of the Company's share, as reported by Oslo Børs, on the trading day immediately preceding a) the date of the annual general meeting or b) the date the Board adopts the 2019 Plan, or (iii) the Subscription Price in the Private Placement. The exercise price shall in any event not be lower than the nominal value of the Shares.

As of the date of this Prospectus, 4,912,339 subscription rights have been granted and are outstanding under the 2019 Subscription Rights Issue. The lowest strike price under the 2019 Subscription Rithts Issue is NOK 0.113.

On 3 June 2020, the Annual General Meeting approved a new 2020 Subscription Rights Incentive Plan. The 2020 plan replaces the 2019 plan, meaning that no new subscription rights may be granted under the 2019 plan after approval of the 2020 plan. The maximum number of subscription rights that may be granted under the 2020 plan is 74,627,111 subscription rights, which equals 10% of the Company's fully diluted share capital as of the date of the 2020 Annual General Meeting ("fully diluted" meaning including issued and outstandiung Warrants, but excluding issued and outstanding incentive subscription rights). As of the date of this Prospectus, no subscription rights have been granted and are outstanding under the 2020 plan.

10.4.2 Warrants

The 20 May 2020 Extraordinary General Meeting resolved to issue warrants (*Nw.: tegningsretter*) to investors participating in the Private Placement and Subsequent Offering. The Company will issue two warrants for each share subscribed for and allocated in the Private Placement and Subsequent Offering.

The first warrant ("Warrant A") has an exercise price of NOK 0.11 per share and will be exercisable at any time from the date of grant until 31 December 2020. The second warrant ("Warrant B") has an exercise price of NOK 0.25 per share and will be exercisable at any time from the date of grant until 20 August 2021.

Each Warrant shall entitle the holder to demand the issuance of one share in the Company; provided, however, that in the event the Company's share capital or number of shares is changed by way of a capitalization issue, stock split, stock consolidation etc., the number of Warrants that may be issued , and the consideration for the shares to be issued in the Company upon exercise of the Warrants, shall be adjusted accordingly and rounded downwards to the nearest whole number.

Any shares that are issued by the Company upon exercise of Warrants shall carry shareholder rights subsequent to the subscriber having paid the excercise price and the associated share capital increase having been registered in the Register of Business Enterprises.

Reference is otherwise made to Section 5.2.5 of the Prospectus, stating the resolution to issue the warrants.

As of the date of this Prospectus, 227,272,727 Warrant As have been resolved issued to investors participating in the Private Placement, and 227,272,727 Warrant Bs have been resolved issued to investors participating in the Private Placement. A total of 454,545,454 warrants have currently been resolved issued in the Company.

10.4.3 Other financial instruments

As of the date of this Prospectus, the Company has no other outstanding rights to shares, convertible loans, convertible securities, exchangeable securities or other financial instruments in issue giving the holder the right to convert or subscribe for Shares in the Company.

10.5 Authority to Repurchase Shares

No Shares in Thinfilm are held by or on behalf of the Company itself or by any of its Subsidiaries. At the 3 June 2020 Annual General Meeting, the Board was authorized to acquire, through ownership or a charge, up to 10% of the Company's Shares, corresponding to a total nominal value of NOK 3,208,982.31, for a maximum price of NOK 1,000 per Share. As of the date of this Prospectus, the authorization has not been used to purchase Shares in the Company. The authorization expires at the date of the Company's annual general meeting in 2021, however, no later than 30 June 2021.

10.6 Major shareholders

Pursuant to the Norwegian Securities Trading Act, shareholders that obtain holdings of shares, or rights to shares, that exceed 5% of the Company's share capital or a corresponding portion of the votes, have an interest in the issuer's capital or voting rights which is notifiable. As of 4 June 2020, the following registered shareholders in Thinfilm have holdings in excess of the statutory thresholds for disclosure requirements. In case of nominee shareholders, the disclosure requirement applies to the beneficial owner of the Shares. The overview does not include Offer Shares.

Name of registered shareholder	Number of Shares held	%
USB Switzerland AG	51,678,921	17.71%
Tigerstaden AS	45,454,545	15.58%
Alden AS	45,454,545	15.58%
Middelborg Invest AS	18,181,818	6.23%

UBS Switzerland AG is a nominee shareholder. Robert Keith has disclosed that he owns 45,454,545 Shares in the Company, which represents 15.90% of total number of outstanding Shares following the Private Placement. Note that shareholders may have several accounts and/or their Shares may be held by one or more nominee(s). All shares in the Company have equal voting rights.

11 SHAREHOLDER MATTERS AND COMPANY AND SECURITIES LAW

11.1 Introduction

This section includes certain aspects of Norwegian legislation relating to shareholding in a Norwegian public limited liability company, with its shares listed on Oslo Stock Exchange. The following summary does not purport to be a comprehensive description of all the legal considerations that may be relevant to a decision to purchase, own or dispose of Shares.

The Company is a Norwegian public limited company and is as such subject to, inter alia, Norwegian company and securities law, including the Norwegian Public Limited Companies Act and the Norwegian Securities Trading Act with regard to disclosure of inside information and ongoing disclosure requirements, market abuse, mandatory take-overs, squeeze-out, etc.

11.2 Voting rights

Each share in the Company (other than treasury shares) gives the holder the right to cast one vote at general meetings of shareholders. There are no limitations under Norwegian law on the rights of non-residents or foreign owners to hold or vote the Shares.

As a general rule, resolutions that shareholders are entitled to make pursuant to the Norwegian Public Limited Companies Act or the Company's Articles of Association require a simple majority of the votes cast. In the case of election of directors to the Board of Directors, the persons who obtain the most votes cast are elected to fill the positions up for election. However, as required under Norwegian law, certain decisions, including resolutions to waive preferential rights in connection with any share issue, to approve a merger or de-merger, to amend the Company's Articles of Association or to authorize an increase or reduction in the share capital, must receive the approval of at least two-thirds of the aggregate number of votes cast as well as at least two-thirds of the share capital represented at a shareholders' meeting.

Norwegian law further requires that certain decisions which have the effect of substantially altering the rights and preferences of any Shares or class of Shares receive the approval of the holders of such Shares or class of shares as well as the majority required for amendments to the Company's Articles of Association. Decisions that (i) would reduce any shareholder's right in respect of dividend payments or other rights to the assets of the Company or (ii) restrict the transferability of the shares require a majority vote of at least 90% of the share capital represented at the general meeting in question as well as the majority required for amendments to the Company's Articles of Association. Certain types of changes in the rights of shareholders require the consent of all shareholders affected thereby as well as the majority required for amendments to the Company's Articles of Association.

In general, in order to be entitled to vote, a shareholder must be registered as the beneficial owner of Shares in the share register kept by the VPS. Beneficial owners of Shares that are registered in the name of a nominee are generally not entitled to vote under Norwegian law, nor are any persons who are designated in the register as holding such Shares as nominees. Readers should note that there are varying opinions as to the interpretation of Norwegian law in respect of the right to vote nominee-registered Shares. For example, Oslo Stock Exchange has held that in its opinion "nominee-shareholders" may vote in general meetings if they actually prove their shareholding prior to the general meeting.

11.3 Additional issuances and preferential rights

All issuances of Shares by the Company, including bonus issues, require an amendment to the Articles of Association, which requires the same vote as other amendments to the Articles of Association. Furthermore, under Norwegian law, the Company's shareholders have a preferential right to subscribe for issues of new shares by the Company against cash contribution. The preferential rights to subscribe in an issue may be waived by a resolution in a general meeting by the same vote required to approve amendments to the Articles of Association. A waiver of the shareholders' preferential rights in respect of bonus issues requires the approval of all outstanding Shares, irrespective of class.

Under Norwegian law, bonus issues may be distributed, subject to shareholder approval, by transfer from the Company's free equity or from its share premium reserve. Such bonus issues may be effected either by issuing Shares or by increasing the par value of the Shares outstanding.

11.4 Dividends

Dividends may be paid in cash or in some instances in kind. Pursuant to the Norwegian Public Limited Companies Act, a public limited liability company may only distribute dividends to the extent it will have net assets covering the company's share capital and other restricted equity after the distribution has been made. The calculation shall be made on the basis of the balance sheet in the Company's last approved financial statements, provided, however, that it is the registered share capital at the time of decision that applies. Further, extraordinary dividend payments may be resolved based upon an interim balance sheet not older than six (6) months.

In the amount that may be distributed, a deduction shall be made for (i) the aggregate nominal value of treasury shares held by the company, (ii) credit and collateral pursuant to Sections 8-7 and 8-10 of the Norwegian Public Limited Companies Act, with the exception of credit and collateral repaid or settled prior to the time of decision or credit which is settled by a netting in the dividend and (iii) other dispositions after the balance day which pursuant to law shall lie within the scope of the funds that the Company may use to distribute dividend. Even if all other requirements are fulfilled, the Company may only distribute dividend to the extent that it maintains a sound equity and liquidity post distribution.

Distribution of dividends is resolved by the general meeting of shareholders with simple majority, and on the basis of a proposal from the Board of Directors. The general meeting cannot distribute a larger amount than what is proposed or accepted by the Board of Directors. The general meeting can also, following its approval of the annual financial statement, provide the Board of Directors with an authorization to resolve distribution of dividends on the basis of the company's financial statement. Such authorization is however limited in time to the next ordinary General Meeting.

According to the Norwegian Public Limited Companies Act, there is no time limit after which entitlement to dividends lapses. Under the Norwegian Limitations Act, the general period of limitation is three (3) years from the date on which an obligation is due. The payment date may not be set later than six (6) months from the resolution to distribute dividends. Further, there are no dividend restrictions or specific procedures for non-Norwegian resident shareholders in the Norwegian Public Limited Companies Act.

Under Norwegian foreign exchange controls currently in effect, transfers of capital to and from Norway are not subject to prior government approval except for the physical transfer of payments in currency, which is restricted to licensed banks. Consequently, a non-Norwegian resident may receive dividend payments without Norwegian exchange control consent if such payment is made only through a licensed bank. Banks are required to report transfers of capital greater than NOK 25,000 to the Currency Register.

Any potential future payments of dividends on the Shares will be denominated in NOK and will be paid to the shareholders through the VPS. Payment to investors registered in the VPS whose address is outside Norway will be conducted by the Company's registrar based on information received from the VPS. Investors registered in the VPS with an address outside Norway who have not supplied VPS with their bank account details or who do not have valid bank account number will receive a letter from the Company's VPS registrar, which needs to be completed and returned before the dividend payment can take place.

11.5 Rights on liquidation

Under Norwegian law, a company may be liquidated by a resolution in a general meeting of the Company passed by a two thirds majority of the aggregate votes cast as well as two thirds of the aggregate share capital represented at such meeting. The Shares rank pari passu in the event of a return on capital by the Company upon a liquidation or otherwise.

11.6 Disclosure obligations

If a person's, entity's or consolidated group's proportion of the total issued shares and/or rights to shares in a company listed on a regulated market in Norway (with Norway as its home state, which will be the case for the Company) reaches, exceeds or falls below the respective thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, 2/3 or 90% of the share capital or the voting rights of that company, the person, entity or group in question has an obligation under the Norwegian Securities Trading Act to notify Oslo Stock Exchange and the issuer immediately. The same applies if the disclosure thresholds are passed due to other circumstances, such as a change in the company's share capital.

Shares held or acquired or disposed of by close associates, as defined in Section 2-5 of the Norwegian Securities Trading Act, are regarded as equivalent to the acquirer's or disposer's own Shares.

11.7 The VPS and transfer of Shares

The Company's principal shareholder register is operated through the VPS under the securities identification code ISIN NO 0010299068. The Company's registrar is DNB Bank ASA, Securities Services, Dronning Eufemias gate 30, NO-0191 Oslo, Norway.

The VPS is the Norwegian paperless centralized securities register. It is an electronic book-keeping system in which the ownership of, and all transactions relating to, Norwegian listed shares must be recorded. The VPS and Oslo Stock Exchange are both wholly-owned by Euronext N.V.

All transactions relating to securities registered with the VPS are made through computerized book entries. No physical share certificates are, or may be, issued. The VPS confirms each entry by sending a transcript to the registered shareholder irrespective of any beneficial ownership. To give effect to such entries, the individual shareholder must establish a share account with a Norwegian account agent. Norwegian banks, Norges Bank (Norway's central bank), authorized securities brokers in Norway and Norwegian branches of credit institutions established within the EEA are allowed to act as account agents.

As a matter of Norwegian law, the entry of a transaction in the VPS is prima facie evidence in determining the legal rights of parties as against the issuing company or any third party claiming an interest in the given security. A transferee or assignee of shares may not exercise the shareholder rights with respect to such shares until such transferee or assignee has registered such shareholding or has reported and shown evidence of such share acquisition, and the acquisition is not prevented by law, the relevant company's by-laws or otherwise.

The VPS is liable for any loss suffered as a result of faulty registration or an amendment to, or deletion of, rights in respect of registered securities unless the error is caused by matters outside the VPS' control, of which the VPS could not reasonably be expected to avoid or overcome the consequences of. Damages payable by the VPS may, however, be reduced in the event of contributory negligence by the aggrieved party.

The VPS must provide information to the Norwegian FSA on an on-going basis, as well as any information that the Norwegian FSA requests. Further, Norwegian tax authorities may require certain information from the VPS regarding any individual's holdings of securities, including information about dividends and interest payments.

11.8 Shareholder register – Norwegian law

Under Norwegian law, shares are registered in the name of the beneficial owner of the shares. As a general rule, there are no arrangements for nominee registration and Norwegian shareholders are not allowed to register their shares in VPS through a nominee. However, foreign shareholders may register their shares in the VPS in the name of a nominee (bank or other nominee) approved by the Norwegian FSA. An approved and registered nominee has a duty to provide information on demand about beneficial shareholders to the company and to the Norwegian authorities. In case of registration by nominees, the registration in the VPS must show that the registered owner is a nominee. A registered nominee has the right to receive dividends and other distributions, but cannot vote in general meetings on behalf of the beneficial owners.

11.9 Foreign investment in shares listed in Norway

Foreign investors may trade shares listed on Oslo Stock Exchange through any broker that is a member of Oslo Stock Exchange, whether Norwegian or foreign.

11.10 Insider trading

According to Norwegian law, subscription for, purchase, sale or exchange of financial instruments that are listed, or subject to the application for listing, on a Norwegian regulated market, or incitement to such dispositions, must not be undertaken by anyone who has inside information, as defined in Section 3-2 of the Norwegian Securities Trading Act. The same applies to the entry into, purchase, sale or exchange of options or futures/forward contracts or equivalent rights whose value is connected to such financial instruments or incitement to such dispositions.

11.11 Mandatory offer requirement

The Norwegian Securities Trading Act requires any person, entity or consolidated group that becomes the owner of shares representing more than one-third of the voting rights of a Norwegian company whose shares are listed on a Norwegian regulated market to, within four (4) weeks, make an unconditional general offer for the purchase of the remaining shares in that company. A mandatory offer obligation may also be triggered when a party acquires the right to become the owner of shares that, together with the party's own shareholding, represent more than one-third of the voting rights in the company and Oslo Stock Exchange decides that this is regarded as an effective acquisition of the shares in question. The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares that exceeds the relevant threshold within four (4) weeks of the date on which the mandatory offer obligation was triggered.

When a mandatory offer obligation is triggered, the person subject to the obligation is required to immediately notify the Oslo Stock Exchange and the company in question accordingly. The notification is required to state whether an offer will be made to acquire the remaining shares in the company or whether a sale will take place. As a rule, a notification to the effect that an offer will be made cannot be retracted.

The offer price per share must be at least as high as the highest price paid or agreed by the offeror for the shares in the six-month period prior to the date the threshold was exceeded. If the acquirer acquires or agrees to acquire additional shares at a higher price prior to the expiration of the mandatory offer period, the acquirer is obligated to restate its offer at such higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered.

In case of failure to make a mandatory offer or to sell the portion of the shares that exceeds the relevant threshold within four (4) weeks, the Oslo Stock Exchange may force the acquirer to sell the shares exceeding the threshold by public auction. Moreover, a shareholder who fails to make an offer may not, as long as the mandatory offer obligation remains in force, exercise rights in the company, such as voting in a general meeting, without the consent of a majority of the remaining shareholders. The shareholder may, however, exercise his/her/its rights to dividends and pre-emption rights in the event of a share capital increase. If the shareholder neglects his/her/its duty to make a mandatory offer, Oslo Stock Exchange may impose a cumulative daily fine that runs until the circumstance has been rectified.

Any person, entity or consolidated group that owns shares representing more than one-third of the votes in a Norwegian company listed on a Norwegian regulated market is obliged to make an offer to purchase the remaining shares of the company (repeated offer obligation) if the person, entity or consolidated group through acquisition becomes the owner of shares representing 40%, or more of the votes in the company. The same applies correspondingly if the person, entity or consolidated group through acquisition becomes the owner of shares representing 50% or more of the votes in the company. The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares which exceeds the relevant threshold within four (4) weeks of the date on which the mandatory offer obligation was triggered.

Any person, entity or consolidated group that has passed any of the above mentioned thresholds in such a way as not to trigger the mandatory bid obligation, and has therefore not previously made an offer for the remaining shares in the company in accordance with the mandatory offer rules is, as a main rule, obliged to make a mandatory offer in the event of a subsequent acquisition of shares in the company.

11.12 Compulsory acquisition

Pursuant to the Norwegian Public Limited Companies Act and the Norwegian Securities Trading Act, a shareholder who, directly or through subsidiaries, acquires shares representing 90% or more of the total number of issued shares in a Norwegian public limited liability company, as well as 90% or more of the total voting rights, has a right, and each remaining minority shareholder of the company has a right to require such majority shareholder, to effect a compulsory acquisition for cash of the shares not already owned by such majority shareholder. Through such compulsory acquisition the majority shareholder becomes the owner of the remaining shares with immediate effect.

If a shareholder acquires shares representing more than 90% of the total number of issued shares, as well as more than 90% of the total voting rights, through a voluntary offer in accordance with the Norwegian Securities Trading Act, a compulsory acquisition can, subject to the following conditions, be carried out without such shareholder being obliged to make a mandatory offer: (i) the compulsory acquisition is commenced no later than four weeks after the acquisition of shares through the voluntary offer, (ii) the price offered per share is equal to or higher than what the offer price would have been in a mandatory offer, and (iii) the settlement is guaranteed by a financial institution authorized to provide such guarantees in Norway.

A majority shareholder who effects a compulsory acquisition is required to offer the minority shareholders a specific price per share, the acceptance of which is at the discretion of the majority shareholder. However, where the offeror, after making a mandatory or voluntary offer, has acquired more than 90% of the voting shares of a company and a corresponding proportion of the votes that can be cast at the general meeting, and the offeror pursuant to Section 4-25 of the Norwegian Public Limited Companies Act completes a compulsory acquisition of the remaining shares within three (3) months after the expiry of the offer period, it follows from the Norwegian Securities Trading Act that the redemption price shall be determined on the basis of the offer price for the mandatory/voluntary offer unless special circumstances indicate another price.

Should any minority shareholder not accept the offered price, such minority shareholder may, within a specified deadline of not less than two (2) months, request that the price be set by a Norwegian court. The cost of such court procedure will, as a general rule, be the responsibility of the majority shareholder, and the relevant court will have full discretion in determining the consideration to be paid to the minority shareholder as a result of the compulsory acquisition.

Absent a request for a Norwegian court to set the price or any other objection to the price being offered, the minority shareholders would be deemed to have accepted the offered price after the expiry of the specified deadline.

11.13 Foreign exchange controls

There are currently no foreign exchange control restrictions in Norway that would potentially restrict the payment of dividends to a shareholder outside Norway, and there are currently no restrictions that would affect the right of shareholders of a company that has its shares registered with the VPS who are not residents in Norway to dispose of their shares and receive the proceeds from a disposal outside Norway. There is no maximum transferable amount either to or from Norway, although transferring banks are required to submit reports on foreign currency exchange transactions into and out of Norway into a central data register maintained by the Norwegian customs and excise authorities. The Norwegian police, tax authorities, customs and excise authorities, the National Insurance Administration and the Norwegian FSA have electronic access to the data in this register.

12 LEGAL MATTERS

12.1 Legal and arbitration proceedings

The Group is not involved in any governmental, legal or arbitration proceedings, nor is the Company aware of any such pending or threatened proceedings, nor has the Group since its inception been involved in any governmental, legal or arbitration proceedings, which may have or have had any significant effects on the Group's financial position or profitability.

12.2 Related Party Transactions since 31 December 2019 until the date of the Prospectus

In the period 1 January – 31 March 2020, Thinfilm has been invoiced approximately NOK 400,000 thousand (net of VAT) for legal services provided by Advokatfirmaet Ræder AS, in which Morten Opstad, Thinfilm's Chairman of the Board, is a partner.

All agreements terms including pricing are based on the arm's length principle. Since 31 December 2019, the Group does not have other transactions with related parties. The number of Shares and Subscription Rights held by members of the Board and Management are set out in Section 7.2 above.

No related party transaction form part of the turnover of the Company.

13 TAXATION

13.1 General

Set out in this chapter 13 is a summary of certain tax matters related to purchase, holding and disposal of shares. The statements herein are, unless otherwise stated, based on the laws, rules and regulations in force in Norway as of the date of this Prospectus, and are subject to any changes in law occurring after such date. Such changes could possibly be made on a retrospective basis. Tax rates indicated below are applicable for the income year 2020.

The following summary is of a general nature and does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire, own or dispose Shares or Subscription Rights. Furthermore, the summary only focuses on the shareholder categories explicitly mentioned below (individual shareholders and limited liability companies). Shareholders are advised to consult their own tax advisors concerning the overall tax consequences of their ownership of shares. The summary does not address foreign tax laws. In particular, this document does not include any information with respect to U.S. taxation. Prospective investors who may be subject to tax in the United States are urged to consult their tax adviser regarding the U.S. federal, state, local and other tax consequence of owning and disposing of shares in Thinfilm.

13.2 Norwegian Shareholders

13.2.1 Taxation of dividends – Individual shareholders

Dividends distributed to Norwegian individual shareholders are taxable as general income. The taxable dividend, less a calculated tax-free allowance, is grossed up to 144%, which amount is taxed at the general income tax rate of 22% (resulting in an effective tax rate of 31.68%). The tax-free allowance shall be calculated on a share by share basis, and the allowance for each share will be equal to the cost price of the share, multiplied by a risk-free interest rate. This risk-free interest rate is set in January of the year following the income year. Any part of the calculated allowance one year exceeding the dividend distributed on the share will the following years be deducted from taxable dividend income and also included in the basis for calculating the allowance. The allowance is calculated for each calendar year, and is allocated solely to Norwegian individual shareholders holding shares at the expiry of the relevant income year.

13.2.2 Taxation of dividends – Corporate shareholders (Limited liability companies)

Dividends distributed to a shareholder which is a limited liability company resident in Norway for tax purposes (“**Norwegian corporate shareholders**”) and holding more than 90% of the shares and votes in the distributing company are fully exempt from taxation. To other corporate shareholders 3% of the dividends shall be subject to general income tax at the 22% rate (resulting in an effective tax rate of 0.66%).

13.2.3 Taxation on realization of shares – Individual shareholders

Sale, redemption or other disposal of shares is considered a realization for Norwegian tax purposes. A capital gain or loss generated by a Norwegian individual shareholder through a disposal of shares is taxable or tax deductible in Norway. Such capital gain or loss is included in or deducted from the basis for computation of general income in the year of disposal. The gain is subject to tax and the loss is tax deductible irrespective of the duration of the ownership and the number of shares disposed of.

The capital gain is calculated on the consideration received less the cost price of the share and transactional expenses. The taxable gain, less any unused calculated tax-free allowance, is grossed up to 144%, which amount is taxed at the general income tax rate of 22% (resulting in an effective tax rate of 31.68%). The allowance for each share is equal to the total of any unused allowance amounts calculated for this share for previous years (ref. “Taxation of dividends – Individual shareholders” above), which exceeded dividends distributed on this share. The calculated allowance may only be deducted in order to reduce a taxable gain calculated upon the realization of the share, and may not be deducted in order to produce or increase a loss for tax purposes.

If the shareholder owns shares acquired at different points in time, the shares that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

13.2.4 Taxation on realization of shares – Corporate shareholders (Limited liability companies)

Norwegian corporate shareholders are not taxable for capital gains related to realization of shares in a Norwegian company, and losses related to such realization are not tax deductible.

13.2.5 Taxation related to independent subscription rights – Individual shareholders

A Norwegian individual shareholder’s subscription for independent subscription rights is not subject to taxation in Norway. Costs related to the subscription for independent subscription rights will be added to the cost price of the independent subscription right.

Exercise of independent subscription rights is not taxable; the cost price of the subscription right shall be added to the tax base of the shares acquired.

Sale and other transfer of subscription rights is considered as realization for Norwegian tax purposes. A capital gain or loss generated by a Norwegian individual shareholder through a realization of independent subscription rights is taxable or tax deductible in Norway. Such capital gain or loss is generally included in or deducted from the basis for computation of general income in the year of disposal. The general income grossed up to 144% and taxed at the rate of 22% (resulting in an effective tax-rate of 31.68%).

However, please note that the gains related to independent subscription rights granted to employees as a consequence of their employment will be included in the basis for calculating their salary payments. Such salary payments are subject to taxation at a marginal tax rate of 46.4%. In addition, the employer will be obligated to pay social security contributions at a rate normally of 14.1%.

13.2.6 Taxation related to independent subscription rights – Corporate shareholders

A Norwegian corporate shareholder’s subscription for independent subscription rights is not subject to taxation in Norway. Costs related to the subscription for independent subscription rights will be added to the cost price of the independent subscription rights.

Norwegian corporate shareholders are generally exempt from tax on capital gains upon the sale or other realization of independent subscription rights to shares in a Norwegian company, and losses are not tax deductible.

13.2.7 Net wealth tax

The value of shares is included in the basis for the computation of wealth tax imposed on Norwegian individual shareholders. The marginal wealth tax rate is 0.85% of the value assessed. The value for assessment purposes for shares on Oslo Stock Exchange is 75% of the listed value as of 1 January in the year of assessment. Norwegian corporate shareholders are not subject to net wealth tax.

13.2.8 Inheritance tax

Effective 1 January 2020, there is no inheritance tax in Norway.

13.3 Non-Resident Shareholders

This section summarizes Norwegian tax rules relevant to shareholders who are not resident in Norway for tax purposes ("**Non-resident shareholders**"). Non-resident shareholders' tax liabilities in their home country or other countries will depend on applicable tax rules in the relevant country.

13.3.1 Taxation of dividends

Dividends distributed to shareholders who are individuals not resident in Norway for tax purposes ("**Non-resident individual shareholders**"), are as a general rule subject to withholding tax at a rate of 25%. The withholding tax rate of 25% is normally reduced through tax treaties between Norway and the country in which the shareholder is resident. The withholding obligation lies with the company distributing the dividends.

The above generally applies also to shareholders who are limited liability companies not resident in Norway for tax purposes ("**Non-resident corporate shareholders**"). However, dividends distributed to Non-resident corporate shareholders resident within the EEA for tax purposes are exempt from Norwegian withholding tax, provided the shareholder genuinely is established and conducts business activity within the EEA.

Non-resident individual shareholders resident within the EEA area are subject to ordinary withholding tax, but entitled to apply for a partial refund of the withholding tax, equal to a calculated allowance similar to the calculated allowance used by Norwegian individual shareholders, ref above.

Nominee registered shares will be subject to withholding tax at a rate of 25% unless the shareholder has fulfilled specific documentation requirements and the nominee has obtained approval from the Norwegian Tax Administration for the dividend to be subject to a lower withholding tax rate. Non-resident shareholders that have suffered a higher withholding tax than set out by an applicable tax treaty or the Norwegian Tax Act may apply to the Norwegian tax authorities for a refund of the excess withholding tax deducted.

If a Non-resident shareholder is carrying on business activities in Norway, and the shares are effectively connected with such activities, the shareholder will be subject to the same taxation as Norwegian shareholders, as described above.

13.3.2 Taxation on realization of shares or independent subscription rights

Realization of shares or independent subscription rights by a Non-resident individual or corporate shareholder will not be subject to taxation in Norway unless the Non-resident shareholder is holding the shares or warrants in connection with the conduct of a trade or business in Norway, in which case the tax treatment is as described for Norwegian shareholders.

13.3.3 Net wealth tax

Shareholders not resident in Norway for tax purposes are not subject to Norwegian net wealth tax. Foreign individual shareholders can however be taxable if the shareholding is effectively connected to the conduct of trade or business in Norway.

13.4 VAT and transfer taxes

No VAT, stamp or similar duties are currently imposed in Norway on the transfer of shares whether on acquisition or disposal.

14 ADDITIONAL INFORMATION

14.1 Advisors

Advokatfirmaet Ræder AS (Dronning Eufemias gate 11, P.O. Box 2944 Solli, NO-0191 Oslo, Norway) serves as the Norwegian legal counsel of Thinfilm.

DnB Bank ASA, Dronning Eufemias gate 30, NO-0191 Oslo, Norway, is acting as the settlement agent in connection with the Subsequent Offering.

14.2 Auditors

The Company's auditor is Deloitte AS (Dronning Eufemias gate 14, NO-0191 Oslo, Norway), who has acted as the Company's auditor since being elected at the Extraordinary General Meeting on 11 May 2006. Deloitte AS is a member of the Norwegian Institute of Public Accountants. Accordingly, no auditor of the Group has resigned, been removed or failed to be re-appointed during the period covered by the historical financial information discussed herein.

The auditor's report on the Financial Statements is included together with the Financial Statements as incorporated hereto by reference; see Section 14.5 "*Incorporation by reference*". Other than Deloitte's report on the Financial Statements, neither Deloitte nor any other auditor has audited, reviewed or produced any report on any other information provided in this Prospectus.

14.3 Expert Statements

There are no reports, letters, valuations or statements prepared by any expert at the Company's request referred to in the Prospectus.

14.4 Documents on Display

Copies of the following documents (or copies thereof) will be available for inspection during normal business hours on any business day free of charge at the offices of the Company's legal advisor Advokatfirmaet Ræder AS, Dronning Eufemias gate 11, 0191 Oslo, Norway:

a) This Prospectus;
b) The Memorandum of Incorporation and Articles of Association of the Company;
c) Audited annual reports 2018 and 2019 for the Group, and separate financial statements for all Subsidiaries apart of TFE Inc., which is not required by law to prepare official financial statements; and
d) Unaudited interim reports for the first quarter of 2020 for the Group.

The above documents are also available at the Company's website at www.thinfilmsystems.com. The above documents are available for inspection for the life of this Prospectus.

14.5 Incorporation by reference

The information incorporated by reference in the Prospectus shall be read in connection with the cross-reference list as set out in the table below. Expect as provided in this section, no other information is incorporated by reference into this Prospectus.

The following documents have been incorporated hereto by reference:.

Section in the Prospectus	Minimum disclosure requirement of the Prospectus (Annex XXV)	Reference document and link
Section 8.1	Item 20.1: Historical financial information	Consolidated Annual Report 2018: https://thinfilmsystems.com/wp-content/uploads/2019/11/Thinfilm_Annual_Report_2018_Final.pdf Consolidated Annual Report 2019: https://thinfilmsystems.com/wp-content/uploads/2020/05/Thinfilm_Annual_Report_2019_Final.pdf
Section 8.1	Item 20.3: Audit reports	Auditor's Report 2018: https://www.thinfilmnfc.com/wp-content/uploads/2019/04/Thinfilm_Annual_Report_2018_Final.pdf Auditor's Report 2019: https://thinfilmsystems.com/wp-content/uploads/2020/05/Thinfilm_Annual_Report_2019_Final.pdf
Section 8.1	Item 20.1: Audited historical financial information	Accounting principles: https://thinfilmsystems.com/wp-content/uploads/2020/05/Thinfilm_Annual_Report_2019_Final.pdf
Section 8.1	Item 20.5: Interim financial information	Interim Report: First quarter 2020 (unaudited): https://thinfilmsystems.com/wp-content/uploads/2020/05/Thinfilm_Interim_Report_2020-Q1_Final.pdf

15 DEFINITIONS AND GLOSSARY OF TERMS

The following definitions and glossary apply in this Prospectus unless otherwise dictated by the context, including the foregoing pages of this Prospectus. Words importing the plural shall be construed to include the singular and vice versa.

"2019 Plan"	A subscription rights plan available for employees in the Company and its Subsidiaries and affiliated companies, and for individual consultants performing similar work, adopted by the Company's 28 May 2018 annual general meeting.
"ADR"	American Depositary Receipt
"Anti-Money Laundering Legislation"	Collectively the Norwegian Money Laundering Act of 1 June 2018 No. 23 and the Norwegian Money Laundering Regulations of 14 September 2018 No. 1324
"Articles of Association"	The Articles of Association of Thinfilm
"Board"	Board of Directors of Thin Film Electronics ASA
"CEO"	Chief Executive Officer
"CET"	Central European Time
"CFO"	Chief Financial Officer
"Company Registry"	The Norwegian Register of Business Enterprises or "Foretaksregisteret"
"Company" or "Thinfilm"	Thin Film Electronics ASA
"EAS"	Electronic article surveillance tags
"EU"	European Union
"EU Prospectus Regulation"	Regulation 2017/1129 of the European Parliament and of the Council, as amended from time to time and as implemented in Norway
"Financial Statements"	The audited consolidated annual financial statements for the Group as of and for the years ended 31 December 2018, and 2019
"Forward-looking Statements"	Statements regarding future developments, including, without limitation, projections and expectations regarding the Group's future financial position, business strategy, plans and objectives, all of which are based on information available to the Company, and views and assessments of the Company, as of the date of this Prospectus
"Group"	Thinfilm and Subsidiaries
"IAS"	International Accounting Standard
"IFRS"	International Financial Reporting Standards
"Interim Financial Statements"	The unaudited interim consolidated financial information for the Group as of and for the three month period ended 31 March 2019 and 2020
"IP"	Intellectual Property
"IPR"	Intellectual Property Rights
"LEI"	Legal Entity Identifier
"NFC"	Near Field Communication
"Norwegian FSA"	Financial Supervisory Authority of Norway (Nw.:*Finanstilsynet*)
"Norwegian kroner" or "NOK"	Norwegian Kroner, the lawful currency of the Kingdom of Norway
"Norwegian Public Limited Companies Act"	The Norwegian Public Limited Companies Act of 13 June 1997 No. 45 (as amended from time to time)

"Norwegian Securities Trading Act"	The Norwegian Securities Trading Act of 29 June 2007 No. 75 (as amended from time to time)
"Offer Shares"	The 63,636,363 shares offered in the Subsequent Offering
"Oslo Stock Exchange"	Oslo Børs ASA
"OTCQX"	The top tier of the three marketplaces for trading over-the-counter stocks provided and operated by the OTC Markets Group
"Private Placement"	The private placement of 227,272,727 Private Placement Shares in Thinfilm
"Private Placement Shares"	227,272,727 shares offered in the Private Placement
"Prospectus"	This Prospectus dated 12 June 2020
"Record Date"	30 April 2020
"RF"	Radio Frequency
"Roll-to-Roll""	Refers to manufacturing processes that utilize a continuous substrate that is transferred from one roll to another during manufacturing, and during the transfer, layers are patterned to form active electronic components
"Shares"	The issued and outstanding shares in the Company, each share having a par value of NOK 0.11
"SSLB"	Solid-state Lithium batteries
"Subscription Form"	The Subscription Form in the Subsequent Offering, included as Appendix 1 to this Prospectus
"Subscription Period"	The subscription period in the Subsequent Offering commencing on 15 June 2020 and expire at 16:30 (CET) on 25 June 2020
"Subscription Price"	NOK 0.11 per New Share
"Subscription Rights"	Transferable subscription rights in the Subsequent Offering that provide preferential rights to subscribe for, and be allocated, Offer Shares at the Subscription Price in the Subsequent Offering
"Subsequent Offering"	The subsequent offering in the Company of NOK 7 million as set stipulated by this Prospectus
"Subsidiaries"	The following wholly-owned (directly or indirectly) subsidiaries of Thinfilm: TFE AB,TFE Holding, TFE Inc., Thinfilm KK, Thinfilm HK, Thin Film Electronics Co. Ltd, Thinfilm Singapore, and Thinfilm UK.
"TFE AB"	Thin Film Electronics AB
"TFE Inc."	Thin Film Electronics, Inc., a California corporation
"Thinfilm HK"	Thin Film Electronics HK Limited
"TFE Holding"	TFE Holding, a Nevada corporation, USA
"Thinfilm KK"	Thin Film Electronics Japan Co., Ltd.
"USD" or "$"	United States Dollars, the lawful currency of the United States
"VPS"	The Norwegian Central Securities Depository or "Verdipapirsentralen", which organizes the Norwegian paperless securities registration system
"Warrant A"	warrant with exercise price of NOK 0.11 and exercisable at any time by notice to the Company until 31 December 2020
"Warrant B"	warrant with exercise price of NOK 0.25 and exercisable at any time by notice to the Company until 20 August 2021

APPENDIX 1 SUBSCRIPTION FORM IN THE SUBSEQUENT OFFERING

THIN FILM ELECTRONICS ASA SUBSEQUENT OFFERING

SUBSCRIPTION FORM

For information regarding the Subsequent Offering (the "**Subsequent Offering**") with subscription rights ("**Subscription Rights**") for shareholders in Thin Film Electronics ASA (the "**Company**") as of end of 28 April 2020, who were not allocated shares in the private placement of shares resolved by the Extraordinary General Meeting in the Company dated 20 May 2020, as well as corresponding terms for subscription, allotment and other information, reference is made to the prospectus dated 12 June 2020 (including annexes) issued in connection with the Subsequent Offering (the "**Prospectus**"). Such information may also be requested from the Company. Subscription for new shares (the "**Offer Shares**") may take place through correctly completing this subscription form (the "**Subscription Form**") and thereafter returning it to DNB Bank ASA, Securities Services, Dronning Eufemias gate 30, NO-01-91 Oslo Norway **by ordinary post, by e-mail to retail@dnb.no or hand-delivery so that it is received in the period from and including 15 June 2020 to 29 June 2020 at 16:30 CET** (the "**Subscription Period**"). It is not sufficient for the Subscription Form to be postmarked within the expiry of the Subscription Period. **Subscribers who are residents of Norway with a Norwegian personal identification number may also subscribe for the Offer Shares through the VPS online subscription system by following the link on https://thinfilmsystems.com/investor-relations/ (which will redirect the subscriber to the VPS online subscription system).** Subscriptions made through the VPS online subscription system must be duly registered before the expiry of the Subscription Period. Subscribers for Offer Shares bear the risk of any postal delays or technical computer problems relating to the above-mentioned internet addresses which result in a subscription or a Subscription Form not being received within the Subscription Period.

DETAILS OF THE SUBSCRIPTION

The subscribers will be issued two Warrants ("**Warrants**") for each share subscribed for in the Subsequent Offering. The first warrant ("**Warrant A**") will have an exercise price of NOK 0.11 per share and be exercisable at any time from the date of grant until 31 December 2020. The second warrant ("**Warrant B**") will have an exercise price of NOK 0.25 per share and be exercisable at any time from the date of grant until 20 August 2021. The further terms and conditions for the issuance of Warrants are set out in the Prospectus. **Subscription for Offer Shares below will also be deemed to represent subscription for the accompanying Warrants in accordance with sections 11-13 and 10-7 of the Public Limited Companies Act.**

The Company reserves the right to disregard improperly completed, delivered or executed Subscription Forms, or any subscription that may be unlawful. By delivering the Subscription Form to DNB Bank ASA for registration, or by subscription through VPS online subscription system, the subscription for Offer Shares is irrevocable and may not be withdrawn, cancelled or modified. By subscribing for Offer Shares and Warrants, the subscriber (i) represents and warrants that it has read the Prospectus and is eligible to subscribe for Offer Shares and Warrants in accordance therewith, and that it accepts the terms and conditions set out in this Subscription Form and in the Prospectus as applicable to its subscription for Offer Shares and the Warrants, and (ii) authorizes each of the Company and DNB Bank ASA to take all actions required to transfer such Offer Shares and Warrants to the subscriber's account with the VPS.

The Company's Articles of Association, the notice of the extraordinary general meeting dated 20 May 2020 with appendices, minutes from the extraordinary general meeting dated 20 May 2020 including the wording of the resolutions of the shareholders meeting to increase the Company's share capital and issue warrants, as well as the annual accounts and the annual report for the two last years, is available at the Company's office, c/o Advokatfirmaet Ræder AS, Dronning Eufemias gate 11, NO-0230 Oslo, Norway and on the Company's website www.thinfilmsystems.com.

Guidelines for the subscriber (See back page) shall be considered a part of this Subscription Form.

Subscriber's VPS-account no.	**No. of Subscription Rights**	**Subscribes for (number of shares) at NOK 0.11 per Offer Share**	**Total amount to be paid** **NOK**

Irrevocable authorisation to debit account (must be filled in):

The undersigned hereby grants an irrevocable authorization to DNB Bank ASA to debit the Norwegian bank account set out herein for the allotted amount (the value in NOK of: number of allotted shares * NOK 0.11)

____

Norwegian bank account no. (11 digits)

Subscribers, who are allocated Offer Shares in the Subsequent Offering and who do not have a Norwegian bank account must pay the aggregate subscription price for the Offer Shares to the following bank account by the payment deadline of 7 July 2020:

Account number: 1644 33 79537
Name: Thin Film Electronics ASA
IBAN: NO04 1644 3379 537
BIC (SWIFT): DNBANOKKXXX
Bank: DNB Bank ASA

______________________________ ______________________________

Place and date of subscription. Telephone (at daytime)/e-mail. (Must be dated within the Subscription Period)

Binding signature. The subscriber must have legal capacity. When signed by proxy, documentation in the form of company certificate or power of attorney must be enclosed.

INFORMATION ON THE SUBSCRIBER (ALL FIELDS MUST BE COMPLETED):

Subscriber's VPS account no. (12 digits):	**PLEASE NOTIFY THE REGISTRAR OF ANY CHANGES**
Subscriber's name/company name etc.:	
Street address etc. (private subscribers; home address):	
Postal code, area and country:	

Date of birth/national ID number/company: Organization/registration number	
Dividends to be credited to bank account no. (11 digits):	
Nationality:	
Telephone (daytime)/e-mail:	

GUIDELINES FOR THE SUBSCRIBER

Subscription for Offer Shares in the Subsequent Offering is made on the terms and conditions set out in this Subscription Form and in the Prospectus, including the limitations set out in Section 5 "Information concerning the securities being admitted to trading" of the Prospectus. Shareholders as of the end of 28 April 2020 as appearing in the Norwegian Central Securities Depository ("**VPS**") on 30 April 2020, *who were not allocated shares in the private placement of shares resolved by the Extraordinary General Meeting in the Company dated 20 May 2020* ("**Eligible Shareholders**", as defined in the Prospectus), will receive 1.11458462 Subscription Right for each share in the Company held as of this date, which will be registered on each Eligible Shareholder's VPS account. One Subscription Right will give the right to be allocated one Offer Share at the Subscription Price on the terms and conditions set out herein. The Subscription Rights are transferable and are registered with the VPS under the ISIN NO0010885031. Oversubscription and subscription without Subscription Rights are permitted, although with no guarantee that any Offer Shares will be allotted for such subscriptions. In case of oversubscription and subscription without Subscription Rights, the allocation will be made in accordance with the principles set out in section 5.3 "The Subsequent Offering" of the Prospectus. The Subscription Price is NOK 0.11 per Offer Share, which is identical to the subscription price per Share in the private placement resolved by the Extraordinary General Meeting dated 20 May 2020. Notifications of allocations of Offer Shares are expected to be issued on or about 30 June 2020. By subscribing for Offer Shares and Warrants in the Subsequent Offering, the subscriber (i) authorizes and instructs each of the Company and DNB Bank ASA to take all actions required to transfer the Offer Shares and Warrants to the VPS Registrar and ensure delivery of the Offer Shares and Warrants to the subscriber's account with the VPS, and (ii) grants the DNB Bank ASA an irrevocable authorization to debit the allotted subscription amount in NOK from the bank account designated by the subscriber. The debiting of the account will take place on or about 7 July 2020. The entire subscription amount must be available on the designated bank account at the latest within 7 July 2020. The Company and the Manager reserve the right to make up to three debit attempts if there are insufficient funds on the account on the first debiting date. If payment is not received when due (i.e. 7 July 2020), the Company reserves the right to re-allot, cancel or reduce the subscription in total or in part in accordance with the Public Limited Liability Companies Act Section 10-12, cf. Section 2-13. Interest will accrue on late payments at the applicable rate according to the Norwegian Act on Interest on Overdue Payments of 17 December 1976 no. 100, which at the date of this Prospectus is 9.50 per cent per annum.

The share capital increase pertaining to the Offer Shares will be registered with the Norwegian Register of Business Enterprises (*Foretaksregisteret*) as soon as payment of the entire proceeds for the Offer Shares has been received by the Company and the conditions for the registration of the increase in share capital are fulfilled. The Offer Shares allocated to subscribers in the Subsequent Offering will thereafter be distributed to the subscribers' VPS accounts. Provided that all conditions for the Subsequent Offering have been fulfilled, the earliest date the Offer Shares can be registered with the Norwegian Register of Business Enterprises is on or about 9 July 2020 with a subsequent delivery of the Offer Shares in the VPS on or about 10 July 2020. Such conditions may not have been fulfilled on that date, in which case registration and delivery of the Offer Shares will be postponed accordingly. In the event the Subsequent Offering will be cancelled, the Subscription Rights will lapse without value, subscriptions for, and allotments of, Offer Shares that have been made will be disregarded and any subscription payments made will be returned without interest.

APPENDIX 2 SELLING RESTRICTIONS

The attention of persons who wish to subscribe for Offer Shares is drawn to Section 5.3.16 *"Selling and transfer restrictions"* of the Prospectus. The Company is not taking any action to permit an offering of the Subscription Rights or the Offer Shares (including the Warrants) (pursuant to the exercise of the Subscription Rights or otherwise) in any jurisdiction other than Norway. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information only and should not be copied or redistributed. Persons outside Norway should consult their professional advisors as to whether they require any governmental or other consent or need to observe any other formalities to enable them to subscribe for Offer Shares.

It is the responsibility of any person wishing to subscribe for Offer Shares under the Subsequent Offering to satisfy himself or herself as to the full observance of the laws of any relevant jurisdiction in connection therewith, including obtaining any governmental or other consent which may be required, the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such territories. The Subscription Rights, Offer Shares and Warrants have not been registered, and will not be registered, under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") and may not be offered, sold, taken up, exercised, resold, delivered or transferred, directly or indirectly, within the United States, except pursuant to an applicable exemption from the registration requirements of the U.S. Securities Act and in compliance with the securities laws of any state or other jurisdiction of the United States. The Subscription Rights, Offer Shares and Warrants have not been and will not be registered under the applicable securities laws of Australia, Canada or Japan and may not be offered, sold, taken up, exercised, resold, delivered or transferred, directly or indirectly, in or into Australia, Canada or Japan, except pursuant to an applicable exemption from the registration requirements and otherwise in compliance with the securities laws of such country, or any other jurisdiction in which it would not be permissible to offer the Offer Shares. This Subscription Form does not constitute an offer to sell or a solicitation of an offer to buy Offer Shares in any jurisdiction in which such offer or solicitation is unlawful. A notification of exercise of Subscription Rights and subscription for Offer Shares and Warrants in contravention of the above restrictions may be deemed to be invalid. By subscribing for the Offer Shares and Warrants, persons effecting subscriptions will be deemed to have represented to the Company that they, and the persons on whose behalf they are subscribing for the Offer Shares and Warrants, have complied with the above selling restrictions.

Thinfilm Electronics ASA

Annual Report 2018

thinfilm

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2018 Commercial Highlights

BERICAP and Thinfilm partner to implement advanced closure technology

Thinfilm and BERICAP, a supplier of world-class high value added plastic caps and closures for food, beverage, pharmaceutical, and industrial markets, signed a Letter of Intent in April 2019 for an exclusive joint partnership to develop fully integrated digital authentication solutions for closures in over-the-counter pharmaceuticals and industrial applications. The collaboration will embed advanced chips into the closures to create dependable and cost-effective solutions for brand protection and authentication purposes.

Tapì and Thinfilm join forces for multi-year strategic partnership

In March 2019, Tapì, the international leader specializing in high-end bottle closures, and Thinfilm signed an exclusive three-year strategic joint partnership to combine their industry-leading innovation capabilities to better serve the needs of the wine & spirits industry. The partnership encompasses development, delivery and implementation of Thinfilm's NFC-enabled solutions. The collaboration is intended to create dependable, cost-effective closure solutions for brand protection and consumer engagement purposes.

Thinfilm joins NFC Forum Board

In December, Thinfilm was accepted for membership in the NFC Forum board of directors and upgraded its membership level from Principal to Sponsor. The board is the organization's governing body and is responsible for the overall technical, compliance, and market-facing strategy of the NFC Forum, the global standards organization for NFC technology. Thinfilm joins Apple, Dai Nippon Printing, Google, Infineon, MasterCard Worldwide, NXP, Qualcomm, Samsung, Sony, STMicroelectronics and Visa on the NFC Forum Board.

Kilchoman integrated label provides new insights

Following a successful hangtag pilot, Kilchoman Distillery integrated 200,000 tags into its on-bottle labelling for its two main single malt products, Sanaig and Machir Bay. The smart bottles were exported to more than 50 countries. Through this implementation, and the ability to follow the tags via Thinfilm's CNECT® platform, Kilchoman gained clear insights into the supply chain and its distribution network. Kilchoman was able to use the consumer engagement data to understand how frequently consumers engaged with the product and how user interest between the two products varied on a country-by-country level. The same consumer scan data gave Kilchoman a new window into the performance of the supply chain, helping to verify the so-called 'ship to shelf' time between the distillery and availability for purchase in a retail shop. This kind of supply chain intelligence is traditionally expensive to gather or simply unavailable, but cloud-powered NFC technology made it both possible and refreshingly simple.

Francis Ford Coppola Winery links the wine and film worlds

The Sonoma-based winery was looking for a unique way to launch its Apocalypse Now 2015 Red Blend wine, named after the Oscar-winning movie, on the occasion of the 40th anniversary of its release. Together with Thinfilm, Coppola developed an NFC-enabled label that was affixed to the back of the bottles. With the tap of a smartphone, consumers connected to exclusive content, including a series of rare videos on the making of the legendary film.

Mackmyra uses solutions to connect directly to consumers

Based in Sweden, the award-winning distiller of single-malt whisky is using Thinfilm's NFC mobile marketing solution to connect directly with customers via smartphone, raise awareness of its Private Cask program, and launch social media-driven campaigns that promote its most popular products.

Mackmyra's initial order of Thinfilm NFC tags builds digital provenance information into Mackmyra's Private Cask offering, which allows consumers to create and bottle their own unique whisky. Each individual bottle originating from the Private Cask will link back to detailed information about that specific cask. Following this, a second campaign will promote a customer-submitted drink recipe competition featuring the distillery's flagship "MACK" whisky and its premium Lab+Distillery gin.

Slikhaar disrupts with NFC-tagged hair-care products

The innovative men's hair care leader and digital disruptor from Denmark ordered 100,000 tags for its interactive personal care products. Slikhaar uses Thinfilm's NFC mobile marketing solution to connect directly with consumers via smartphone, promote its SlikhaarTV channel on YouTube, and deepen relationships with its growing number of brand enthusiasts. It is integrating NFC tags in select major hair and skin care products under its popular By Vilain brand. Each uniquely identifiable NFC tag integrates seamlessly with Thinfilm's CNECT® Cloud Platform to enable the delivery of custom digital content and experiences to Slikhaar's predominantly mobile-first consumer base.

Boehringer Ingelheim Korea uses tags to educate patients

The pharmaceutical company introduced patients to its new Vahelva Respimat inhaler by motivating them tap on NFC tags integrated into packaging which allowed them to view a 3 ½ minute how-to-use-it video. This reduced the burden on medical personnel and increased patients' understanding of the product.

El Jimador kicks off World Cup campaign

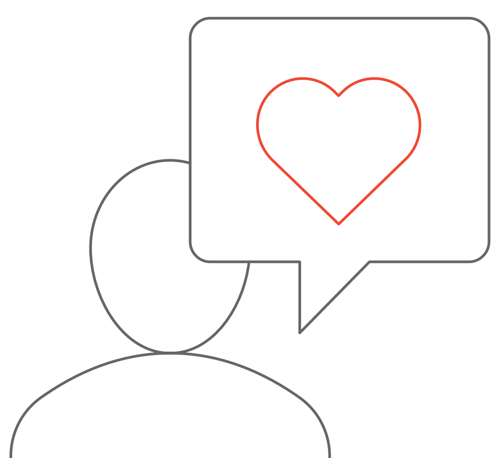
The leading tequila brand of Brown-Forman, one of the largest American-owned companies in the wine and spirits industry, used Thinfilm's complete NFC mobile marketing solution to enhance marketing efforts for its summer soccer campaign called "Soccer Moments". The six-figure-unit, in-market deployment was believed to be the industry's largest NFC-related activation ever for a tequila brand. El Jimador incorporated NFC tags in custom bottle-neckers and branded coasters. When tapped with a smartphone in-store, at home, or on the go, El Jimador customers were able to instantly submit their favorite soccer story for a chance to win $25,000, custom jerseys, and other prizes.

YUNI Beauty leads with NFC tags on its packaging

YUNI Beauty's all-natural, sustainable products use Thinfilm's fully integrated solution to connect directly with a mobile-first customer base, deliver custom digital experiences to shoppers, and drive in-store conversions at the point of sale. YUNI Beauty initially used Thinfilm's solution to promote its two leading products – Shower Sheets and Chillax – and to launch a new product called Yunicorn.

Thinfilm releases CNECT Cloud Platform 2.0

Thinfilm continued to upgrade its CNECT platform with features including expanded analytics capabilities and an enhanced digital experience builder, giving users the ability to easily and effectively create and measure innovative experiences delivered through the tap of a smartphone. Using the new platform, brands can easily digitize products, create and deliver unique mobile experiences, and view real-time, interactive analytics that provide meaningful and actionable insights.



About Thinfilm

Thinfilm is enabling Intelligence Everywhere® through our Near Field Communications (NFC) solutions. We help clients engage directly with consumers, protect brand equity, and understand their supply chains as never before.

Our award-winning, fully integrated NFC solutions reduce complexity and accelerate client success by overcoming the limitations of search and email marketing, defending against counterfeiting and gray market trade, and providing actionable supply chain insights throughout the product and consumer journeys. We enable companies to take back control to protect their brands and engage their consumers directly. By combining state-of-the-art NFC tag hardware, integration expertise, and the flexibility enabled by the CNECT® Cloud Platform, Thinfilm brings dynamic digital life to everyday products and packages. Thinfilm is a leading participant in the NFC community through its participation on the NFC Forum board of directors, committees, and working groups.

Thin Film Electronics ASA is a publicly listed company in Norway with corporate headquarters in Oslo, global headquarters in San Jose, California, and offices worldwide.

Report from the Board of Directors

Introduction

The 2018 business year for Thinfilm was challenging, and the company went through a series of significant changes. A change of management, a strategic review in the second half of the year and a cost-reduction program led to a rethinking of the company's priorities and a pivot in the company's go-to-market strategy.

While acceptance of Thinfilm solutions is growing, adoption of non-payment NFC solutions has been slower than anticipated. The NFC Forum estimates that at the end of 2018 there were more than 2 billion smartphones in use worldwide. As adoption increases, we believe that non-payment NFC solutions too will become ubiquitous. Thinfilm and its fully integrated connected product solutions are well positioned to take a significant share of that market. Interest in NFC solutions rose following the introduction of the new series of iPhone XS, XS Max and XR in the third quarter of 2018. Apple announced that its new iPhone models are able to read NFC tags to launch content without requiring a separate NFC reader app. Furthermore, NFC tags can now be read directly from the phone's locked screen. To underline its commitment to NFC technology, late in the year Thinfilm joined the NFC Forum board of directors.

In 2018, Thinfilm delivered more than 40 in-market solutions with leading brands in the wine & spirits, cosmetics and over-the-counter pharmaceuticals industries. Pilot customers turned into repeat customers, and Thinfilm acquired new customers to continue building our business. Some prominent implementations included Kilchoman Distillery, Francis Ford Coppola Winery, YUNI Beauty cosmetics, Danish hair-care products company Slikhaar, and Boehringer Ingelheim Korea. Throughout the year, order bookings for consumer engagement grew, while interest in brand protection use cases gained traction. In Q3, the company introduced a cost-reduction program which included a 20 percent reduction in head-count.

The company's roll-to-roll printed dopant polysilicon (PDPS) manufacturing project continued in 2018, albeit with delays beyond the original plan announced in 2016. Several path-critical tools were delayed at the vendor and required modification, thus creating further postponement of installation and factory acceptance testing. By the end of the year, the timeline had slipped to where roll-based NFC product qualification was forecasted to occur by the end of the first half of 2020. Continuous efforts were made to shorten the time to product qualification, however the company had previously been too optimistic about the complexity and challenges involved in developing the world's first roll-to-roll printed electronics process incorporating multiple tools.

In the fourth quarter, the company saw a change in leadership. The board of directors named Kevin Barber as the company's new Chief Executive Officer effective 26 November 2018. Prior to joining Thinfilm, Kevin Barber served as Senior Vice President, General Mobile Division of Synaptics, a NASDAQ listed company. At Synaptics, he drove strategy, business development, M&A and execution of growing revenue fourfold to over USD 1 billion annually. In his 30-year career, he played an active role in leading companies which helped architect and then benefit from three previous technical revolutions: the dawn of the internet, widespread adoption of the mobile phone and the overwhelming success of the smartphone. He now brings his experience to lead Thinfilm into the next revolution - the expansion of the internet of things to make smart products commonplace.

In March 2019, following a comprehensive strategic review, Thinfilm announced a corporate restructuring that included pausing development of the roll-to-roll technology. The board of directors and executive team determined that it was not nor was ever a critical part of building initial market volume. In the event of a very significant market growth, Thinfilm may reassess this decision. In addition, the company realigned its sales organization and its go-to-market strategy, sharpened its focus on complete product solutions, integrating hardware and software, and reduced its global footprint and while shifting weight toward San Jose. These actions were designed to yield nearly USD 20 million in annualized savings at the operating level and resulted in an approximate 40 percent reduction in the work force.

As announced in the Q4 2018 report, the company plans to raise capital by the end of May 2019, and reference is made to the Going Concern section for further information about the funding situation.

Product and solution updates

SpeedTap® tags

Officially launched in Q2 2016, SpeedTap tags are thin, flexible NFC tags that empower brands to establish direct one-to-one connections with consumers. The tags enable consumer-initiated interactions with products through the tap of a smartphone. Each SpeedTap tag fully integrates with the CNECT® software platform and has a unique ID permanently encoded during the manufacturing process, making it nearly impossible to hack and streamlining integration on high-volume customer production lines.

OpenSense® tags

OpenSense tags are similar to SpeedTap tags but have a dual-state ID along with dynamic sensing functionality. In combination with a smartphone or reader, the wireless tags can detect a product's factory-sealed and opened states. As such, they are ideal for thwarting counterfeiters by fighting against refill fraud and package tampering in addition to addressing consumer engagement and product authentication needs.

CNECT® software platform and apps

Thinfilm's CNECT® Cloud Platform launched in February of 2017 and is designed to enable two primary use cases: Brand Protection and Consumer Engagement. It provides customers with insights into consumer activity, anti-tampering and supply chain monitoring. The integrated solution empowers marketers to connect directly with consumers — through the tap of a smartphone — to deliver custom content and unique digital experiences.

It also provides brands with a simple and secure way to store, manage and track the tags while addressing key business needs such as consumer engagement and product authentication.

The CNECT platform has shown tremendous value to Thinfilm's customer base and has proven to be a key unique differentiator for Thinfilm globally. During 2018, Thinfilm rolled out the CNECT 2.0 software platform around the world, including China. Enhancements include: a cleaner, more intuitive user interface (UI), enhanced tag-management capabilities to simplify tag management at scale, streamlined templates to simplify creation of dynamic NFC-triggered consumer experiences based on time, location, and multi-stage interaction, and improved control over analytics and visualizations that provide insights into both product-level and user-level interaction across product batches and experiences.

EAS (Electronic Article Surveillance) tags

EAS tags were introduced to the market commercially by Thinfilm in 2014 as the company's first wireless/RF (radio frequency) product. The anti-theft tags, delivered as wet inlays to be applied directly during manufacture (source tagging), are easily integrated with merchandise such as shoes, denim and other apparel. These labels do not reactivate, eliminating the risk of tag pollution and helping to safeguard the retailer from theft.

Thinfilm has discontinued the business and will exhaust the remaining inventory with a leading customer. All in all, EAS has been maintained as a tool to improve roll to roll factory learning, but it did not contribute to Thinfilm profitability.

Expanding and enhancing operations

Thinfilm pursued several initiatives in an effort to address interest in the marketplace, enhance the productivity and efficiency of operations around the world, and improve overall quality of the products and solutions it delivers.

Leadership and staff

In addition to the new CEO Kevin Barber, Thinfilm hired Poorab Shah as EVP Software in June 2018. In this role he is responsible for the leadership and management of Thinfilm's software and IT strategy/solutions, the CNECT™ Cloud Platform, and the company's growing ecosystem of software partners.

Christian Delay, formerly SVP, Strategic Marketing and GM, Software Platforms and EVP Software, was promoted to Chief Commercial Officer, overseeing all of the sales, marketing and business development operations.

Giampaolo Marino joined Thinfilm in July 2018 as EVP Hardware Solutions. In this role, he leads Thinfilm's product management, engineering, and quality management functions, in addition to the company's strategic hardware partnerships.

Thinfilm ended 2018 with 155 full-time employees globally, down from 167 at the end of 2017, a decrease of 8 percent. At the date of the report, Thinfilm had 145 full-time employees, of which 65 are in their termination period.

Events and media coverage

Throughout 2018 and the beginning of 2019, Thinfilm participated in numerous industry, academic and thought leadership activities around the world. Events are often a key source of sales and business development leads, and many of them included sponsorship roles and speaking engagements. These events included Mobile World Congress, Tax Free World Expo, The World Spirits Conference, eTail Asia, eTail Europe, LOPEC, Shoptalk and IDTechEx.

A review of event strategy in late 2018 led the company to choose a more measured and deliberate approach to events that will maximize their effectiveness for the company's marketing efforts. Going forward, Thinfilm will exhibit at strategically relevant and impactful events in all of the regions in which it is active, as well as packaging and vertical-specific events around the world.

Thinfilm received media coverage from trade and mainstream media, especially as it related to NFC mobile marketing, the internet of things, intelligent packaging and the role Thinfilm plays as a leader in these markets. Publications covering Thinfilm through 2018 included Advertising Age, Forbes, MarTech Today, Just-Drinks.com, Fortune, eMarketer, Packaging World, NFC World, thespiritsbusiness.com, Bloomberg and the Silicon Valley Business Journal.

Intellectual property

As of year-end 2018, Thinfilm held 155 registered patents and had 103 patent applications pending. Many patents and submitted applications relate to PDPS technology, materials used, and processes related to the sheet- and roll-based manufacturing of Thinfilm products. Several applications relate to tag management and uses of passive RFID and NFC labels. The IP portfolio also relates to assembly, software and systems solutions. In addition, Thinfilm also has trademarks and trade secrets relevant to its business and technology operations.

The group financial statements

Thinfilm's revenue and other income amounted to USD 3,397 thousand in 2018, a decrease of 42% from the preceding year (2017: USD 5,907 thousand). Thinfilm experienced a 57% decrease in sales revenue, year over year. Thinfilm also received revenues from Joint Development Agreement (JDA) activities with a global pharmaceutical company, which were completed during 2017. No JDA revenues were recorded in 2018.

Excluding the other income recognized in the period, total revenue amounted to USD 1,288 thousand (2017: USD 5,020 thousand), a decrease of USD 3,732 thousand compared to the corresponding revenues in 2017. Part of this decrease can be attributed to the fact that government grants and other funded projects were classified as other revenue in 2017 but classified as "other income" in 2018. This reclassification is in line with the implementation of the IFRS 15 and aligned with IFRS guidelines on revenue recognition. Total government grants in 2018 amounted to USD 1,540, classified as other income, compared to USD 2,040 in 2017, classified as other revenue.

Sales revenue amounted to USD 1,288 thousand in 2018 (2017: USD 2,980 thousand). 13.8 million EAS tags were shipped during 2018, compared to 25.9 million in 2017, while shipments of NFC SpeedTap tags were slightly down.

Excluding government grants, other income amounted to USD 570 thousand in 2018 (2017: USD 887 thousand). Other income in both periods is primarily related to gains on disposal of fixed assets. Disposed assets included those acquired when the Company secured the Junction Avenue facility, in addition to surplus Linköping site assets. During the first half of 2017, the company received sublease income from the Company's previous production facility at Zanker Road in San Jose. From Q3 2018, the company receives sublease income from the second floor of its Junction Avenue, San Jose facility.

Salaries and other payroll costs amounted to USD 33,244 thousand in 2018, compared to USD 30,096 thousand in 2017. The increase is mainly related to an increase in the average number of global full-time equivalents (FTEs) during the first eight months of 2018, including contract workers, as a result of the company's increased activities. In Q3, the company reduced headcount by 27 FTEs through a reduction-in-force.

Operating costs (excluding depreciation, amortization, and impairment charges) amounted to USD 54,473 thousand during 2018, including the notional cost of share-based compensation of USD 1,465 thousand. The corresponding figures for 2017 were USD 58,994 thousand and USD 2,200 thousand, respectively. The decrease in operating costs during 2018, compared to 2017, was USD 4,520 thousand, and was primarily attributable to:

1) USD 3,607 thousand lower costs for premises and supplies. The decrease is mainly due to costs related to overlap of rent and move-related costs in the first six months of 2017 when the US subsidiary moved from Zanker Road to Junction Avenue. Additionally, the down-sizing of activities at the Linköping site led to a decrease in office and rent costs in Sweden.

2) USD 2,703 thousand lower other expenses. Primary components contributing to the lower cost base are lower production variances costs, and a higher portion of development costs qualifying for capitalization in 2018 compared in 2017.

3) These savings are offset by USD 3,149 thousand in higher payroll costs. This is mainly related to an increase in the average number of global full-time equivalents (FTEs) during the first eight months of 2018, including contract workers, as a result of the company's increased activities. In Q3, the company reduced headcount by 27 FTEs through a reduction-in-force. FTEs through the full year 2018 averaged 164, compared to 161 in 2017. The company employed 155 FTEs (permanent and temporary) per 31 December 2018.

4) The residual year-over-year movement is explained by USD 902 thousand lower Sales and Marketing costs, mainly relating to lower travel expenses, and USD 457 thousand lower external service costs.

During 2018, Thinfilm's San Jose site was operating 24 hours per day, 7 days per week.

During 2018, USD 9,907 thousand was spent developing manufacturing processes and operating procedures for roll-to-roll manufacturing, of which USD 1,580 thousand development costs were capitalized to the balance sheet. The corresponding amount for last year was USD 16,549 thousand, of which USD 702 thousand in development costs were capitalized to the balance sheet. Investments in fixed and intangible assets amounted to USD 20,606 thousand in 2018, compared to USD 17,222 thousand in 2017. The investments are mostly related to equipment for the new roll-based production line at the San Jose site.

As of 31 December 2018, Thinfilm had also made prepayments amounting to USD 4,846 thousand relating to investments in equipment and machinery (2017: 11,484 thousand). These pre-payments are recognized as other receivables since only part of the equipment and machinery had been received from suppliers as of 31 December 2018. Thinfilm's roll-to-roll CAPEX program is expected to cost USD 36,100 thousand vs USD 32,000 thousand initially budgeted in November 2016. 72 percent of these costs have been incurred, including the pre-payments referred to above. By end of Q1 2019, it is expected that the company will have incurred 82% of the total project costs.

Depreciation, amortization and impairment charges amounted to USD 19,546 thousand in 2018 (2017: USD 6,991 thousand). As announced by the Company on 15 March 2019, Thinfilm has placed the PDPS R2R line on pause, following a slower customer adoption of NFC tags on-package than anticipated. The decision will not be changed unless there is a significant change in the market. This market development triggered an impairment test of the company's assets, as described in more detail in Note 6 of the Consolidated Financial Statements. The resulting fixed asset impairment amounted to USD 13,565 thousand. As a result of pausing the printed electronics line, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the roll-to-roll EAS product will not at this time be commercialized, and the USD 1,177 thousand capitalized development work on EAS has been impaired in full. In addition, 2018 figures include USD 90 thousand impairments related to fair value adjustments of the patent portfolio. In 2017, impairment charges of USD 3,025 thousand primarily related to equipment and licenses for the memory and sensor programs that were discontinued. Depreciation charges remained steady from USD 2,696 thousand in 2017 to USD 2,743 thousand in 2018. Amortization of the financial lease contract on the Junction Avenue premises in San Jose amounted to USD 1,053 thousand in 2018 (2017: USD 1,073 thousand).

The net financial items in 2018 amounted to an expense of USD 1,089 thousand compared to an income of USD 374 thousand in 2017. This expense was mainly related to unrealized foreign currency losses and the interest element of the financial lease of the building at Junction Avenue. The net financial income in 2017 was largely due to interest income on bank deposits.

The Company operates at a loss and there is a tax loss carry forward position in the Parent Company and in the American and Swedish subsidiaries. While local taxes are paid in some of the subsidiaries, the Parent Company in Norway has not paid any tax costs in 2018 or the prior year. The Group has not recognized any deferred tax assets in its balance sheet because these potential assets do not yet qualify for inclusion.

The net result for 2018 was a loss of USD 71,722 thousand, representing a loss of USD 0.06 per basic share. In 2017, the loss amounted to USD 59,581 corresponding to a similar loss of USD 0.07 per basic share.

At the end of 2018, cash and bank deposits amounted to USD 32,588 thousand, which represented 41 percent of the total assets of USD 79,366 thousand. On 31 December 2017, the cash position amounted to USD 98,120 thousand, or 66 percent of total assets. Non-current assets amounted to USD 35,276 thousand (2017: USD 34,246 thousand). The increase in non-current assets from 2017 to 2018 was mainly due to the aforementioned investment in the roll-based production line at the San Jose site, partly offset by fixed asset impairments. Trade and other receivables amounted to USD 8,862 thousand at the end of 2018 (2017: USD 16,245 thousand). The reduction relates mainly to a reduction in prepayments to suppliers and equipment vendors. Non-current liabilities amounted to USD 11,525 thousand (2017: 12,125) and is relating to future lease payments for the Junction Avenue premises. The Company does not have any interest-bearing debt and the equity ratio was 75 percent at the end of 2018, versus 87 percent at the end of 2017.

The group's cash balance decreased by USD 65,532 thousand in 2018 (2017: increased by USD 23,915 thousand). The decrease in cash balance is explained by three principal elements: 1) an outflow of USD 52,418 thousand from operating activities, 2) a USD 10,908 thousand outflow from investing activities and finally 3) an outflow from financing activities of USD 615, of which USD 600 is attributable to financial lease payments. The net increase in the cash balance in 2017 was mainly due to the private placement in Q4 2017.

Parent company financial statements

Revenue and other income in the Parent Company amounted to NOK 10,391 thousand in 2018 (2017: NOK 30,146 thousand), where NOK 8,826 thousand was recorded as sales revenue (2017: NOK 24,808 thousand). Other revenue of NOK 594 thousand (2017: NOK 4,271 thousand) related to government grants. Other income consists of NOK 971 thousand, attributable to sale of IP rights. In 2017, other income amounted to NOK 1,068 thousand.

The difference between Group and Parent Company other revenue is explained by some of the grant revenue being recognized in the subsidiaries as well as the contribution from SkatteFUNN. SkatteFUNN amounted to NOK 10 million in 2018 (2017: NOK 10 million) and has been credited against cost, while it has been booked as other income in the Consolidated Financial Statements. Personnel and payroll costs were NOK 32,569 thousand in 2018, up from NOK 25,975 thousand in the preceding year. The number of employees working for the Parent Company was 10 at the end of December 2018, compared to 10 employees as at 31 December 2017. The Parent Company employed, on average, nine full-time employees in 2018, compared to an average of nine full-time employees during 2017. The increase in payroll costs year-over-year is mainly relating to a different mix of employees during 2017 and 2018 with different compensation levels, in addition to higher subscription right costs and recruitment-related costs.

External purchases of services amounted to NOK 18,483 thousand in 2018, a decrease from NOK 21,426 thousand in the preceding year. Of the total amount for 2018, (i) NOK 10,587 (2017: 11,039) thousand related to legal, audit and accounting services, (ii) NOK 5,490 (2017: 4,540) thousand were tied to advisory services, technology support services and recruitment services, (iii) NOK 1,468 (2017: 1,401) thousand related to remuneration of the Board of Directors and (iv) NOK 938 (2017: 4,446) thousand relating to the purchase of external development work services.

Purchase of services from subsidiaries decreased to NOK 385,161 thousand in 2018 from NOK 490,332 thousand in 2017, largely explained by the reduced activity at the site in Linköping, Sweden. Other operating expenses increased from NOK 3,578 thousand in 2017 to NOK 7,158 thousand in 2018. Capitalized development costs amount to NOK 12,932 thousand in 2018, compared to NOK 5,765 in 2018. The capitalization is booked as a reduction of other operating expenses.

Amortization and impairment of intangible assets & negative goodwill amounted to NOK 11,752 thousand in 2018 compared to NOK 11,650 thousand in 2017. As a result of pausing the printed electronics line, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the roll-to-roll EAS product will not at this time be commercialized, and the NOK 10,226 thousand capitalized development work on EAS has been impaired in full. The 2017 impairment was mainly relating to licenses for the memory and sensor programs that were discontinued.

Net financial items amounted to an expense of NOK 140,000 thousand in 2018, compared to an expense of NOK 14,719 thousand in 2017. The net financial expense mainly consists of impairments of intercompany investments, particularly in ThinFilm Electronics INC, as a result of the property, plant and equipment impairment described in Note 6 of the Consolidated Financial Statements. The net financial items are partly netted by NOK foreign currency gains on USD-denominated assets.

The net result for 2018 for Thinfilm ASA was a loss of NOK 574,732 thousand (2017: Loss of NOK 527,533). The Board of Directors proposes that the loss is carried forward as uncovered loss. The Board does not propose a dividend for 2018.

Share capital

Thinfilm shares were listed on Oslo Axess from 30 January 2008 until 26 February 2015. On 27 February 2015 Thinfilm shares were transferred to Oslo Børs (OSE Main List). On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

At the end of 2018, there were 1,171,871,617 (2017: 1,171,871,617) shares in the Company which were held by 6,045 shareholders (2017: 5,542 shareholders). Par value is NOK 0.11 per share.

On 19 October 2017, it was announced that the Company had raised NOK 881 million in gross proceeds through a private placement consisting of 352,500,000 new shares (the "Private Placement") equal to 43 percent of the shares in Thinfilm. The subscription price in the Private Placement was set to NOK 2.50 per share , equivalent to a 7.8 per cent premium to the closing price on the Oslo Stock Exchange 19 October 2017. The new shares allocated in the Private Placement were issued in two separate tranches. Tranche 1 consisted of 81,500,000 new shares and was issued based on an authorization to the Board of Directors granted by the Company's Annual General Meeting on 5 May 2017 (the "Tranche 1 Shares"). Tranche 2 consisted of 271,000,000 new shares (the "Tranche 2 Shares"), and was approved by the Extraordinary General Meeting held on 13 November 2017 (the "EGM"). Tranche 1 shares were subscribed for by several investors. Tranche 2 shares were subscribed for by Woodford Investment Management, Invesco Asset Management and several other investors.

The were no exercises of vested incentive subscription rights during 2018. Employees exercised vested incentive subscription rights on several occasions in 2017, in a combined total of 2,612,500 shares at average price NOK 1.98 per share.

The annual general meeting in 2018 resolved an authorization to the Board to grant up to 117,187,161 independent subscription rights to employees and to individual consultants performing similar work in Thinfilm but limited so that the total number of outstanding subscription rights under all subscription rights programs shall not exceed 10 percent of the share capital. By the end of 2018, the Board had granted 52,067,432 subscription rights under this authorization and the total number of outstanding subscription rights was 88,252,432.

The annual general meeting in 2018 authorized the Board to complete one or more placements by issuing up to 117,187,161 shares, equivalent to NOK 12,890 thousand, which at the time corresponded to 10 percent of the Company's registered share capital.

Further 490,000 subscription rights have been granted, 0 exercised, and 3,010,000 forfeited and expired to date in 2019. The total number of subscription rights on 30 April 2019 is 85,732,432, hence well within the 10 percent limitation. The authorization expires at the annual general meeting 2019.

Principal risks

Thinfilm is exposed to various risks of a financial and operational nature. It is the duty of the board to present the principal risks of Thinfilm and its business. The company's predominant risks are market and business risks, summarized in the following points:

I Many of the emerging markets that Thinfilm targets, as well as the markets it intends to pursue, are still immature for in-market deployments and there is a potential risk of delays in the timing of sales.

II To a certain extent, Thinfilm is dependent on continued collaboration with technology, material, and manufacturing partners.

III There may be process and product-development risks that arise related to cost-functionality competitiveness of the products Thinfilm is developing.

IV The company is not yet cash generative and operates at a loss, and there is uncertainty tied to the generation of future cash flow. The company plans to raise funds by the end of May 2019. The company's cash balance by the end of March 2019 was USD 20.0 million.

Going forward, Thinfilm foresees four important revenue sources:

1 Sales of its own designed products, and;

2 Sales of conventional NFC labels manufactured for Thinfilm and suitably encoded for use by its platforms, and;

3 Monetization of Thinfilm's CNECT software platform, and;

4 Licensing/royalty revenue, where partners and customers pay for using the company's intellectual property rights (IPR).

Thinfilm is exposed to certain financial risks related to fluctuation of exchange rates and interest level. Reference is made to Note 4 to the consolidated financial statements.

On 31 December 2018, equity amounted to USD 75,588 thousand, representing 80% of the gross balance sheet and 405% of the share capital.

Going concern

The board confirms that the financial statements of the group as well as the parent company have been prepared under the going concern assumption. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 million. Per end of Q1 2019, the company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

To address the funding requirements of the consolidated entity the board of directors has, since early Q1 2019, undertaken the following initiatives:

- Entered into discussions to secure additional equity funding from current and new shareholders;
- Engaged Carnegie AS and DNB Markets, a part of DNB Bank ASA, to act as its financial advisors;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued their focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources.

The directors are confident that they will be able to complete a capital raising that will provide the consolidated entity with required funding to support its planned level of activity under the new strategy after the reorganization. Based on this it is appropriate to prepare the financial statements on the going concern basis. However, in the event that the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the company and consolidated entity will continue as going concerns.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

Corporate governance

The board considers that the attention to corporate governance is beneficial for companies and investors. Thinfilm seeks to comply with the Norwegian code of practice for corporate governance to the degree possible. The board's review of corporate governance has been included in the annual report.

Outlook

Thinfilm sees Near Field Communication (NFC) wireless tags as an enabler for smart product connectivity and a massive market opportunity across targeted use cases and verticals. This market is driven by a rapidly growing availability of NFC-enabled smartphones worldwide, with the NFC Forum estimating that there are currently more than two billion of these devices in circulation worldwide.

The company continues to build a leading market position by enabling large-scale NFC deployments together with partners and customers. While the non-payment NFC market is still nascent, Thinfilm management is confident that this technology will see significant market adoption over time, garnering more support from key ecosystem stakeholders and further evidence of adoption by major partners. During the coming year, Thinfilm expects to enter into significant strategic partnerships which will further enhance the value of its hardware and software solutions.

The demand outlook for Thinfilm's NFC solutions depends on the degree to which major brands deploy NFC tags as an integral part of their primary or secondary packaging. While the forecasted size of the NFC connected market is substantial, the slower-than-expected deployment rate of NFC tags on package creates uncertainty.

A corporate restructuring in early 2019 refocused the company's priorities. Following these changes management retains the long term outlook conveyed in the Q4 2018 outlook. Customer case studies have demonstrated that Thinfilm's product solution addresses customer pain points of authentication, anti-tampering and mobile marketing use cases, in particular in the wine & spirits, health & beauty and over-the-counter pharmaceutical verticals. We believe that Thinfilm can take a leading position in the NFC market by delivering a comprehensive solution offering and, in turn, drive unit volumes into the billions. Thinfilm offers fully integrated solutions which incorporate NFC tags, integrating them into products and delivering data and actionable insights via the CNECT® cloud-based platform at scale. Thinfilm's offer is clearly differentiated to product solutions from other providers.

Organization, personnel and the environment

The board of directors would like to thank Thinfilm management team members, staff, contractors, and ecosystem partners for their dedicated efforts throughout 2018 and early 2019.

Organization

Thinfilm made significant investments in 2018 to professionalize and improve daily operations across the organization, develop its teams, and expand use of its quality management systems, and its enterprise resource planning, knowledge management, and supply chain management platforms.

Thinfilm passed an audit to the new ISO 9001:2015 standard with excellent results, a reflection of the major improvements made to the QMS throughout the year and the company's drive for continuous improvement.

Thinfilm continued to develop and invest in its enterprise resource planning (ERP), which has formalized and significantly improved processes and procedures related to supply chain, accounting, purchasing, order fulfillment, and inventory control. The company will continue to further optimize and develop the system.

Personnel

At the date of the report, Thinfilm had 145 full-time employees, of which 65 are in their termination period. As a product solutions-focused company with global scope of operations and international reach, driving successful recruitment practices and appropriate development of staff is central to Thinfilm's success. The frontline teams added staff members in the US and EMEA and structured their respective organizations to optimize go-to-market activities and customer acquisition efforts. Additional key staff members were added in marketing, software, and quality management.

During 2018, Thinfilm was able to hire a significant number of highly qualified employees with valuable industry experience and unique skill sets. The board is pleased that the company possesses the ability to attract, recruit, and retain staff members with world class competence and expertise across a range of disciplines.

Environment

The board believes that the working environment at Thinfilm is safe, stimulating, challenging, and collaborative for all employees, and complies fully with relevant laws and regulations in the regions within which Thinfilm operates.

Thinfilm employees are covered by benefit programs that are in line with practices in their respective countries. Throughout 2018, there were 2 minor workplace injuries that resulted in an absence from work, however no significant incidents or accidents involving equipment or other assets occurred during the year. Instances of sick leave during 2018 were relatively low and were consistent with previous years.

In addition to employees of the parent company and its subsidiaries, Thinfilm has contracted specialists in business development, technology, design, accounting, and other services. Patenting and other intellectual property rights (IPR) services are procured from AWA Patent, from an IPR consultant and from external legal counsel as needed.

Thinfilm creates and supports equal opportunity for all employees in all aspects of the workplace. As of 31 December 2018, the share of female employees in the company was approximately 28%, which is higher than the reported level in 2017. The current management team consists of six men and one woman.

Equality is one important aspect considered when recruiting new employees. The board considers the firm's equality standards and measures to be adequate and has not found reason to initiate any corrective measures.

Thinfilm appreciates its corporate responsibility to protect the environment. Thinfilm operates its business to comply with the environmental, health and safety regulations required for the materials and processes needed to manufacture its products. Thinfilm follows all relevant environmental rules and regulations, as discussed in the Corporate Responsibility Statement in this report.

Board of directors

Thinfilm's board of directors consists of two women and two men, the composition of which satisfies the gender requirements of the Norwegian Public Limited Companies act. The board includes Mr. Morten Opstad (Chairman), Ms. Preeti Mardia, Mr. Tor Mesøy and Dr. Laura Oliphant.

At the company's Annual General Meeting on 4 May 2018, Morten Opstad was re-elected as Chairman for the second year of his term. Preeti Mardia was re-elected for another two-year term. Richard P. Bernstein was elected as board member for a period of two years, replacing Rolf Åberg. Mr. Bernstein resigned from the board on 25 February 2019 for personal reasons.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad Chairman	Tor Mesøy Board Member	Preeti Mardia Board Member	Laura Oliphant Board Member

Kevin Barber
Managing Director (CEO)

Thin Film Electronics ASA Group
Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Amounts in USD 1,000	Note	2018	2017
Sales revenue	14	1,288	2,980
Other revenue	15,16,17	0	2,040
Other income	15,16,17	2,110	887
Total revenue and other income		**3,397**	**5,907**
Salaries and other payroll costs	18	(33,244)	(30,096)
Other operating expenses	19,23	(21,229)	(28,898)
Depreciation, amortization and impairment loss	6,7,8	(19,546)	(6,991)
Operating profit (loss)		**(70,622)**	**(60,078)**
Interest income		292	343
Other financial income		66	1,384
Interest expense		(1,042)	(737)
Other financial costs		(404)	(616)
Net financial items		**(1,089)**	**374**
Profit (loss) before income tax		**(71,711)**	**(59,704)**
Income tax expense	20	(11)	122
Profit (loss) for the year		**(71,722)**	**(59,581)**
Profit (loss) per share for profit attributable to the equity holders of the Company during the year			
Basic and diluted, USD per share	22	(USD0,06)	(USD0,07)
Profit (loss) for the year		**(71,722)**	**(59,581)**
Other Comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation		(198)	456
Total comprehensive income for the year		**(71,921)**	**(59,126)**

Consolidated Statements of Financial Position

Amounts in USD 1,000	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	22,548	20,522
Building — financial lease	8	10,375	11,534
Intangible assets	7	2,353	2,190
Total non-current assets		**35,276**	**34,246**
Current assets			
Inventory	9	2,640	709
Trade and other receivables	10	8,862	16,245
Cash and bank deposits	11	32,588	98,120
Total current assets		**44,090**	**115,073**
Total assets		**79,366**	**149,319**
EQUITY	12		
Ordinary shares		18,660	18,660
Other paid-in capital		321,575	319,817
Currency translation		(13,719)	(13,520)
Retained earnings		(266,806)	(195,083)
Total equity	**25**	**59,709**	**129,874**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	21	—	—
Long-term financial lease liabilities	8	11,525	12,125
Total non-current liabilities		**11,525**	**12,125**
Current liabilities			
Trade and other payables	13,8	8,132	7,320
Total current liabilities	**24**	**8,132**	**7,320**
Total equity and liabilities		**79,366**	**149,319**

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad
Chairman

Tor Mesøy
Board Member

Preeti Mardia
Board Member

Laura Oliphant
Board Member

Kevin Barber
Managing Director (CEO)

Consolidated Statements of Changes in Equity

Amounts in USD 1,000	Note	Share capital	Other paid-in equity	Currency translation	Retained earnings	Total
Balance at 1 January 2018		**18,659**	**319,819**	**(13,520)**	**(195,084)**	**129,874**
Share based compensation			1,771			1,771
Private placement (2017 residual cost)			(15)			(15)
Comprehensive income				(198)	(71,722)	(71,921)
Balance at 31 December 2018	**12**	**18,659**	**321,575**	**(13,719)**	**(266,806)**	**59,709**
Balance at 1 January 2017		**13,876**	**219,097**	**(13,976)**	**(135,503)**	**83,495**
Share issue employees		34	574			608
Share based compensation			2,220			2,220
Private placement		4,749	97,928			102,677
Comprehensive income				456	(59,581)	(59,126)
Balance at 31 December 2017	**12**	**18,659**	**319,819**	**(13,520)**	**(195,084)**	**129,874**

Consolidated Cash Flow Statements

Amounts in USD 1,000	Note	2018	2017
Cash flows from operating activities			
Profit (loss) before income tax		(71,711)	(59,704)
- Share-based remuneration	18	1,771	2,220
- Depreciation and amortization	6	3,947	3,966
- Write down inventory, machinery and intangible assets	6	14,832	3,175
- Loss/(gain) on sale of fixed assets	6	(479)	(350)
- Taxes paid for the period		(91)	(38)
- Changes in working capital and non-cash items		(686)	(1,588)
Net cash from operating activities		**(52,418)**	**(52,319)**
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(6,004)	(15,910)
Prepayments relating to purchase of property, plant and equipment	10	(5,005)	(11,484)
Purchases of intangible assets		—	(63)
Capitalized development expenses	7	(1,580)	(702)
Proceeds from sale of fixed assets	6	1,389	1,052
Interest received		291	343
Net cash from investing activities		**(10,908)**	**(26,764)**
Cash flows from financing activities			
Proceeds from issuance of shares	12	(15)	103,285
Financial lease payments	8	(600)	(456)
Net cash from financing activities		**(615)**	**102,829**
Currency translation effects on cash and bank deposits		(1,590)	170
Net increase (decrease) in cash and bank deposits		**(65,532)**	**23,915**
Cash and bank deposits at the beginning of the year		98,120	74,205
Cash and bank deposits at the end of the year		**32,588**	**98,120**

Notes to the Consolidated Financial Statements

1. Information about the group

Thin Film Electronics ASA ("Thinfilm ASA" or "the company") was founded on 22 December 2005. Reference is made to Note 28 for a description of the subsidiaries consolidated into the parent company Thin Film Electronics ASA.

The objectives of the Company shall be to enable Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTQX International.

These group consolidated financial statements were resolved by the Board of directors on 30 April 2019.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied. For the purpose of ease of reading, the terms "balance sheet" and "accounting" and variations of these have been used interchangeably with the IFRS terms "statement of financial position" and "recognition".

2.1 Basis of preparation

The annual financial statements have been prepared on a historical cost basis. The financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies adopted are consistent with those of the previous financial year, except for the below descriptions. IFRS is continuously developed and recently published standards, amendments and interpretations have been reviewed and considered. None of the new standards, amendments and interpretations that apply as of 1 January 2018 had any impact on the net result or equity of Thinfilm in 2018. Reference is made to Note 2.20 for a description of changes in IFRS.

Going concern

The board confirms that the financial statements of the group as well as the parent company have been prepared under the going concern assumption. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 million. Per end of Q1 2019, the company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

To address the funding requirements of the consolidated entity the board of directors have, since early Q1 2019, undertaken the following initiatives:

- Entered into discussions to secure additional equity funding from current and new shareholders;
- Engaged Carnegie AS and DNB Markets, a part of DNB Bank ASA, to act as its financial advisors;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and

- Continued their focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources.

The directors are confident that they will be able to complete a capital raising that will provide the consolidated entity with required funding to support its planned level of activity under the new strategy after the reorganization. Based on this it is appropriate to prepare the financial statements on the going concern basis. However, in the event that the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the company and consolidated entity will continue as going concerns.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. 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 give it 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 in 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

2.3 Foreign currency translation

a) Functional and presentation currency

The consolidated financial statements are presented in US dollar (USD).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

c) Group companies

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are included in other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are reversed and recognized in the income statement as part of the gain or loss on the sale.

2.4 Property, plant and equipment

Property, plant and equipment is mainly comprised of construction in progress on the roll-to-roll line, laboratory test equipment, and office equipment. Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method as follows:

- Laboratory equipment — 5 years
- Office equipment — 3–5 years
- Office furnishings and fittings — up to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.5 Inventory

Inventory, components and components under production are valued at the lower of cost and net realizable value after deduction of obsolescence. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined using the standard cost method. The FIFO principle is applied. Work in progress includes variable cost and non-variable cost which can be allocated to items based on normal capacity. Obsolete inventory is written down completely.

2.6 Intangible assets

a) Patents and licenses

Acquired patents and licenses are stated at historical cost. Patents and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents and licenses over their estimated useful lives. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In January 2014, Thinfilm acquired an IP portfolio consisting of patents. These assets are initially recognized at fair value and subsequently measured at cost, less accumulated amortisation and impairment losses.

b) Research and development

Research costs are expensed as they are incurred. An intangible asset arising from development expenditure on an individual project is capitalized only when the Group reliably can measure the expenditure and can demonstrate;

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- How the asset will generate future economic benefits
- The group's ability to obtain resources to complete the project

Development costs are amortized over the period of expected use of the asset. Capitalized development expenses relate to Speedtap™. Thin Film Electronics estimates that the present value of future cash flows will exceed the amount of capitalized development expenses. EAS (Electronic article surveillance) costs were previously capitalized, but as a result of the slower than expected market development, these have been impaired. Please ref. Note 7 for further details. Capitalized costs regarding Memory™ were disposed of in 2017 as part of an asset transfer agreement with Xerox.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill are reviewed for possible reversal of any previous impairment at each reporting date.

2.8 Trade receivables and other receivables

Trade receivables and other short-term receivables are measured at initial recognition at fair value and subsequently measured at amortized cost. Short-term receivables, which are due within three months, are normally not discounted. Impairment of receivables is evaluated on a case-by-case basis, and realized losses have historically been low. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

2.9 Cash and bank deposits

Cash and bank deposits include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and any bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to raising new equity are shown as a deduction to the equity, net of tax.

2.11 Trade payables

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

2.12 Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

2.13 Employee remuneration

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

The company only holds defined contribution pension plans. Contributions are expensed and paid when earned.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods

The Group manufactures and sells NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. The performance obligation is to deliver a distinctive goods, and the performance obligation are satisfied when the control are transferred to the customer being at the point of delivery of the goods. Sales of goods are recognized when the performance obligation are satisfied, the costs incurred or to be incurred in respect of the transaction can be measured reliably and Thinfilm retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Group provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted.

2.15 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants are recognised as other operating revenue over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

2.16 Leases

2.16.1 Finance lease

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

2.16.2 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases and the leasing fee is charged to the profit and loss statement.

2.17 Share based remuneration

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The fair value of the instruments is determined using a Black & Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest.

For social security contribution related to equity-settled share-based payment transactions with employees, a liability is recognized. The liability is initially measured at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

2.18 Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

2.19 Segment information

Operating segments, according to IFRS 8, are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance and making strategic decisions, has been identified as the Chief Executive Officer (CEO). Based on Thinfilm's current deliveries, performance obligations, customer characteristics, and other information, it has been assessed that Thinfilm has only one operating segment. Hence, primarily information according to IFRS 8 paragraphs 32–34 is provided.

2.20 Changes in accounting principles

The following amendments to IFRSs are effective for an accounting period beginning after 1 January 2018.

- IFRS 15 was issued May 2014 and establishes a new five step model that applies to revenue arising from contract with customers. Under IFRS 15 revenue is recognized at the amount that reflects the consideration to which an entity expects to be entitled to in exchange for goods or services to a customer. This revenue standard supersedes all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group has implemented a modified retrospective application of IFRS 15. In connection to adoption of IFRS 15, and in association to IFRS guidelines on revenue recognition, the group has decided to reclassify government grants from Other operating revenue to Other income for the year 2018. The adoption of IFRS 15 did not have any further material effects on the disclosures or amounts recognized in the Group's consolidated financial statements.
- IFRS 9 Financial Instruments was issued in July 2014 and introduces new classification and measurement requirements, a new hedge accounting model and a new impairment model. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements. There has been no change relating to classification or measurement. The Group does not hold long-term loans, equity investments, or non-vanilla financial assets, and does not hedge.
- Annual improvements to IFRS Standards 2014–2016 Cycle: Amendments to IFRS 1 and IAS 28. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements.
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements.

2.21 Approved standards and interpretations not yet in effect

- IFRS 16 leases will apply for annual periods beginning after 1 January 2019. IFRS 16 specifies how to recognize, measure and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The group plans to adopt the new standard on the required effective date. Currently all leases are classified as operating leases, with the exception of the San Jose site building which is already booked as a financial lease (please see Note 8). The land component of the San Jose site will be booked to the balance sheet as a financial lease in Q1 2019, with a book value of USD 2,036 thousand. Comparative periods will not be restated. The Group has elected to not apply the change to leases for which the lease term ends within 12 months of the date of initial application. There will be no further material changes as a result of the implementation of IFRS 16.

In addition to these standards, the following new and revised IFRSs have been issued, but are not yet effective, and in some cases have not yet been adopted by the EU. These new and revised standards are not expected to materially impact the Group.

- Annual improvements to IFRS Standards 2015–2017 Cycle
- IFRS 14 Regulatory Deferral Accounts
- IFRS 17 Insurance Contracts
- Amendments to IAS 28: Long term interest in associates and joint ventures
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

3. Segment information

Thinfilm's business consists of sale of products, services and development of printed memory and systems that include memory, sensing, display, and wireless communication. The CEO has determined that the Group has only one operating segment. Consequently, no additional segment information is disclosed. Reference is made to Note 6, 14, 15 and 16 for entity-wide disclosures.

4. Capital management and financial risk

4.1 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of equity and current and non-current non-interest bearing liabilities. The Group is not subject to any externally imposed capital requirements apart from the requirements according to national laws and regulations for limited liability companies. The Group has no interest-bearing long-term debt except a financial lease liability and is not subject to loan covenants.

4.2 Financial risk factors

Thinfilm is exposed to certain financial risks related to exchange rates and interest level. These are, however, insignificant compared to the business risk.

a. Market risk factors

(i) Currency risk

The Group has the major part of its operations in USA while the majority of the cash is held in NOK. Increased value of USD relative to NOK therefore constitutes a currency risk. The management monitors this risk and will take the appropriate actions to address it as the situation requires.

The currency risk related to the balance sheet is mostly related to the net investment in the Swedish subsidiary. The management monitors this risk but has not initiated particular actions to reduce it.

(ii) Interest risk

Thinfilm does not have any material interest-bearing debt.

b. Credit risk

The company has some credit risks relating to receivables. The loss on receivables has historically been low.

As a part of the relocation of Thinfilm's US headquarters in the first two quarters of 2017 a USD 1,600 thousand Letter of Credit has been issued to the new landlord. The Company has in addition entered into a Tenancy

Guarantee with the new landlord. The guarantee is given to secure payment of the lease rent. The initial guarantee liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2018, the guarantee liability amounted to USD 4,500 thousand. Apart from that, Thinfilm has not issued guarantees or mortgages.

c. Liquidity risk

Thinfilm does not have any material interest-bearing debt and has hitherto been able to raise adequate equity. As described in the section Share Capital in the Report from the Board of Directors, the Company raised NOK 881 million in gross proceeds from several new and existing investors in Q4 2017. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 million. Per end of Q1 2019, the Company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

4.3 Fair value estimation

The carrying amounts of trade and other receivables and payables are considered to be the same as their fair values, due to their short-term nature. Accounts payable and accrued liabilities with due date within 12 months have been recognized at carrying value. The fair value of financial liabilities has been estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

4.4 Financial instruments

Thinfilm is not party to any transactions or financial instruments which are not recorded in the balance sheet or otherwise disclosed.

5. Critical accounting estimates and judgments

The financial statements of the group have been prepared based on the going concern assumption. Please refer to Note 2 for details regarding going concern. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The estimates and assumptions in the financial statements of the group mainly relate to property, plant and equipment, share based compensation, deferred tax assets, accounting for research and development and intangible assets.

Property, plant and equipment (PPE):

In connection to establishing US headquarters in San Jose, Thinfilm has invested in PPE, including a roll-based production line. Determining whether equipment/a tool a) is under construction b) is ready for use in production c) will generate sufficient net future benefits on a stand-alone basis or as part of a production line, requires judgment to be applied. In addition, Thinfilm has contractual liabilities primarily related to the new roll-based production line. The slower customer adoption of NFC tags on-package than anticipated triggered impairment testing relating to these assets. See Notes 6 and 29 for quantification of book values and impairments.

Intangible assets:

In connection with the purchase of certain certain assets from Kovio, Inc., in January 2014, Thinfilm acquired an IP portfolio of ninety patent families. In addition, Thinfilm has acquired certain licenses and capitalized certain development costs relating to printed batteries. These assets are recognized in the balance sheet as intangible assets and valued at fair value less accumulated amortization and impairment losses. The book value is dependent on the successful development of the technology in the Parent Company and in the subsidiaries. As of 31 December 2018 intangible assets of USD 1,102 thousand are recognized in the balance sheet. See Note 7.

Share based compensation:

Thinfilm estimates the fair value of options at the grant date. As the subscription rights are structured equal to an option, the Black-Scholes-Merton option pricing model is used for valuing the share subscription rights. The model uses the following parameters; the exercise price, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares, and the risk-free interest rate for the life of the option. The cost of share based remuneration is expensed over the vesting period. Such estimates are updated at the balance sheet date. Changes in this estimate will impact the expensed cost of share based remuneration in the period. The variables, assumptions and relevant theoretical foundations used in the calculation of the FV per share subscription right is estimated according to the IFRS 2 standard.

Deferred tax assets:

Deferred tax assets related to losses carried forward is recognized when it is probable that the loss carried forward may be utilized. Evaluation of probability is based on historical earnings, expected future margins and the size of the order backlog. Future events may lead to these estimates being changed. Such changes will be recognized when reliable new estimates can be made. No deferred tax assets have been recognized in the balance sheet as of 31 December 2018.

Research and development:

Research costs are expenses as incurred. Development expenditure on an individual project is recognised as an intangible asset only when Thinfilm can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, the Company's intention and capability of completing the development and realize the asset, and the net future financial benefits of use or sale. Determining whether an expense meets the definition of a development cost requires judgment to be applied. Capitalized development costs as of 31 December 2018, amounted to USD 1,252 thousand. See Note 7.

Financial lease:

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, California. The building element of the lease agreement is classified as a financial lease, where the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. Determining whether the lease should be classified as a financial or operating lease requires judgment as the present value calculation for future lease payments is very sensitive to interest rates assumptions. If different interest rate assumptions had been made it could be argued that the present value of the minimum lease payments does not amount to substantially all of the fair value of the leased asset, hence resulting in the lease being accounted for as an operating lease. Thinfilm assesses whether the lease has been impaired by applying the requirements in IAS 36 — Impairment of assets. As of 31 December 2018, the book value of the leased building is USD 10,375 thousand. See Note 8. As described in Note 2, the land element of the San Jose site will also be booked to the balance sheet as a financial lease starting January 1, 2019, as a result of the implementation of IFRS 16. The book value on that date will be USD 2,036 thousand.

6. Property, plant and equipment

Amounts in USD 1,000	Laboratory and production equipment
Useful life, years	5
2018	
Accumulated cost on 1 January 2018	**26,910**
Additions	19,024
Sale/disposal of assets	(692)
Exchange differences	2
Accumulated cost 31 December 2018	**45,244**
Accumulated depreciation and impairment	
Accumulated depreciation on 1 January 2018	(6,388)
Depreciation expenses	(2,743)
Impairment	(13,565)
Exchange differences	1
Accumulated depreciation and impairment 31 December 2018	**(22,695)**
Net book value 31 December 2018	**22,548**

As per 31 December 2018, property, plant and equipment include construction in progress amounting to USD 16,651 thousand and relating to roll-based production line.

Other receivables include USD 4,846 thousand prepayments related to investment in equipment and machinery that had not been received from the suppliers as of 31 December 2018.

The total of Property, plant and equipment located in Sweden is USD 32 thousand (2017: 490 thousand) and in the US is USD 22,458 thousand (2017: 20,301 thousand). Property, plant and equipment is not held in any other countries.

2017	
Accumulated cost on 1 January 2017	14,398
Additions	16,344
Impairment at cost	(484)
Reclassifications	113
Sale/disposal of assets	(4,032)
Exchange differences	572
Accumulated cost 31 December 2017	**26,910**
Accumulated depreciation and impairment	
Accumulated depreciation on 1 January 2017	(5,242)
Depreciation expenses	(2,696)
Impairment	(1,322)
Sale/disposal of assets	3,129
Exchange differences	(257)
Accumulated depreciation and impairment 31 December 2017	**(6,388)**
Net book value 31 December 2017	**20,522**

2018 impairments of USD 13,565 thousand are the result of slower than expected market adaption, as decribed further below. 2017 impairments are primarily related to equipment for the Memory and sensor programs that were discontinued.

Property, plant and equipment valuation

Management's strategic initiative for PDPS roll-to-roll technology and factory

As announced by the Company 15 March 2019, Thinfilm has placed the PDPS R2R line on pause and the decision will not be reassessed unless there is very significant market growth. This triggers an impairment test on the company's assets. In accordance with IAS 36 recoverable amount is the higher of fair value less costs of disposal or value in use. As the Company does not foresee to use PDPS R2R technology in its own business, fair value less costs of disposal on a tool-by-tool basis has been applied to assess the recoverable amount. More specifically, the following assessments have been made:

- **New roll-to-roll (R2R) printed electronics equipment:** The R2R equipment ranges from 0 to 12 months old and has not yet been placed in ordinary production. Whereas the R2R equipment line is unique as a whole when including all the individual units, the individual modular components of the line are not unique and the tools themselves are reusable for different product families. The R2R modules are not only applicable to NFC-related production, but with minor modifications are also applicable for several other industries. These tools are also very much part of the standard offering to the various equipment vendors. In light of this, it has been assessed that a fair market value for these tools is the purchase price (which approximate the carrying value) included a 15% discount related to costs associated with shipping and modifications.
- **Building/cleanroom improvements related to production equipment:** As the fair value less costs of disposal methodology is used to assess the individual production tools, associated building and cleanroom improvements that has been capitalized have been fully impaired;
- **Old equipment:** Old equipment (including the S2S line, and other lab/fab/back-end equipment) have been valued with same approach as for R2R.

It should be noted that the fair value less costs of disposal used is subject to assessments as there is no observable market place for such equipment. The prices are considered to be level 3 inputs in the fair value hierarchy in accordance with IFRS 13. The estimates are therefor subject to uncertainty.

An impairment of USD 13,565 thousand has been booked to the production-related property, plant, and equipment balance as of 31 December 2018 following this assessment.

Regardless of the impairment assessment described above, management views the printed electronics technology and factory assets as broadly applicable to multiple potential applications beyond NFC and intends to maximize the value creation from these tools.

Management will make all efforts to maximize the value, including scenarios of maintaining the full production line integrated, rather than selling it piece by piece. A multi-tiered strategy has therefore been initiated. Management expects these efforts to continue over some time.

7. Intangible assets

Amounts in USD 1,000	Purchased intellectual property	Capitalized development costs	Total
Amortization period, years (linear)	13–16		
2018			
Acquisition cost			
Accumulated cost on 1 January 2018	1,969	847	2,816
Additions	—	1,582	1,582
Impairment at cost	(154)	(1,177)	(1,331)
Accumulated cost 31 December 2018	**1,815**	**1,252**	**3,067**
Accumulated amortization and impairment on 1 January 2018	(626)	—	(626)
Amortization	(151)	—	(151)
Accumulated amortization impaired assets	62	—	62
Amortization and Impairment 31 December 2018	**(715)**	**—**	**(715)**
Net book value 31 December 2018	**1,100**	**1,253**	**2,353**
2017			
Acquisition cost			
Accumulated cost on 1 January 2017	3,250	444	3,695
Additions	63	702	765
Impairment at cost	(1,344)	—	(1,344)
Disposals (at cost)	—	(300)	(300)
Accumulated cost 31 December 2017	**1,969**	**847**	**2,816**
Accumulated amortization and impairment on 1 January 2017	(553)	—	(553)
Amortization	(199)	—	(199)
Accumulated amortization impaired assets	126	—	126
Amortization and Impairment 31 December 2017	**(626)**	**—**	**(626)**
Net book value 31 December 2017	**1,343**	**847**	**2,190**

As a result of slower customer adoption of NFC tags on-package than anticipated, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the EAS product will not at this time be commercialized, and the USD 1,177 thousand capitalized development work on EAS has been impaired in full.

2017 impairments comprise patents related to the Memory™ and sensor programs that were discontinued.

The amount of research and development expenditure recognized as an expense in 2018 amounts to USD 9,907 thousand (2017: USD 16,549 thousand). This was mainly related to cost incurred in connection with research & development relating to roll-to-roll printing processes in 2018, in addition to printed batteries and displays in 2017.

8. Financial lease

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, CA. The lease in San Jose expires in September 2028. The building element of the lease agreement is classified as a financial lease as the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. The land element of the lease has been accounted for separately as an operating lease.

Amounts in USD 1,000	Building
Depreciation period, years (linear)	12
2018	
Net value on 1 January 2018	11,534
Adjustments	(105)
Depreciation	(1,053)
Net book value on 31 December 2018	**10,375**
2017	
Net value on 1 January 2017	12,607
Depreciation	(1,073)
Net book value on 31 December 2017	**11,534**

Amounts in USD 1,000	Minimum lease payments	Present value of minimum lease payments
Finance liabilities are payable as follows at		
Year ended 31 December 2018		
Finance lease liabilities are payable as follows:		
Less than one year	1,589	1,493
Between one and five years	6,812	5,481
More than five years	9,285	5,697
Total	**17,686**	**12,671**
Less future finance charges	(5,015)	
Present value of minimum lease payments	**12,671**	**12,671**

9. Inventory

Amounts in USD 1,000	2018	2017
Finished goods	150	167
Raw materials	155	131
Work in progress	2,336	411
Net book value on 31 December 2018	**2,640**	**709**
Inventory reserved	2,488	1,736

10. Trade and other receivables

Amounts in USD 1,000	31 December 2018	31 December 2017
Customer receivables	868	1,776
Accrued revenue not yet invoiced	75	153
Other receivables, prepayments	7,781	14,269
Income tax prepayments	137	47
Less: provision for impairment of receivables	—	—
Receivables – net	**8,862**	**16,245**
Of this, receivables from related parties (Note 23)	—	—

Of other receivables, prepayments of USD 4,846 thousand (USD 11,484 thousand in 2017) relate to equipment for San Jose site. In addition, USD 1.2 million of other receivables relate to government grant receivables.

All receivables are due within one year and book value approximates fair value.

Total receivables are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2018	31 December 2017
Denominated in NOK	2,254	1,738
Denominated in SEK	334	342
Denominated in USD	6,175	8,496
Denominated in HKD	1	42
Denominated in GBP	34	5,131
Denominated in other currencies, including EUR, CNY and CHF	62	496
Total	**8,862**	**16,245**

Of net receivables USD 8,466 thousand were not past due as per 31 December. USD 13 thousand were past due by less than 30 days.

USD 301 thousand were past due between 31 and 90 days, and USD 82 thousand were past due by more than 90 days.

Impairment of receivables is evaluated on a case-by-case basis, and realized losses have historically been low. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

11. Cash and bank deposits

Amounts in USD 1,000	31 December 2018	31 December 2017
Cash in bank excluding restricted cash	30,572	96,420
Deposit for Letter of Credit	1,629	1,604
Deposit for withheld tax (restricted)	387	96
Total	**32,588**	**98,120**

Payable withheld tax amounts in Norway and Sweden at 31 December 2018 were USD 387 thousand and USD 0 thousand (2017: USD 82 thousand and USD 14 thousand).

12. Share capital, warrants and subscription rights

	Number of shares	Number of warrants
Shares at 1 January 2018	**1,171,871,617**	**57,017,326**
Expiry of Warrants, 16 March	—	(17,017,326)
Expiry of Warrants, 14 July	—	(40,000,000)
Shares at 31 December 2018	**1,171,871,617**	**—**
Shares at 1 January 2017	**816,759,117**	**88,267,326**
Share issue to employees, 24 February	105,000	—
Share issue to employees, 5 May	2,057,500	—
Share issue to employees, 11 August	450,000	—
Private Placement October, Tranche 1	81,500,000	—
Private Placement November, Tranche 2	271,000,000	—
Expiry of Warrants, 14 November	0	–31,250,000
Shares at 31 December 2017	**1,171,871,617**	**57,017,326**

Number of warrants and subscription rights	1 January – 31 December 2018	1 January – 31 December 2017
Warrants and subscription rights opening balance	122,422,326	127,584,826
Grant of incentive subscription rights	52,067,432	33,550,000
Terminated, forfeited and expired subscription rights	–29,220,000	–4,850,000
Exercise of subscription rights	—	–2,612,500
Allotment of warrants	—	—
Exercise and expiry of warrants	–57,017,326	–31,250,000
Warrants and subscription rights closing balance	**88,252,432**	**122,422,326**

2018:

The number of shares remained unchanged during the year 2018. There were no exercises of employee share options during the year.

2017:

On 19 October 2017, it was announced that the Company raised NOK 881 million (approx. USD 110 million) in gross proceeds through a private placement consisting of 352,500,000 new shares (the "Private Placement"). The subscription price in the Private Placement was NOK 2.50 per share, equivalent to a 7.8% premium to the closing price on the Oslo Stock Exchange 18 October 2017. The Private Placement was divided into two tranches; Tranche 1 consisting of 81,500,000 million shares and a Tranche 2 consisting of 271,000,000 shares. The Tranche 1 shares were issued based on an authorization to the Board of Directors granted by the Company's Annual General Meeting on 5 May 2017. The completion of the Tranche 2 of the Private Placement was approved by an Extraordinary General Meeting held on 13 November 2017. Tranche 1 shares were subscribed for by several investors. Tranche 2 shares were subscribed for by Woodford Investment Management, Invesco Asset Management and several other investors.

Several employees exercised vested incentive subscription rights on several occasions in 2017, in a combined total of 2,612,500 shares at average price NOK 1.98 per share.

13. Trade and other payables

Amounts in USD 1,000	31 December 2018	31 December 2017
Trade payables	1,120	1,410
Public duties, withheld taxes and social security taxes due	696	831
Share-based liability (subscription rights), employer´s tax	0	86
Accrued holiday pay and other accrued salary	2,223	2,555
Current lease liabilities	635	562
Other accrued expenses	3,458	1,875
Total	**8,132**	**7,320**
Of this, payables to related parties (Note 23)	0	0

Total payables and accruals are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2018	31 December 2017
Denominated in NOK	1,399	1,463
Denominated in SEK	610	1,639
Denominated in USD	5,973	3,973
Denominated in HKD	11	60
Denominated in other currencies, including GBP, EUR, CNY and CHF	140	184
Total	**8,132**	**7,320**

14. Sales revenue

The breakdown of the sales revenue is as follows:

Amounts in USD 1,000	2018	2017
Sales of goods	1,267	1,644
Rendering of services, technology access revenue	21	1,336
Total	**1,288**	**2,980**

The Group is domiciled in Norway. The sales revenue from external customers in Norway amounts to USD 0 thousand (2017: 1).

The total sales revenue from external customers from other countries is USD 1,288 thousand, of which USD 218 thousand related to sales to customers in the United States. In 2017 USD 235 thousand related to sales to customers in the United States out of the total sales revenue of USD 2,979 thousand.

The breakdown of the major components of the total of revenue from external customers from other countries is disclosed above.

Sales revenue of approximately USD 760 thousand (2017: USD 2,613 thousand) are derived from single customers representing 10% or more of total sales revenue.

No warranty costs, penalties or other losses were related to sales revenue in 2018.

15. Other revenue

Amounts in USD 1,000	2018	2017
Government grants and funded development projects	0	2,040
Total	**0**	**2,040**

In 2018, in connection with the implementation of IFRS 15, and aligned with IFRS guidelines on revenue recognition, the group has decided to reclassify government grants from Other operating revenue to Other income.

Reference is made to Note 16 "Government grants" and Note 17 "Other income" for details on the Government grants for FY2018.

16. Government grants

SkatteFUNN grants for research and development projects are contingent on pre-approved project applications and approved completion reports to the Research Council of Norway. Thinfilm has an approved SkatteFUNN project covering the period 2018–2020. The recognised amount in 2018 represents Thinfilm's estimated claim based on the costs incurred related to the relevant research and development projects. This accounting treatment is in line with prior years and standard practice in Norway. The SkatteFUNN project accounts should be subject to audit procedures and the costs will be assessed by the Norwegian Tax Administration through the tax filing system.

A recent update to the Norwegian tax guidelines (Skatte-ABC 2018/19) published by the Norwegian Tax Administration has created uncertainty regarding the requirements for the 2018 SkatteFUNN grants. The Norwegian Tax Administration has announced it will review and clarify its position later in 2019. Thinfilm has accounted for the SkatteFUNN grant in accordance with past practice and Thinfilm's understanding of the regulation at the date of resolution of the financial statements for 2018.

In February 2014, Thinfilm ASA received a government grant of NOK 5.9 million from The Research Council of Norway relating to development of production methods for printed electronics. The project ran until February 1, 2017. In February 2015 Thinfilm ASA received an additional grant from The Research Council of Norway of NOK 12 million relating to enhancing durability and liftetime of Thinfilm smart tags. The project ran until April 1, 2018. In 2017 Thinfilm ASA had a project qualified for the SkatteFUNN scheme (tax credit scheme), which relates to the development of integration and assembly methods for printed smart labels. The project ran until December 2017. In 2018 Thinfilm ASA had a new project qualified for the SkatteFUNN scheme for the three-year horizon 2018–2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). In 2018, net contribution from the SkatteFUNN scheme was NOK 10 million (2017: NOK 10 million).

In February 2015 Thinfilm AB received a EUR 440 thousand grant from the European Commission through the Horizon 2020 programme. The grant relates to development of printing methods for organic transistors and ran until 31 December 2018. In February 2016, Thinfilm AB received a grant of EUR 472 thousand relating to the development of a platform for the integration of mass-market products within the digital world. The grant ran until December 2018.

In August 2015 Thinfilm Inc. received a grant of USD 350 thousand relating to development of smart labels featuring Near Field Communications (NFC) capabilities. The grant ran until February 2017.

In connection to adoption of IFRS 15, and in association to IFRS guidelines on revenue recognition, the group has decided to reclassify government grants from Other operating revenue to Other income in 2018. Government grants amounted to USD 1,295 thousand for the year 2018, compared to USD 2,040 thousand for the year 2017. The accounting policy adopted for these grants is to recognize income over the periods in which the Company recognizes as expenses the related costs for which the grant is intended to compensate.

To receive grants from SkatteFUNN, the company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the company reports progress and achievements to the Research Council of Norway. Similar progress reports are required in all the grants.

17. Other income

Amounts in USD 1,000	2018	2017
Sublease income from the site in San Jose, California (CA)	96	247
Gain on sale of fixed assets, related to sale of equipment from Linköping and San Jose sites.	470	587
Government grants and funded development projects*	1,540	—
Other	4	52
Total	**2,110**	**887**

In 2018, in connection with the implementation of IFRS 15, and aligned with IFRS guidelines on revenue recognition,

The group has decided to reclassify government grants from Other operating revenue to Other income.

Reference is made to Note 15 "Other revenue" for details on the Government grants for FY2017.

18. Salaries and other payroll costs

Amounts in USD 1,000	2018	2017
Salaries	25,858	23,128
Social security costs	2,154	2,256
Share-based compensation (subscription rights), notional salary cost	1,465	2,200
Share-based compensation (subscription rights), accrued employer´s tax*	(96)	(229)
Pension contribution	1,471	1,220
Other personnel related expenses, including recruiting costs	2,392	1,520
Total	**33,244**	**30,096**
Average number of employees for the year (full-time equivalent)	164	161

At the end of the year the Group had 155 employees (full-time equivalents), down from 167 at the end of 2017.

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

The average number of FTEs throughout FY2018 was 164,2 up from 161 FTEs for FY2017.

*Relates to remeasurement of social security costs. See Note 2.17.

Compensation to senior management

Amounts in USD 1,000	Salary	Pension contribution	Bonus	Share-based remuneration
2018				
Kevin Barber, CEO (from 26 November 2018)	43	—	—	330
Davor Sutija, CEO (until 26 November 2018, full-year salary)	446	12	287	338
Ole Ronny Thorsnes, CFO	308	12	124	163
Christian Delay, CCO	286	11	99	140
Christer Karlsson, CTO	226	52	39	115
Peter Fischer, COO	460	11	62	140
Giampaolo Marino, EVP Hardware Solutions (from 23 July 2018)	121	4	91	30
Arvind Kamath, EVP Technology Development	253	11	63	53
Matt Kaufmann, EVP Operations	240	9	63	39
Shannon Fogle, VP of Global Human Resources	142	7	39	17
Henrik Sjöberg, SVP Product Management (until 29 April 2018)	97	8	33	—
John McNulty, EVP Marketing (from 13 February 2018 to 21 June 2018)	97	4	33	—
Bill Cummings, SVP Marketing Communications (until 20 September 2018)	256	7	6	86
Tauseef Bashir, EVP Global Sales (until 23 May 2018)	264	5	35	—
2017				
Davor Sutija, CEO	390	15	266	367
Christer Karlsson, CTO	177	45	29	126
Henrik Sjöberg, SVP Product Management	157	23	26	122
Peter Fischer, COO	441	11	121	121
Tauseef Bashir, EVP Global Sales	238	11	149	121
Christian Delay, SVP Software Platforms	251	11	78	99
Bill Cummings, SVP Corporate Communications	215	9	35	92
Ole Ronny Thorsnes, CFO	219	13	96	146
Erwan Le Roy, EVP Business Development (until 3 November 2017)	330	10	84	—

The salary amount is the salary declared for tax purposes. Bonus is the amount earned during the year and accrued at year-end. This amount is adjusted for any difference between the bonus earned in 2017 and accrued for at year-end 2017 and the actual bonus paid in 2018. The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights.

Subscription rights excercised by senior management

	2018	2017
Davor Sutija, CEO	—	750,000
Christer Karlsson, CTO	—	500,000
Henrik Sjöberg, SVP Product Management	—	400,000
Peter Fischer, COO	—	450,000
Total	**—**	**2,100,000**

The company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the Board of Directors

The company has no other obligation to remunerate the board than the board remuneration as resolved by the annual general meeting. The annual general meeting on 4 May 2018 resolved remuneration to the chairman of NOK 325 thousand and NOK 250 thousand for each board member for the period from the annual general meeting in 2017 to the annual general meeting in 2018. The board members had the option to receive part or all of the remuneration in the form of shares. No board members chose this option. The company refunds relevant out-of-pocket expenses incurred by the board members. The company has not issued any advance payments or loans to, or guarantees in favor of, any board member.

Thinfilm has accrued NOK 923 thousand for the probable cost of board remuneration from the annual general meeting 2018 and up to the end of 2018. Such remuneration, if any, shall be resolved by the annual general meeting 2019.

19. Other operating expenses

Amounts in USD 1,000	2018	2017
Services	5,480	5,937
Premises, supplies	12,047	15,654
Sales and marketing	2,889	3,791
Other expenses	814	3,516
Total	**21,229**	**28,898**

Thinfilm has lease agreements for premises in the following locations:
Oslo (Norway): The Corporate headquarter was located at Henrik Ibsens Gate 100, Oslo, throughout 2018, with an annual lease amount of NOK 780 thousand per year, and a termination clause of 3 months. The Company has subsequently moved to a new office location at Fridjof Nansens Plass 4, Oslo, in March 2019. The lease amount at the new location is NOK 689 thousand per year.
San Jose (California, US): The Company entered into a lease agreement in November 2016 relating to the property building of its Global headquarter at Junction Avenue in San Jose, CA. The lease in San Jose expires in September 2028. The average annual lease amount in the period is USD 2,052 thousand. See Note 8 for further description. In addition, the company pays property tax and other costs related to the building. From Q3 2018, the company receives sublease income from the second floor of the building.
San Francisco (California, US): The Thinfilm INC sales team moved from Montgomery Street to California Street in 2018. The lease in California Street was cancelled per 31 December 2018 and the sales team is now located in our office in San Jose. Total lease payments in 2018 related to the SF office space was USD 108k.
Linköping (Sweden): In April 2018, Thinfilm AB moved to a new location in Linköping, Westmansgatan 47. The annual lease payment is SEK 654 thousand per year, with a termination clause of 3 months. Thinfilm had three subleases in Linköping under termination as per 31 December 2017. The termination period for one sublease expired on 31 January 2018. The termination period for the remaining two subleases expired on 30 September 2018.

Shanghai (China): Thinfilm China rents an office in Dong Fang Road, Shanghai. The lease amount is CNY 559 thousand per year, with a 3 month termination clause. The lease agreement is scheduled to end by December 2019.
Hong Kong (China): Hong Kong lease was terminated in August 2018. The Hong Kong operations are managed from China.
London (England): Thinfilm UK rents an office in Eastbourne Terrace, London. The lease amount is GBP 58 thousand per year.
Singapore: From April 2018, Thinfilm Singapore rents a shared office space at 71 Robinson Road, Singapore. The lease amount is SGD 44 thousand per year.

Only the lease agreement for the San Jose premises has duration longer than twelve months. Minimum lease payments for premises, other than the San Jose site, and due within one year amount to USD 595 thousand. Payments between one and five years amount to USD 71 thousand (present value: USD 69 thousand).

20. Income tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in USD 1,000	2018	2017
Profit (loss) before tax	(71,711)	(59,704)
Tax (tax income) calculated at domestic tax rate 23 % (24%)	(16,494)	(14,329)
Effect of other tax rate in other countries	578	395
Share based compensation	173	146
Other permanent differences	(584)	(2,000)
Effect of change in tax rates	2,622	1,809
Change in deferred tax asset not recognised on the balance sheet	13,716	14,101
Tax charge	**11**	**122**

21. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Amounts in USD 1,000	31 Dec 2017	Charged to profit/loss	Equity	31 Dec 2018
Deferred income tax asset				
Fixed and intangible assets	-920	3,796	-29	2,847
Inventory	335	189	—	524
Other accruals	1,858	918	—	2,776
Tax loss carried forward outside Norway	558	(176)	—	381
Tax loss carried forward Norway	47,595	9,088	(3,229)	53,454
Calculated deferred tax asset 22% (23 % 2017)	49,426	13,814	-3,258	59,982
Impairment of deferred tax asset	(49,426)	(13,814)	3,258	(59,982)
Deferred tax in the balance sheet	**—**	**—**	**—**	**—**

The Equity column includes effects of currency translation.

The company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway, Sweden and the US. These tax rates are 22, 22 and 21 per cent respectively (2017: 23, 22 and 21).

22. Profit (loss) per share

Amounts in USD	2018
Profit (loss) attributable to equity holders of the Company (USD 1,000)	(71,722)
Average number of shares in issue	1,171,871,617
Average diluted number of shares	1,171,871,617
Profit (loss) per share, basic	**(USD0,06)**

The weighted average basic and diluted number of shares for the fourth quarter of 2018 is equal to the weighted average for the year 2018.

When the period result is a loss, the loss per diluted number of shares shall not be reduced by the higher diluted number of shares, but the diluted result per share equals the result per basic number of shares.

The diluted number of shares has been calculated by the treasury stock method. If the adjusted exercise price of subscription rights exceeds the average share price in the period, the subscription rights are not counted as being dilutive.

23. Related party transactions

a) Transactions with related parties:

Amounts in USD 1,000	2018	2017
Purchases of services from law firm Ræder	339	478
Purchase of services from Robert N. Keith	249	232
Purchase of services from Translarity	34	34

In the period 1 January – 31 December 2018, Thinfilm has recorded USD 339 thousand (net of VAT) for legal services provided by law firm Ræder, in which Thinfilm's Chairman is a partner.

In the same period, Thinfilm has recorded USD 249 thousand (net of VAT) for services provided by Robert N. Keith, a shareholder of Thinfilm, relating to a service agreement under which he assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Aslo, in the same period, Thinfilm has recorded USD 34 thousand (net of VAT) for R2R probe card equipment delivered by Translarity, a company in which Thinfilm board member Laura Oliphant is a shareholder, and held the position as CEO until July 2018.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in USD 1,000	2018	2017
Payable to law firm Ræder	85	142
Payable to Translarity	—	36
Payable to Robert N. Keith	249	—

c) Remuneration to the auditor

Amounts in USD 1,000	2018	2017
Audit	107	102
Other assurance services	2	7
Tax services	3	29
Other services	—	2
Total	**113**	**140**

Thin Film Electronics UK Ltd., in which Thin Film Electronics ASA holds all the shares, has taken advantage of section 479a of the UK Companies Act 2006 to be exempt from audit of its financial statements for the period from establishment through 31 December 2018.

24. Contingent liabilities

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued to the new landlord. The Company has in addition entered into a Tenancy Guarantee with the new landlord. The guarantee is given to secure payment of the lease rent. The initial guarantee liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2018, the guarantee liability amounted to USD 4,500 thousand.

25. Shares, warrants and subscription rights

At the end of 2018 there were 1,171,871,617 shares in the company, versus 1,171,871,617 at the end of 2017. There were 6045 registered shareholders (2017: 5542).

Thinfilm is not aware of any shareholding agreements between shareholders.

Top 20 registered shareholders at 31 December 2018	Shares	Percent
The Northern Trust Comp, London Br	241,725,378	20.63%
INVESCO PERPETUAL HIGH INCOME FUND	103,550,137	8.84%
FERD AS	77,505,267	6.61%
INVESCO PERPETUAL INCOME FUND	72,116,529	6.15%
The Northern Trust Comp, London Br	49,799,833	4.25%
Nordnet Bank AB	43,654,929	3.73%
FIRST GENERATOR	42,449,728	3.62%
Citibank, N.A.	30,618,759	2.61%
BNP Paribas Securities Services	26,296,790	2.24%
MP PENSJON PK	23,321,167	1.99%
STATOIL PENSJON	16,941,020	1.45%
Danske Bank A/S	16,757,833	1.43%
SUNDVALL HOLDING AS	15,817,165	1.35%
MELIN HOLDING AS	13,545,981	1.16%
VERDIPAPIRFONDET FIRST GLOBALT	12,153,936	1.04%
Nordea Bank Abp	12,001,548	1.02%
NORDNET LIVSFORSIKRING AS	7,631,589	0.65%
The Bank of New York Mellon	7,390,220	0.63%
Skandinaviska Enskilda Banken AB	7,077,969	0.60%
The Bank of New York Mellon SA/NV	6,447,367	0.55%
Total 20 largest shareholders	826,803,145	70.55%
Total other shareholders	345,068,472	29%
Total shares outstanding	**1,171,871,617**	**100.00%**

Shares, ADRs and subscription rights held by primary insiders and close relations at 31 December 2018.

No insiders held warrants at 31 December 2018.

	Shares	ADRs	Incentive subscription rights
Morten Opstad, Chairman	1,986,708	—	—
Preeti Mardia, Board Member	193,552	—	—
Laura Oliphant, Board Member	375,000	53,000	—
Tor Mesøy, Board Member	463,926	—	—
Richard Bernstein, Board Member	500,000	—	—
Kevin Barber, CEO	—	—	38,437,432
Davor Sutija, CEO (until 26 November, 2018)	3,100,000	—	8,250,000
Ole Ronny Thorsnes, CFO	50,000	—	3,100,000
Christian Delay, CCO	50,000	—	2,850,000
Peter Fischer, COO	70,000	—	3,350,000
Giampaolo Marino, EVP Hardware Solutions (from 23 July, 2018)	—	—	2,000,000
Arvind Kamath, EVP Technology Development	—	—	1,300,000
Andrew Scott, VP Marketing	—	—	1,000,000
Linda Renate Pedersen, Sr Director Finance & Accounting	—	—	240,000
Federica Brugnera, VP Controlling	—	—	500,000
Shannon Fogle, VP of Global Human Resources	—	—	420,000
Matt Kaufmann, EVP Manufacturing	—	—	800,000
Total	**6,789,186**	**53,000**	**62,247,432**

The annual general meeting on 4 May 2018 resolved a subscription rights incentive programme for the years 2018–2023. The 2017 programme was closed. Under the 2018 programme, the board may grant up to 117,187,161 independent subscription rights to employees and to individual consultants performing similar work in Thinfilm. The number of outstanding subscription rights under all subscription rights incentive programs shall not exceed 10 percent of the number of shares in the company at the time of the annual general meeting 2018. The exercise price shall be equal to the higher of (i) average closing share price on the ten trading days preceding the grant date, and (ii) the last closing share price. The subscription rights vest in four tranches of 25 percent on each year beginning one year from the Vesting Commencement date. The Vesting Commencement date is the last of the following dates preceding the date of grant of subscription rights; (i) 15 January, (ii) 15 April, (iii) 15 July or (iv) 15 October. In case of change of control, the subscription rights vest immediately. The subscription rights expire on 4 May 2023.

By 31 December 2018, the board had granted 52,067,432 subscription rights under the 2018 programme.

15,000,000 conditional instruments have been granted to Kevin Barber with similar service condition structure to his 2018 subscription rights grant. In additon to normal service conditions, these instruments will vest based on capital raised to always make sure he has a subscription rights percentage of 2% of the total shares in Thin Film.

The fair value of the subscription rights awarded, calculated according to Black & Scholes option pricing model, was NOK 170.8 million as of 31 December 2018. USD 1,771 thousand was expensed in 2018. At 31 December 2018, the estimated amount of share-based remuneration cost yet to be expensed throughout the vesting period is NOK 16.0 million.

Subscription rights

	2018		2017	
	Weighted average exercise price, NOK	**Number of subscription rights**	**Weighted average exercise price, NOK**	**Number of subscription rights**
Total at 1 January	3.58	65,405,000	4.47	39,317,500
Adjustment to opening balance	2.23	375,000	0.00	—
Granted	1.11	52,067,432	2.57	33,550,000
Forfeited	2.91	(19,653,750)	4.50	(4,035,000)
Exercised	0.00	—	1.98	(2,612,500)
Expired	5.12	(9,941,250)	5.17	(815,000)
Total at 31 December	**2.09**	**88,252,432**	**3.58**	**65,405,000**
Number of exercisable subscription rights at 31 December (included in total)		—		16,417,500
As the average strike price is higher than the quoted share price on the Stock exchange				

Subscription rights outstanding at 31 December 2018

Holder	Number of subscription rights	Weighted average exercise price, NOK
Kevin Barber, CEO (from 26 November 2018)	38,437,432	0.83
Davor Sutija, CEO (until 26 November 2018)	8,250,000	3.54
Ole Ronny Thorsnes, CFO	3,100,000	3.44
Christian Delay, CCO	2,850,000	3.13
Christer Karlsson, CTO	2,850,000	3.51
Peter Fischer, COO	3,350,000	3.02
Giampaolo Marino, EVP Hardware Solutions (from 23 July 2018)	2,000,000	1.91
Arvind Kamath, EVP Technology Development	1,300,000	3.59
Matt Kaufmann, EVP Operations	800,000	3.11
Shannon Fogle, VP of Global Human Resources	420,000	3.79
Employees and contractors	24,895,000	2.85
Total	**88,252,432**	**2.09**

0 subscription rights were exercised in 2018 (2017: 2612500).

Value of subscription rights and assumptions upon grant	Grants in 2014	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018
Value of subscription right at grant date, NOK per subscription right	1.23–3.19	0.85–3.51	1.23–2.52	0.72–1.75	0.24–1.03
Share price, NOK per share	4.70–6.10	3.44–7.58	3.56–5.05	2.45–3.79	0.80–2.25
Exercise price, NOK per share	4.70–6.10	3.95–7.58	3.56–5.05	2.45–3.79	0.82–2.27
Expected annual volatility	46%–65%	47%–66%	57%–70%	53%–68%	47%–89%
Duration, years	2.0–5.0	2.0–5.0	2.0–5.0	1.9–5.0	1.0–4.94
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	1.24–2.01%	0.65–1.24%	0.53–0.94%	0.56–1.09%	0.74%–1.57%

Value of subscription rights and assumptions on 31 December 2018	Grants in 2014	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018
Value of subscription right at 31 December 2018, NOK per subscription right	0.55–2.63	0.43–1.74	0.84–1.62	0.14–1.15	0.04–0.37
Share price, NOK per share	2.48	2.48	2.48	2.48	0.748
Exercise price, NOK per share	4.70–6.10	3.95–7.58	3.56–5.05	2.45–3.79	0.82–2.27
Expected annual volatility	58%	58%	58%	58%	61%–82%
Duration, years	1.10–4.62	1.16–4.35	1.15–4.36	0.84–4.35	0.90–4.34
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	1.4–1.7%	0,65–1.2%	0.53–0.94%	0.56–1.09%	0.96%–1.35%
Number of outstanding subscription rights at 31 December 2018	6,965,000	7,425,000	14,630,000	33,135,000	88,252,432

26. Statement on management remuneration policy

Thinfilm's executive management during the year 2018 is specified in Note 18.

Several of the executive management team members serve as officers and directors in the subsidiaries without additional remuneration.

The general meeting 2018 resolved guiding and binding executive remuneration policies. Thinfilm's executive remuneration policy in 2018 was a continuation of the prior year's policy, including share-based remuneration in the form of a subscription rights incentive program as resolved at the annual general meeting, latest on 4 May 2018.

Guiding executive remuneration policy and effect of the policies

Thinfilm offers a competitive remuneration consisting of a reasonable base salary with a pension contribution. Salary may be supplemented by performance based cash bonus and incentive subscription rights. Cash bonus plans are limited to fixed percentage of base pay. Management team members working directly with sales may receive commission on certain sales and product deployments. In addition, the management team, apart from the CEO, may receive additional discretionary bonus payments tied to specific projects.

There is no post-employment remuneration beyond notice periods of 3–6 months. The former CEO, Davor P. Sutija, has a 3-months' severance pay (equal to 3 months ordinary salary) upon expiration of his termination notice period on 21 May 2019. The current CEO, Kevin Barber, has a termination notice period of (i) three months in case of termination by the Company and (ii) one month in case of termination by Mr. Barber. If the Company terminates Mr. Barber's employment (other than for cause) or if Mr. Barber resigns his employment for good reason, Mr. Barber is entitled to a severance pay equivalent to six months of his base salary and target bonus prorated for six months (if Mr. Barber is on schedule to meet the relevant bonus criteria for the year in question) calculated from the end of his termination notice period, all subject to such detailed terms and conditions as set out in his employment agreement.

The policy described above has been applied consistently throughout 2018. The principles described above apply also in 2019, however individual bonus targets and salary levels will be revisited during the Company's ordinary salary process during April. The executive remuneration policy will be reviewed at the Annual General Meeting in May 2019.

The actual remuneration to the management in 2018 is reported in Notes 18 and 25. For 2018, the Board has decided to grant subscription rights to new members of the management team as a form of performance based compensation.

The options vest in tranches of 25 percent each year if the employee has not resigned his position at the vesting date, and expire after five years.

The Company has granted the management team the following subscription rights in 2018:

Employee name	Number of SR	Weighted average Exercise Price	Grant date
Kevin Barber, CEO	38,437,432	0.83	26 November 2018
Giampaolo Marino, EVP Hardware Solutions	2,000,000	1.91	16 August 2018
Total	**40,437,432**	**0.88**	

Salary, pension and any bonuses that triggers employer's tax which will be expensed simultaneously with the remuneration.

27. Events after the balance sheet date

In the Board meeting on 27 February 2019, the Board resolved to grant a total of 360,000 Employee Subscription Rights to new employees of the Company, each with an exercise price of NOK 0,64.

On 15 March 2019, Thinfilm announced a corporate restructuring in order to align the business with the current market adoption of NFC.

In the Board meeting on 30 April 2019, the Board resolved to grant a total of 130,000 Employee Subscription Rights to new and existing employees of the Company, each with an exercise price of NOK 0.32.

The Company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year.

28. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group 31 December 2018
Thin Film Electronics Inc.	Research & Development, Manufacturing and Marketing services	USA	100%
Thin Film Electronics AB	Research & Development, Manufacturing and Marketing services	Sweden	100%
Thin Film Electronics KK	Marketing services	Japan	100%
Thin Film Electronics HK Ltd.	Supply chain services	Hong Kong	100%
Thin Film Holding	Owning shares in Thin Film Inc.	USA	100%
Thin Film Electronics UK Ltd.	Marketing services	England, Wales	100%
Thin Film Electronics Co. Ltd.	Supply chain and Marketing Services	China	100%
Thin Film Electronics Singapore Pte. Ltd.	Marketing services	Singapore	100%

29. Contractual committment

Thinfilm has contractual committments related primarily to equipment for the new roll-based production line at the San Jose site.

Net contractual committment as per 31 December 2018, amounted to USD 5.1 million.

Thin Film Electronics ASA
Annual financial statements 2018

Profit and loss statements

Amounts in NOK 1,000	Note	2018	2017
Sales revenue	11	8,826	24,808
Other revenue	12,13	594	4,271
Other income	14	971	1,068
Total revenue		**10,391**	**30,146**
Employee salaries and other benefits	15	(32,569)	(25,975)
Services (external)		(18,483)	(21,426)
Services (from subsidiaries)	18,19	(372,229)	(484,567)
Other operating expenses	19	(20,090)	(9,343)
Contribution from SkatteFUNN scheme	13	10,000	10,000
Amortization of intangible assets & negative goodwill	7	(11,752)	(11,650)
Operating profit (loss)		**(434,732)**	**(512,814)**
Impairment investment in subsidiary	6	(156,135)	(7,527)
Interest income		5,163	4,334
Other financial income		12	—
Other financial costs		10,961	(11,526)
Net financial items		**(140,000)**	**(14,719)**
Profit (loss) before income tax		**(574,732)**	**(527,533)**
Income tax expense	16	—	—
Profit (loss) for the year		**(574,732)**	**(527,533)**
Allocation/coverage of net result for the year			
Uncovered losses carried forward		(574,732)	(527,533)
Total allocated	**4**	**(574,732)**	**(527,533)**

The notes on pages 51 to 66 are an integral part of these annual financial statements.

Balance sheet

Amounts in NOK 1,000	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Intangible assets	7	19,494	18,314
Investment in subsidiaries	6	198,969	336,260
Total non-current assets		**218,463**	**354,573**
Current assets			
Trade and other receivables	8	104,124	75,026
Cash and bank deposits	9	242,819	760,635
Total current assets		**346,943**	**835,661**
Total assets		**565,406**	**1,190,234**
EQUITY			
Ordinary shares	10,21	128,906	128,906
Other paid-in capital		2,425,538	2,410,944
Total paid-in equity		**2,554,444**	**2,539,850**
Retained profit/uncovered losses		(2,070,966)	(1,496,234)
Total equity	**4**	**483,478**	**1,043,616**
LIABILITIES			
Current liabilities			
Deferred revenue		222	–
Accounts payable		1,736	3,262
Withheld tax and public duties payable		1,549	1,517
Debt to group companies	6,18	72,380	133,025
Other payables and accruals		6,041	8,814
Total liabilities	**20**	**81,928**	**146,618**
Total equity and liabilities		**565,406**	**1,190,234**

The notes on pages 51 to 66 are an integral part of these annual financial statements.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad
Chairman

Tor Mesøy
Board Member

Preeti Mardia
Board Member

Laura Oliphant
Board Member

Kevin Barber
Managing Director (CEO)

Cash flow statements

Amounts in NOK 1,000	Note	2018	2017
Cash flows from operating activities			
Profit (loss) before income tax		(574,732)	(527,533)
Share-based compensation (equity part)	21	6,459	5,547
Amortization and impairment (reversal)	7	11,752	11,650
Impairment investment in subsidiary	6	156,135	7,527
Change in working capital and other items		(94,631)	(150,065)
Net cash from operating activities		**(495,017)**	**(652,874)**
Cash flows from investing activities			
Purchased intangible assets	7	—	(522)
Capitalized development expenses	7	(12,932)	(5,765)
Investment in subsidiaries	6	(9,867)	(11,785)
Net cash from investing activities		**(22,799)**	**(18,071)**
Cash flows from financing activities			
Proceeds from issuance of shares	10	—	838,065
Net cash from financing activities		**—**	**838,065**
Net change in cash and bank deposits		**(517,816)**	**167,120**
Cash and bank deposits at the beginning of the year		760,635	593,516
Cash and bank deposits at the end of the year	**9**	**242,819**	**760,635**

The company had no bank draft facilities at the end of 2018 or 2017.

The notes on pages 51 to 66 are an integral part of these annual financial statements.

Notes to the Annual Financial Statements Thinfilm ASA

1. Information about the company

Thin Film Electronics ASA ("Thinfilm ASA") is the parent company in the Thin Film Electronics group ("Thinfilm"). The group consists of the parent company Thinfilm ASA and the subsidiaries Thin Film Electronics AB ("Thinfilm AB"), Thin Film Electronics Inc. ("Thinfilm Inc."), Thin Film Holding ("Thinfilm Ho"), Thin Film Electronics KK ("Thinfilm KK"), Thin Film Electronics HK ("Thinfilm HK"), Thin Film Electronics Co. ("Thinfilm CN"), Thin Film Electronics UK ("Thinfilm UK") and Thin Film Electronics Singapore pte. ("Thinfilm SIN"). The group was formed on 15 February 2006 when Thinfilm ASA purchased the business and assets, including the subsidiary Thinfilm AB, from Thin Film OldCo AS ("OldCo").

The objectives of the Company shall be to enable Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These annual financial statements for the parent company were resolved by the company's board of directors on 30 April 2019.

Going concern

The board confirms that the financial statements of the group as well as the parent company have been prepared under the going concern assumption. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 mill. Per end of Q1 2019, the Company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

To address the funding requirements of the consolidated entity the Board of Directors have, since early Q1 2019, undertaken the following initiatives:

- Entered into discussions to secure additional equity funding from current and new shareholders;
- Engaged Carnegie AS and DNB Markets, a part of DNB Bank ASA, to act as its financial advisors;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued their focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources.

The directors are confident that they will be able to complete a capital raising that will provide the consolidated entity with required funding to support its planned level of activity under the new strategy after the reorganization. Based on this it is appropriate to prepare the financial statements on the going concern basis. However, in the event that the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the company and consolidated entity will continue as going concerns.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

2. Accounting policies

These annual financial statements have been prepared in accordance with the Norwegian accounting act 1998 and generally accepted accounting principles in Norway. The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been applied consistently. The currency of Thin Film Electronics ASA is NOK. The financial statements have been prepared using the historical cost convention.

Principal criteria for valuation and classification of assets and liabilities

Assets for lasting ownership or use have been classified as fixed assets. Other assets have been classified as current assets. Receivables which are due within twelve months have been classified as current assets. Corresponding criteria have been applied when classifying short-term and long-term debt.

Current assets have been valued at the lower of cost and fair value. Other long-term debt and short-term debt have been valued at face value.

Assets and liabilities denominated in foreign currency

Monetary items in foreign currency have been converted at the exchange rate on the balance sheet date.

Shares in subsidiaries

Investment in subsidiaries has been valued at cost in the parent company. In case of impairment which is not temporary, the investment has been written down to fair value if mandated according to GAAP.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Thinfilm ASA recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods

The Group manufactures and sells NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. Sales of goods are recognized when the risks and rewards of ownership are transferred to the customer, the costs incurred or to be incurred in respect of the transaction can be measured reliably and Thinfilm retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Group provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted. However, revenue from technology access agreements that involve an upfront lump-sum payment that is not tied to any future deliveries from Thinfilm is recognized at the time the agreement is entered into.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants which are related to specific development programs with commercial end-objectives are recognised as other operating revenue over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Grants or other contributions in the form of tax credit are credited against costs.

Intangible assets

Reference is made to Note 2.6 in the Consolidated Financial Statements.

Receivables

Accounts receivable and other receivables have been recorded at face value after accruals for expected losses have been deducted. Accruals for losses have been made based on an individual assessment of each receivable.

Cash and bank deposits

Cash and bank deposits include cash, bank deposits and cash equivalents with a due date less than three months from acquisition.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

Costs

In principle, cost of sales and other expenses are recognized in the same period as the revenue to which they relate. In instances where there is no clear connection between the expense and revenue, the apportionment is estimated.

Share based remuneration

The company may issue independent subscription rights to employees and individual consultants performing similar work and accounts for these transactions under the provisions of NRS 15A and generally accepted accounting principles in Norway. Two types of expenses are recognized related to grant of subscription rights: (i) Notional cost of subscription rights is recognized at time of grant and calculated based on the Black-Scholes model (share price at time of grant, exercise price, expected volatility, duration and risk-free interest rate). The subscription rights vest in four tranches of 25 percent on each anniversary of the grant, i.e., each tranche has different duration. The notional cost of subscription rights as share based remuneration is expensed but the equity effect is nil because the contra item is a notional equity injection of equal amount. (ii) Employer's tax expense is accrued based on the net present value of the subscription right as an option on the balance sheet date. The value varies with the share price and may entail a net reversal of costs.

When the parent has an obligation to settle the share-based payment transaction with the subsidiaries' employees by providing the parent's own equity instruments, this is accounted for as an increase in equity and a corresponding increase in investment in subsidiaries.

Tax on profit

Tax cost has been matched to the reported result before tax. Tax related to equity transactions has been charged to equity. The tax cost consists of payable tax (tax on the directly taxable income for the year) and change in net deferred tax. The tax cost is split into tax on ordinary result and result from extraordinary items according to the tax base. Net deferred tax benefit is held in the balance sheet only if future benefit can be justified.

Consolidated items

Insignificant items have been combined or included in similar items in order to simplify the statements. Lines which are zero or about zero have been omitted except where it has been deemed necessary to emphasize that the item is zero.

Estimates and judgmental assessments

The preparation of the annual accounts in accordance with the generally accepted accounting principles requires that the management make estimates and assumptions that affect the income statement and the valuation of assets and liabilities. Estimates and related assumptions have been based on the management's best knowledge of past and recent events, experience and other factors which are considered reasonable under the circumstances. Estimates and underlying assumptions are subject to continuous evaluation.

3. Significant events last two years, going concern, events after the balance sheet date, financial risk

2018

On 15 March 2019, Thinfilm announced a corporate restructuring in order to align the business with the current market adoption of NFC.

The company has paused development of printed dopant polysilicon (PDPS) technology. The slower customer adoption of NFC tags on-package than anticipated triggered an impairment test relating to the production related assets in San Jose. Please refer to Note 6 in the Consolidated Financial Statements for further details.

As a result of pausing the printed electronics line, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory.

Development costs relating to the EAS product which were previously capitalized have been written off. Please refer to Note 7 for further details.

2017

On 20 October 2017, it was announced that the Company raised NOK 881 million (approx. USD 110 million) in gross proceeds through a private placement consisting of 352,500,000 new shares (the "Private Placement"). The subscription price in the Private Placement was NOK 2.50 per share, equivalent to a 7.8% premium to the closing price on the Oslo Stock Exchange 19 October 2017. The Private Placement was divided into two tranches; Tranche 1 consisting of 81,500,000 shares and a Tranche 2 consisting of 271,000,000 shares. The Tranche 1 shares were issued based on an authorization to the Board of Directors granted by the Company's Annual General Meeting on 5 May 2017. The completion of the Tranche 2 of the Private Placement was approved by an Extraordinary General Meeting held on 13 November 2017. Tranche 1 shares were subscribed for by several investors. Tranche 2 shares were subscribed for by Woodford Investment Management, Invesco Asset Management and several other investors.

Events after balance sheet date

Since 31 December 2018 and until the date of these financial statements, the board has granted a total of 490,000 subscription rights under the subscription rights-based incentive program resolved by the annual general meeting 2018. The weighted average exercise price of the granted subscription rights is NOK 0.56 per share.

The slower customer adoption of NFC tags on-package than anticipated has impacted the value of Thinfilm's assets and liabilities, as described in Note 27 of the Consolidated Financial Statements. No further events have impacted the value of Thinfilm's assets and liabilities between 31 December 2018 and the presentation of this report.

Financial risk factors

Reference is made to Note 4.2 in the Consolidated Financial Statements.

4. Equity

Amounts in NOK 1,000	Share capital	Other paid in equity	Uncovered loss	Total
Balance at 1 January 2018	**128,906**	**2,410,944**	**(1,496,234)**	**1,043,616**
Share issue employees				—
Share based compensation		14,594		14,594
Private placement Tranche 1 & 2, October 19 & November 13				—
Net profit (loss) for the year			(574,732)	(574,732)
Balance at 31 December 2018	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**
Balance at 1 January 2017	**89,843**	**1,588,440**	**(968,701)**	**709,582**
Share issue employees	287	4,863		5,150
Share based compensation		18,351		18,351
Private placement Tranche 1 & 2, October 19 & November 13	38,775	799,290		838,065
Net profit (loss) for the year			(527,533)	(527,533)
Balance at 31 December 2017	**128,906**	**2,410,944**	**(1,496,234)**	**1,043,616**

5. Property, plant and equipment

Current facilities are rented with furniture included. Minor computing and communications equipment has been expensed.

6. Investment in subsidiaries

The shares are held at the lower of cost and fair value in the balance sheet.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics AB — Linköping, Sweden			
At 31 December 2018	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,944)
Net book value at 31 December 2018			**36,619**
At 31 December 2017	100%	100%	
Accumulated cost			58,489
Accumulated impairment charge			(21,944)
Net book value at 31 December 2017			**36,545**

The local currency of Thin Film Electronics AB is SEK. The net income in SEK in 2018 was SEK 911 thousand (SEK 1,458 thousand in 2017), while the total equity 31 December 2018 was SEK 39,682 thousand (2017; SEK 38,225 thousand).

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Inc. — CA, USA			
At 31 December 2018	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(147,773)
Net book value at 31 December 2018			**155,744**
At 31 December 2017	100%	100%	
Accumulated cost			296,178
Accumulated impairment charge			(1,203)
Net book value at 31 December 2017			**294,975**

The local currency of Thin Film Electronics Inc. is USD. The net income in USD in 2018 was a loss of USD 16,203 thousand compared to a profit of USD 2,332 thousand in 2017. The total equity 31 December 2018 was USD 23,374 thousand (USD 38,675 thousand in 2017). An impairment of NOK 146,579 thousand has been performed in 2018 relating to the investment in TFE INC. This is mainly triggered by the impairment of production related assets in San Jose as a result of the slower customer adoption of NFC tags on-package than anticipated.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Holding — NV, USA			
At 31 December 2018	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2018			**—**
At 31 December 2017	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2017			**—**

The local currency of Thin Film Holding is USD. Thin Film Holdings only activity is holding shares in Thin Film Electronics Inc.

For further information, see Thin Film Electronics Inc.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics KK — Tokyo, Japan			
At 31 December 2018	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2018			**—**
At 31 December 2017	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2017			**—**

The investment was fully written down in 2016, as all activity in the Japanese legal entity had ceased.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics HK Ltd. — Hong Kong			
At 31 December 2018	100%	100%	
Accumulated cost			11
Accumulated impairment charge			(11)
Net book value at 31 December 2018			**—**
At 31 December 2017	100%	100%	
Accumulated cost			36
Accumulated impairment charge			—
Net book value at 31 December 2017			**36**

The local currency of Thin Film Electronics HK is HKD. The net income in HKD in 2018 was HKD 57 thousand (HKD 115 thousand in 2017), while the total equity 31 December 2018 was HKD 533 thousand (2017; HKD 476 thousand).

An impairment of NOK 11 thousand has been performed in 2018 relating to the investment in TFE Hong Kong.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Co. Ltd. — Shanghai, China			
At 31 December 2018	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(16,106)
Net book value at 31 December 2018			**5,647**
At 31 December 2017	100%	100%	
Accumulated cost			11,795
Accumulated impairment charge			(7,527)
Net book value at 31 December 2017			**4,268**

The local currency of Thin Film Electronics Co. Ltd. is CNY. The entity was established in February 2017. The net income in CNY in 2018 was a loss of CNY 7,230 thousand (2017; loss of CNY 5,838 thousand) while the total equity 31 December 2018 was CNY 4,467 thousand (2017; CNY 3,600 thousand).

An impairment of NOK 8,584 thousand has been performed in 2018 relating to the investment in TFE China.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics UK Ltd. — London, England			
At 31 December 2018	100%	100%	
Accumulated cost			564
Accumulated impairment charge			—
Net book value at 31 December 2018			**564**
At 31 December 2017	100%	100%	
Accumulated cost			375
Accumulated impairment charge			—
Net book value at 31 December 2017			**375**

The local currency of Thin Film Electronics UK Ltd. is GBP. The entity was established in March 2017. The net income in GBP in 2018 was GBP 32 thousand (2017; GBP 3 thousand) while the total equity 31 December 2018 was GBP 72 thousand (2017; GBP 40 thousand).

Thin Film Electronics UK Ltd. has taken advantage of section 479a of the UK Companies Act 2006 to be exempt from audit of its financial statements for the year 2018.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Singapore Pte Ltd. — Singapore			
At 31 December 2018	100%	100%	
Accumulated cost			395
Accumulated impairment charge			
Net book value at 31 December 2018			**395**
At 31 December 2017	100%	100%	
Accumulated cost			61
Accumulated impairment charge			—
Net book value at 31 December 2017			**61**

The local currency of Thin Film Electronics Singapore Pte Ltd. is SGD. The entity was established in November 2017.

The net income in SGD in 2018 was a loss of SGD 983 thousand (2017; SGD 0) while the total equity 31 December 2018 was SGD –973 thousand (SGD 10 thousand in 2017) . The entity was dormant as per 31 December 2017.

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued to the new landlord. The Company has in addition entered into a Tenancy Guarantee with the new landlord. The guarantee is given to secure payment of the lease rent. The initial guarantee liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2018, the guarantee liability amounted to USD 4,500 thousand.

7. Intangible assets

Amounts in NOK 1,000	Purchased intellectual property	Negative goodwill	Capitalized development costs	Total
Amortization period, years (linear)	13–16	5		
Acquisition cost				
Accumulated cost on 1 January 2018	17,198	(2,925)	7,067	21,341
Additions			12,932	12,932
Impairment	(1,326)		(10,226)	(11,552)
Accumulated costs 31 December 2018	**15,872**	**(2,925)**	**9,773**	**22,721**
Accumulated amortization on 1 January 2018	(5,367)	2,340		(3,027)
Amortization	(1,330)	585		(745)
Impairment	545			545
Amortization at 31 December 2018	**(6,151)**	**2,925**	**—**	**(3,226)**
Net book value 31 December 2018	**9,721**	**0**	**9,773**	**19,494**
Acquisition cost				
Accumulated cost on 1 January 2017	28,260	(2,925)	3,781	29,115
Additions	522		5,765	6,286
Impairment (at costs)	(11,583)			(11,583)
Disposals (at cost)			(2,478)	(2,478)
Accumulated costs 31 December 2017	**17,198**	**(2,925)**	**7,067**	**21,341**
Accumulated amortization on 1 January 2017	(4,715)	1,755		(2,960)
Amortization	(1,742)	585		(1,157)
Accumulated amortization impaired assets	1,090			1,090
Amortization at 31 December 2017	**(5,367)**	**2,340**	**—**	**(3,027)**
Net book value 31 December 2017	**11,831**	**(585)**	**7,067**	**18,314**

The purchased intellectual property relate to licensing of certain patents. The portfolio is reviewed for impairment annually by comparing the book value to the fair market value at the patent level. 2018 impairments related to patents with a fair market value lower than the recorded book value. 2017 impairments also comprised patents related to the Memory™ and sensor programmes that were discontinued during that year.

Capitalized development expenses relate to EAS (Electronic article surveillance) and Speedtap™. As a result of the slower than expected market development, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the EAS product will not at this time be commercialized, and the NOK 10,226 thousand capitalized development work on EAS has been impaired in full.

Capitalized costs regarding Memory™ were disposed of in 2017 as part of an asset transfer agreement with Xerox.

Thin Film Electronics ASA estimates that the present value of future cash flows will exceed the amount of capitalized development expenses.

On 21 January 2014, Thinfilm acquired certain assets, contracts and processes from Kovio Inc., a company active in the field of radio frequency enabled products based on printed silicon technology. The difference between total consideration transferred and estimated fair value of assets amounted to NOK 2,925 thousand. This constituted a bargain purchase and the negative goodwill of NOK 2,925 is amortized on a systematic basis over five years as a credit against cost. Reference is made to Note 25 in Consolidated Financial Statements in the 2014 Annual Report for further description.During the year 2018, the remaining NOK 585 thousand was amortized and there was no remaining Negative Goodwill in the balance sheet as at 31 December 2018.

8. Trade and other receivables

Amounts in NOK 1,000	31 December 2018	31 December 2017
Customer receivables	5,411	9,840
Accrued revenue not yet invoiced	650	11,211
Other receivables, prepayments	98,063	53,975
Less: provision for impairment of receivables	—	—
Receivables – net	**104,124**	**75,026**
Of this, receivables from Thinfilm AB	943	834
Of this, receivables from Thinfilm Inc.	77,448	46,127
Of this, receivables from Thinfilm HK	7,018	1,563
Of this, receivables from Thinfilm UK Ltd.	1,106	1,785
Of this, receivables from Thinfilm SG	–24	—

All receivables are due within one year and book value approximates fair value. The total amount denominated in NOK is 10,446 thousand (2017: NOK 13,368 thousand), NOK 1,214 thousand is denominated in GBP (2017: NOK 1,785 thousand), NOK 84,366 thousand is denominated in USD (2017: 57,351 thousand), NOK 1,650 thousand is denominated in HKD (2017: NOK 1,563 thousand), NOK 943 thousand is denominated in SEK (2017: NOK 834 thousand), NOK 6,319 thousand is denominated in SGD (2017: 0), while NOK 160 thousand is denominated in other currencies (2017: NOK 47 thousand).

Of net receivables NOK 103 772 thousand were not past due as per 31 December. NOK 97 thousand were past due by less than 30 days.

NOK 181 thousand were past due between 31 and 90 days, and NOK 1 048 thousand were past due by more than 90 days.

The company assesses impairment risk on an individual basis.

9. Cash and bank deposits

Amounts in NOK 1,000	31 December 2018	31 December 2017
Bank deposits excluding restricted cash	227,659	746,797
Deposit for Letter of Credit	14,262	13,164
Deposit for withheld tax	897	673
Total	**242,819**	**760,635**

As a part of the relocation of Thinfilm INC.'s US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit was issued to the new landlord.

Payable withheld tax amounts at 31 December 2018 was NOK 897 thousand.

10. Share capital

Reference is made to Note 12 in the Consolidated Financial Statements.

11. Sales revenue

Amounts in NOK 1,000	2018	2017
Sales of goods	8,729	13,836
Rendering of services, delivery of samples, technology access revenue	97	10,972
Total	**8,826**	**24,808**

No warranty costs, penalties or other losses were related to sales revenue in 2018 or 2017.

12. Other revenue

Amounts in NOK 1,000	2018	2017
Government grants, funded development projects	594	4,271
Total	**594**	**4,271**

13. Government grants

In February 2014, Thinfilm ASA received a government grant of NOK 5.9 million from The Research Council of Norway relating to development of production methods for printed electronics. The project ran until 1 February 2017.

In February 2015 Thinfilm ASA received an additional grant from The Research Council of Norway of NOK 12 million relating to enhancing durability and liftetime of Thinfilm smart tags. The project ran until 1 April 2018.

In 2017 Thinfilm ASA had a project qualified for the SkatteFUNN scheme (tax credit scheme), which relates to the development of integration and assembly methods for printed smart labels. The project ran until December 2017.

In 2018 Thinfilm ASA had a new project qualified for the SkatteFUNN scheme for the three-year horizon 2018–2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million (2017: NOK 10 million).

The accounting policy adopted for these grants is to recognize other operating revenue over the periods in which the Company recognizes as expenses the related costs for which the grant is intended to compensate, apart from the SkatteFUNN grant which has been credited against cost on a systematic basis over 2017.

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway. Similar progress reports are required in all the grants.

Please refer to Note 16 in the Consolidated Financial Statements for a description of uncertainty relating to SkatteFUNN income.

14. Other Income

Amounts in NOK 1,000	2018	2017
Intercompany Sales of services to Thin Film Electronics AB	—	834
Sale of IP rights	971	234
Total	**971**	**1,068**

Sales of IP rights related to the Xerox transaction, amounting to NOK 971 thousand.

For 2017 total Other income amounted to NOK 1068, of which NOK 834 thousand relates to sale of services to ThinFilm Electronics AB, and the sale of IPR regarding Memory™ product. Capitalized development costs related to Xerox amounted to NOK 234 thousand.

15. Employee salaries and other benefits

Amounts in NOK 1,000	2018	2017
Salaries	22,009	16,182
Social security costs	2,753	2,955
Share-based compensation (subscription rights), notional salary cost	6,459	5,547
Share-based compensation (subscription rights), accrued employer´s tax*	–356	–509
Pension contribution	1,001	855
Other personnel related expenses, including recruiting costs	703	943
Total	**32,569**	**25,975**
Average number of employees for the year	9	9
Number of employees 31 December	10	10

At the end of 2018 there were 10 fulltime employees in the company (2017: 10 fulltime employees).

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

Compensation to senior management

	Salary	Pension contribution	Bonus	Share-based remuneration
2018				
Kevin Barber, CEO starting 26 November 2018	370	—	—	2,680
Davor Sutija, CEO (until 26 November 2018, full-year salary)	3,625	102	2,336	2,746
Ole Ronny Thorsnes, CFO	2,506	102	1,011	1,327
2017				
Davor Sutija, CEO	3,222	123	2,177	3,033
Ole Ronny Thorsnes, CFO	1,810	108	787	1,209

The salary amount is the salary declared for tax purposes. Bonus is the amount earned during the year and accrued at year-end.

This amount is adjusted for any difference between the bonus earned in 2017 and accrued for at year-end 2017 and the actual bonus paid in 2018.

The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights.

No subscription rights were exercised in 2018. Davor Sutija exercised 1,750,000 subscription rights in 2017. See also Note 21.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the board of directors

Reference is made to Note 18 in the Consolidated Financial Statements.

16. Income tax expense

The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in NOK 1,000	2018	2017
Profit (loss) before tax	(574,732)	(527,533)
Tax (tax income) calculated at corporate tax rate	(132,188)	(126,608)
Permanent differences	35,014	626
Effect of change in tax rates (23% to 22%) (24% to 23%)	21,296	17,071
Change in deferred tax asset not recognised on the balance sheet	75,879	108,911
Tax charge	—	—
Corporate tax rate	23%	24%

17. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Amounts in NOK 1,000	31 December 2018	31 December 2017
Deferred income tax asset Intangible asset	(4,071)	(2,109)
Tax loss carried forward	(464,436)	(390,519)
Calculated deferred tax asset	(468,507)	(392,628)
Impairment of deferred tax asset	468,507	392,628
Deferred tax asset in the balance sheet	**—**	**—**

The company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway with tax rate 22% (2017: 23%).

18. Related party transactions

a) Transactions with related parties:

Amounts in NOK 1,000	2018	2017
Sale of services to Thinfilm AB	—	(834)
Technical development services from Thinfilm AB	11,834	67,804
Sales, marketing, R&D and manufacturing services from Thinfilm Inc.	363,723	380,084
Sales and marketing services from Thinfilm HK	69	8,994
Sales and marketing services from Thinfilm CN	402	—
Sales and marketing services from Thinfilm UK	9,005	8,487
Internal purchase of goods for resale from Thinfilm Inc.	128	24,962
Intercompany interest income on loan to Thinfilm Inc.	(2,903)	(1,581)
Intercompany royalty income from Thinfilm Inc.	(83)	—
Purchases of services from law firm Ræder	2,739	3,925
Purchase of services from Robert N. Keith	2,000	1,920

Services provided by subsidiaries and capitalized in the balance sheet as development costs amount to NOK 12,932 thousand (2017: 5,765 thousand). Last year, the 2017 amount was credited against Other expenses.

Thinfilm's chairman, Morten Opstad, is a partner of Advokatfirma Ræder DA, who is also Thinfilm's legal counsel. The amounts do not include Mr. Opstad's service as chairman. Mr. Opstad and close associates hold shares in Thinfilm.

Robert N. Keith, a shareholder of Thinfilm, entered into a consulting service agreement with effect from 1 January 2013. Mr. Keith assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in NOK 1,000	2018	2017
Payable to Thinfilm Inc.	30,971	90,479
Payable to Thinfilm AB	39,670	38,910
Payable to Thinfilm HK	76	1,398
Payable to Thinfilm UK	1,260	2,239
Payable to Thinfilm CN	402	—
Receivable from Thinfilm AB	(943)	(834)
Receivable from Thinfilm INC	(77,448)	(46,127)
Receivable from Thinfilm HK	(7,018)	(1,563)
Receivable from Thinfilm UK	(1,106)	(1,785)
Receivable from Thinfilm SG	24	—
Payable to law firm Ræder	742	1,173
Payable to Robert Keith	2,000	—

Note 19 Other operating expenses

Amounts in NOK 1,000	2018	2017
Premises, supplies	4,105	3,180
Sales and marketing	1,333	1,319
Other expenses	14,652	4,845
Sum	**20,090**	**9,343**

Thinfilm has a lease agreement for premises in Oslo (Norway). The lease amount in Oslo is NOK 780 thousand per year, with a termination clause of 3 months. The agreement was terminated effective March 2019, and Thinfilm moved to a new office location in March 2019.

The new lease amounts to NOK 689 thousand per year, with a termination clause of 3 months.

Thinfilm ASA has not entered into any other lease agreements.

Remuneration to the auditor

Amounts in NOK 1,000	2018	2017
Audit	806	802
Other assurance services	15	58
Tax services	28	224
Other services	—	18
Total	**849**	**1,102**

20. Contingent liabilities

Reference is made to Note 24 in the Consolidated Financial Statements.

21. Shareholders, warrants and subscription rights

Reference is made to Note 25 in the Consolidated Financial Statements.

22. Statement on management remuneration policy

Reference is made to Note 26 in the onsolidated Financial Statements.

Corporate Social Responsibility (CSR) Statement

The Thin Film Electronics ASA Group recognizes that it has important obligations regarding 1) the treatment of its employees, 2) the conditions within its facilities, 3) its impact on the environment, and 4) the relationships it maintains with the communities in which it operates. As such, it adheres to policies related to these obligations and strives to achieve goals that engender safety, health, fairness, diversity, integrity, compliance, and sustainability.

Human rights and workplace practices

Policy

Thinfilm promotes equality and non-discrimination, fairness, and ethical behavior. The company aims to offer a pleasant, well-equipped, and risk-free work environment. It maintains fair and balanced employment practices and complies with all applicable labor laws applicable to the countries, regions, cities and towns in which it operates. Thinfilm encourages and expects similar commitments from its customers, partners, suppliers, and other vendors with whom the company works.

Objective

Maintain a secure, safe, and healthy work environment for all employees of the company. Continue to be a globally diverse company that strongly distances itself from any form of discrimination. Thinfilm makes every reasonable effort to secure a healthy, safe, and lawful work environment, and the company complies with all applicable laws, rules, and regulations concerning occupational health, safety, and environmental protection. The company's policies prohibit discrimination against employees, shareholders, directors, customers, partners, suppliers, and other vendors on account of gender, race, sexual orientation, religion, disability, nationality, political opinion, and social or ethnic origin. Employees are provided with an Employee Handbook outlining corporate policy. Workplace diversity at all levels is highly encouraged and monitored. All persons shall be treated with dignity and respect and are encouraged to assist in creating a work environment free from any form of discrimination. The necessary conditions for a safe and healthy work environment shall be provided for all employees of the company.

To ensure a safe and healthy work environment, Thin Film Electronics ASA (Norway) maintains an Injury and Illness Prevention Program. The company has also established a Work Environment Committee that periodically addresses work environment issues in a comprehensive way as a cooperative body. The group meets at least once every quarter. At Thinfilm Electronics, Inc., (US) all employees are required to complete a safety training course within their first month of employment. In compliance with Proposition 65, Thinfilm Electronics, Inc., also informs employees of the onsite presence of any known chemical known to cause cancer or reproductive toxicity.

Thinfilm is committed to fully complying with all applicable laws regarding equal employment opportunities. Employees who believe they have been subjected to any form of unlawful discrimination may submit a complaint to their manager, any member of the management team, and/or Human Resources. The company encourages all employees to immediately report incidents of harassment or other conduct prohibited by its anti-harassment policy so that complaints can be resolved in a fair and timely manner.

Ethics and anti-corruption

Policy

It is important that Thinfilm staff members do not place themselves in situations whereby their fidelity can be undermined or in which they may be vulnerable to external pressures contrary to Thinfilm's or their own integrity. It is communicated and expected that all employees do not accept, either for themselves or on behalf of others, gifts, fees, services or other benefits which could influence the way they discharge their duties, or are intended to exert such influence by the giver.

Objective

Systematize and further improve internal training and education as it relates to ethics and anti-corruption compliance. Thinfilm's Ethical Guidelines are based on respect and fairness in all aspects of our business dealings. We demand and expect that our employees – at every level of the organization – adhere to applicable laws and regulations in the countries where we do business. Thinfilm has a clear stance on corruption. Employees must always comply with applicable anti-bribery laws; and each manager and employee is responsible for compliance within his or her area of authority, and must report any suspected violations to HR, corporate management, and in certain case, the local authorities.

Environment

Policy

Thinfilm requires that all subsidiaries of the Thinfilm Group follow all current environmental laws and regulations for the jurisdictions in which they reside and operate. Thinfilm routinely evaluates the environmental impact of its production- and manufacturing-related activities, with particular emphasis on the potential risks regarding present and future operations. Thinfilm operates its NFC Innovation Center (with backend pilot production facility, laboratories, and a fab) in San Jose, CA.

Objective

Thinfilm strives to monitor waste production, such as chemicals and electronics materials, to evaluate where and how the company can improve – such as using fewer chemicals, leveraging alternative materials, and/or maximize the usage of current materials. Thinfilm recognizes the impact that hazardous waste can have on the environment and takes every reasonable precaution to discard and recycle waste according to federal, state, and regional laws and regulations.

In the Linköping, Sweden, production facility (which has scaled down significantly and no longer serves as a pilot production facility), paper, steel/iron, aluminum, copper, tree waste, glass, batteries, electronic waste, and various forms of packaging were sent to the appropriate recycling facilities. Chemicals (except silver, which is destroyed separately) were kept in containers and sent to Tekniska Verken in Sweden for proper handling and disposal. Other laboratory waste was sent to the recycling center, IL Recycling.

In the San Jose, CA facility, Thinfilm partners with a licensed Environmental Services provider and strict guidelines are followed for the storage and disposal of hazardous material. The state of California tracks any Thinfilm hazardous material shipments to the final disposal/incineration site to ensure overall compliance.

Responsibility Statement

The board and the CEO have today reviewed and approved this report of the board of directors as well as the annual financial statements for the Thin Film Electronics ASA Group and parent company as at 31 December 2018. The consolidated annual financial statements have been prepared in accordance with IFRS as adopted by the EU and the additional requirements in the Norwegian accounting act. The annual financial statements for the parent company have been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway. The notes are an integral part of the respective financial statements. The report of the board of directors has been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway.

We confirm that, to the best of our knowledge, the information presented in the financial statements gives a true and fair view of the group's and the parent company's assets, liabilities, financial position and result for the period viewed in their entirety, and that the report from the board of directors and Managing Director (CEO) gives a true and fair view of the development, performance and financial position of the group and the parent company, and includes a description of the principal risks and uncertainties which the group and the parent company are facing.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad
Chairman

Tor Mesøy
Board Member

Preeti Mardia
Board Member

Laura Oliphant
Board Member

Kevin Barber
Managing Director (CEO)

Auditor's Report

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To the General Meeting of Thin Film Electronics ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Thin Film Electronics ASA, which comprise:

- The financial statements of the parent company Thin Film Electronics ASA (the Company), which comprise the balance sheet as at 31 December 2018, the profit and loss statements and cash flow statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Thin Film Electronics ASA and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at 31 December 2018 and consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated cash flow statements 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 in the consolidated financial statements, Note 1 in the parent financial statements, and the report from the Board of Directors, which indicates that the Group and the Company do not have sufficient funding to operate the next 12 months. The Group and the Company's ability to continue as a going concern is dependent on its ability to secure funding to support its working capital requirements as well as committed capital expenditures.

These events or conditions, along with other matters as set forth in Note 2.1 and Note 1 and the report from the Board of Directors, indicate that a material uncertainty exists that may cast significant doubt on the Group and the Company's ability to continue as a going concern and therefore, that the Group and the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment and onerous contracts

Key audit matter	How the matter was addressed in the audit
As described in the Board of Directors report and Note 6 and 7 in the consolidated financial statements, property plant and equipment and intangible assets were impaired by USD 14.9 million in 2018, due to a slower than anticipated market adaption of the NFC technology. The total carrying value of property, plant and equipment and intangible assets net of impairment amounted to USD 24.9 million at 31 December 2018. The total remaining contractual commitments to complete the ongoing development on property, plant and equipment amounts to USD 5.1 million. We focused on this area due to the significant management judgement involved in assessing the recoverability of these non-current assets.	The following procedures were performed, among others, to address the matter: - We obtained the Board and managements updated strategy. - We assessed the key assumptions used in assessing the fair value, including future expectation of commercialization of certain products, and we compared to underlying sources or historical information, if relevant. - For contractual commitments to complete the ongoing development of property, plant and equipment, we challenged the remaining contractual costs and tested that these agreed to underlying documentation. - We assessed the adequacy of the related disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

From the matters communicated with 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

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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed 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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 30 April 2019
Deloitte AS

Mette Herdlevær

Mette Herdlevær
State Authorised Public Accountant (Norway)

Corporate Governance

Resolved (updated) by the board of directors of Thin Film Electronics ASA (the "Company") on 30 April 2019.

The statement outlines the position of the Company in relation to the recommendations contained in the Norwegian Code of Practice for Corporate Governance dated 17 October 2018 ("the Code"). The Code is available at www.nues.no and from Oslo Børs. In the following, the board of directors will address each section of the Code and explain the areas, if any, where the Company does not fully comply with the recommendations and the underlying reasons.

1. Implementation and reporting on Corporate Governance

The Company seeks to create sustained shareholder value. The Company makes every reasonable effort to comply with the word and intent of the laws, rules and regulations in the countries and markets in which it operates. Thinfilm is not aware of being or having been in breach of any such statutory laws, rules or regulations. The Company pays due respect to the norms of the various stakeholders in the business. In addition to the shareholders, the Company considers its employees, Thinfilm's business partners, the society in general and the authorities as stakeholders. Thinfilm is committed to maintain a high standard of corporate governance, be a good corporate citizen and demonstrate integrity and high ethical standards in all its business dealings.

The board believes that in the present organization – the Thinfilm group presently has approximately 145 ordinary employees and a few consultants on site – the board of directors and the management have adequate monitoring and control systems in place to ensure insight into and control over the activities. (Note: In this review, the noun "the management" includes all persons conducting managerial functions, whether employed or otherwise contracted.)

The board has resolved ethical guidelines that apply to all employees, consultants and contractors as well as the elected board members. The ethical guidelines also incorporate the Company's guidelines on corporate social responsibility.

2. Thinfilm's business

The objectives of the Company shall be to enable Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company's business goals and principal strategies are defined in the business plans adopted by the board of directors. The plans are reviewed and revised periodically, and when needed.

Thinfilm satisfies the recommendations under this section of the Code by publishing the material at www.thinfilm.no instead of in the annual report.

3. Equity and dividends

The board is aware of and acknowledges the equity requirements and duty of action in connection with loss of equity, as set out in the Norwegian Public Limited Companies Act (the "PLCA"). In the past, the Company has been in need of raising equity on several occasions to fund its operations and working capital requirements. The board has proposed to the general meeting only reasonable authorizations for share issues and incentive schemes. Such board authorizations have explicitly stated the type and purposes of transactions in which the authorizations may be applied. As of the general meeting(s) to be held in 2019, any proposed authorizations to issue shares shall be considered and voted separately by each type and purpose of such share issues. The board authorizations to issue shares have been valid until the next annual general meeting, as recommended by the Code. The proposals have been approved by the shareholders.

The Company has in place an authorization to the board to acquire up to 10 per cent of the Company's own shares for a maximum price of NOK 1,000 per share. The board was authorized to decide upon the manner and terms of the acquisition, disposition, transfer and sale of own shares. The length of the authorization is limited to the earlier of (i) the next annual general meeting of shareholders (scheduled for 28 May 2019) or (ii) 30 June 2019.

Thinfilm has not as yet declared or paid any dividends on its shares. The Company does not anticipate paying any cash dividends on its shares in the next few years. Thinfilm intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay dividends will depend on the Company's financial condition, results of operation and capital requirements.

4. Equal treatment of shareholders and transactions with close associates

The Company places great emphasis on ensuring equal treatment of its shareholders. The Company has one class of shares. There are no trading restrictions or limitations relating only to non-residents of Norway under the Articles of Association of the Company. Each share carries one vote. There are no restrictions on voting rights of the shares.

In the authorizations to issue shares to raise additional capital for the Company, where the existing shareholders have resolved to waive the pre-emptive right to subscribe for shares, the rationale for doing so shall be presented as part of the decision material presented to the general meeting. If and when such transactions are conducted, the justification will also be included in the announcements to the market.

All related party transactions in effect are entered into on arm's length basis. Any material future related party transactions shall be subject to an independent third party valuation unless the transaction by law requires shareholder approval. The Company takes legal and financial advice on these matters when relevant. Members of the board and the management are obliged to notify the board if they have any material direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares

All shares are freely assignable. The Articles of Association do not contain any restrictions on negotiability on the shares.

6. General meetings

The annual general meeting of shareholders, the Company's highest decision-making body, provides a forum for shareholders to raise issues with the board as such and with the individual board members. To the maximum degree possible, all members of the board shall be present at the general meeting. The Company's auditors shall also be present at the general meeting. The shareholders elect a person to chair the general meeting. The board will arrange for an independent candidate if so requested by shareholders. Notice of a meeting of the shareholders shall be sent in a timely manner and the Company shall issue the notice and documents for a general meeting, including the proxy form, no later than 21 days before the date of the general meeting. Foreign residents will receive the notice and documents in English. When appropriate, the documents will be made available at the Company's web site and not sent to the shareholders.

The board of directors endeavors to provide comprehensive information in relation to each agenda item in order to facilitate productive discussions and informed resolutions at the meeting. The notice will also provide information on the procedures shareholders must observe in order to participate in and vote at the general meeting. Shareholders who are unable to attend in person will be provided the option to vote by proxy in favor or against each of the board's proposals. The notice shall contain a proxy form as well as information of the procedure for proxy representation. At the meeting, votes shall be cast separately on each subject and for each office/ candidate in the elections. Consequently, the proxy form shall to the extent possible, facilitate separate voting instructions on each subject and on each office/ candidate in the elections. The notice, as well as the Company's website, will set out that the shareholders have the right to propose resolutions in respect of matters to be dealt with at the general meeting.

The general meeting has included in Section 7 of the Company's Articles of Association that documents which have been made available in a timely manner

on the web site of the Company and which deal with matters that are to be handled at the general meeting, need not be sent to the Company's shareholders.

All reports will be issued on the Oslo Børs marketplace (www.oslobors.no and www.newsweb.no) within the Oslo Stock Exchange, and on the OTCQX International Marketplace (www.otcmarkets.com/marketplaces/otcqx). The reports and other pertinent information are also available at www.thinfilm.no.

7. Nomination committee

Under the Articles of Association, Thinfilm has a nomination committee that is elected by the annual general meeting for a term of two years. The nomination committee shall have three members, including a Chairman. The nomination committee shall prepare and present proposals to the annual general meeting in respect of the following matters:

- Propose candidates for election to the board of directors
- Propose the remuneration to be paid to the board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members The mandate of the nomination committee shall be resolved by the annual general meeting.

The Company provides information on its website about the composition of the nomination committee and any deadlines for submitting proposals to the committee.

8. Corporate assembly and board of directors; composition and independence

Thinfilm does not have a corporate assembly.

The board acknowledges the Code's recommendation that the majority of the members of the board of directors shall be independent of the Company's management and material business contacts. All board members are required to make decisions objectively in the best interest of the Company, and the presence of independent directors is intended to ensure that additional independent advice and judgement is brought to bear. The current board meets the independence criteria of the Code. The board meets the statutory gender requirements for the board. The board's attendance statistics are included in the presentation of the board members in the annual report.

Board members stand for election every two years. The board believes that it is beneficial for the Company and its shareholders that the board members also are shareholders in the Company and encourages the members of the board of directors to hold shares in the Company.

The board pays attention to ensure that ownership shall not in any way affect or interfere with proper performance of the fiduciary duties, which the board and the management owe the Company and all shareholders.

As and when appropriate, the board takes independent advice in respect of its procedures, corporate governance and other compliance matters.

9. The work of the board of directors

The division of duties and responsibility between the CEO and the board of directors is based on applicable laws and well-established practices, which have been formalized in writing through a board instruction in accordance with the Norwegian Public Limited Companies Act. The board instruction also sets out the number of scheduled board meetings per year and the various routines in connection with the board's work and meetings.

The board instructions state that in situations when the Chairman is not impartial or not operative, the most senior board member shall chair the board until a deputy Chairman has been elected by and among the board members present.

The board of directors shall evaluate its performance and expertise annually. Moreover, the board will produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.

With a compact board of only four members, there has not been any need for subcommittees to date. The future need for any sub-committees will be considered minimum annually in connection with the annual review of the Company's corporate governance.

Thinfilm is not obliged to have a separate audit committee and in view of the small number of board members, the Company's Audit Committee consists of all board members who are not also executives or have similar roles in the Company. The board instruction includes an instruction for the audit committee.

10. Risk management and internal control

The board of directors has adopted internal rules and guidelines regarding, amongst other things, risk management and internal control, which rules and guidelines take into account the extent and nature of the Company's activities as well as the Company's corporate values and ethical guidelines, including the corporate social responsibility. The board of directors shall carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

In view of the size of the Company and the number of board members, the board has chosen to elect the full board (except any board members who hold executive positions) to constitute the audit committee. The audit committee policies and activities are compliant with the Norwegian public limited companies act.

The board of directors has adopted an insider manual with ancillary documents intended to ensure that, among other things, trading in the Company's shares by board members, executives and/or employees, including close relations to the aforementioned, are conducted in accordance with applicable laws and regulations.

Internal control and risk management of financial reporting;

Thinfilm publishes four interim financial statements in addition to the ordinary annual financial statements. The financial statements shall satisfy legal and regulatory requirements and be prepared in accordance with the adopted accounting policies, and be published according to the schedule adopted by the board. Closing of accounts, financial reporting and key risks analysis are provided monthly to the board of directors.

Thinfilm has established a series of risk assessment and control measures in connection with the preparation of financial statements. Specific reporting instructions are drawn up on a regular basis and communicated to the subsidiaries. In connection with subsidiaries' closing of accounts, internal review meetings are held to ensure compliance with the governing reporting instructions.

In addition, separate meetings are held to identify risk factors and measures linked to important accounting items or other factors. The board also has separate meetings with the external auditor to review such risk factors and measures, and conducts preparatory reviews of interim financial statements and annual financial statements that particularly focus on reporting of operational costs and investments.

A financial manual, which sets out policies and procedures for financial management and reporting in the group, was prepared and resolved by the board of directors in connection with the listing of Thinfilm's shares at Oslo Axess. This manual provides detailed instructions for financial planning, treasury, accounting and reporting, and is reviewed and updated annually by the board.

11. Remuneration to the board of directors

A reasonable cash remuneration to the board members for their services from the annual general meeting in 2017 until the annual general meeting in 2018 was proposed to and resolved at the 2018 annual general meeting. To lessen the cash outflow, the annual general meeting granted an option to the board members to receive all or part of the remuneration in kind in the form of shares in the Company. No board members took up this option in 2018. The nomination committee will propose board remuneration for the period between the annual general meetings of 2018 and 2019.

Advokatfirma Ræder DA, in which the Chairman, Morten Opstad, is a partner, renders legal services to the Company. A board member performing work for the Company beyond the board duty shall ensure that such arrangements do not in any way affect or interfere with proper performance of the fiduciary duties as a board member. Moreover, the board (without the participation of the interested member) shall approve the terms and conditions of such arrangements. Adequate details shall be disclosed in Thinfilm's annual financial statements.

12. Remuneration of the management

Thinfilm offers market-based compensation packages for the executives and employees in order to attract and retain the competence that the Company needs. The exercise price for any subscription right is equal to, or higher than, the market share price at the time of the grant. The subscription rights vest in tranches over four years. No golden parachutes are in effect, and post-employment pay will only apply in case the Company invokes contractual non-competition clauses.

The board shall determine the compensation of the CEO. There is a maximum amount of incentive remuneration per calendar year. It follows from the nature of the incentive subscription rights program resolved by the annual general meeting that the limit does not apply to the possible gain on subscription rights. The board has adopted a policy for the CEO's remuneration of the employees.

At the annual general meeting, the board will present to the shareholders for their approval a statement of remuneration to the management. The resolution by the annual general meeting is binding to the extent it relates to share-based compensation and advisory in other aspects.

13. Information and communication

The board of directors places great emphasis on the relationship and communication with the shareholders. The primary channels for communication are the interim reports, the annual report and the associated financial statements. Thinfilm also issues other notices to the shareholders when appropriate. The general meeting of shareholders provides a forum for the shareholders to raise issues with the board as such and the individual board members. All reports are issued and distributed according to the rules and practices at the market place(s) where the Thinfilm shares are listed. The Company shall in due course publish an annual financial calendar for the following year; setting forth the dates for major events such as its annual general meeting, publication of interim reports, any scheduled public presentations, any dividend payment date, etc. The reports and other pertinent information are also available on the Company's website, www.thinfilmnfc.com.

The board of directors has adopted the following policies:

- Policy for reporting of financial and other information and investor relations;
- Policy for contact with shareholders outside general meetings; and
- Policy for information management in unusual situations attracting or likely to attract media or other external interest.

The financial reporting of Thinfilm is fully compliant with applicable laws and regulations. As of the interim financial information for third quarter 2007, Thinfilm has prepared its consolidated financial reports in accordance with IFRS. The current information practices are adequate under current rules.

14. Take-overs

There are no take-over defense mechanisms in place. The board will endeavor that shareholder value is maximized and that all shareholders are treated equally. The board shall otherwise ensure full compliance with Section 14 of the Code.

15. Auditors

The Company's auditor is fully independent of the Company. Thinfilm represents a minimal share of the auditor's business. Thinfilm does not obtain business or tax planning advice from its auditor. The auditor may provide certain technical and clerical services in connection with the preparation of the annual tax return and other secondary reports, for which Thinfilm assumes full responsibility.

The board of directors has established written guidelines to the CEO in respect of assignments to the auditor other than the statutory audit.

The board of directors shall otherwise ensure full compliance with Section 15 of the Code.

Articles of Association

§1 The name of the company

The name of the company is Thin Film Electronics ASA. The company is a public limited company.

§2 The company's business

The objectives of the company shall be the commercialization, research, development and production of technology and products related to printed electronics components and smart systems. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the company's ecosystem partners.

§3 Registered office

The registered office of the company is situated in Oslo.

§4 The company's share capital

The company's share capital is NOK 128,905,877.87 divided into 1,171,871,617 shares each having a par value of NOK 0.11.

§5 The company's governance

The company's board of directors shall consist of from three to nine members, as decided by the general meeting. The board may grant powers of procuration.

§6 The general meeting

The ordinary general meeting shall consider and decide:

1. Adoption of the annual financial statement and report of the board of directors, including the declaration of a dividend.
2. Election of chairman and members of the nomination committee, and determination of remuneration to the members of the nomination committee.
3. Any other business required by the laws or the articles of association to be transacted by the general meeting.

The general meetings of the company shall as a general rule be conducted in the Norwegian language. However, the board of directors may decide that the English language shall be used.

§7 Exemption from requirements to submit documents with notice of general Meeting

Documents which timely have been made available on the Internet site of the company, and which deal with matters that are to be handled at the general meeting, do not need to be sent to the company's shareholders.

§8 Registration for general meeting

A shareholder who wishes to attend the general meeting, in person or by proxy, shall notify its attendance to the company no later than two days prior to the general meeting. If the shareholder does not notify the company of its attendance in a timely manner, the company may deny the shareholder access to the general meeting.

§9 Nomination committee

a. Thin Film Electronics ASA shall have a nomination committee. The nomination committee shall have three members, including a chairman. Members of the nomination committee shall be elected by the Annual General Meeting for a term of two years.
b. The nomination committee shall:
   - Propose candidates for election to the board of directors
   - Propose the remuneration to be paid to the board members
   - Propose candidates for election to the nomination committee
   - Propose the remuneration to be paid to the nomination committee members
c. The mandate of the nomination committee shall be resolved by the Annual General Meeting.

§10 Relation to the Norwegian Public Limited Companies Act

Reference is also made to the legislation concerning public limited companies in force at the relevant time.

Board of Directors

Morten Opstad
Chairman

MORTEN OPSTAD has served as Chairman of the Board of the company since 2 October 2006. He is a partner of Advokatfirma Ræder DA in Oslo.

He has rendered legal assistance with respect to establishing and organizing several technology and innovation companies within this line of business. His directorships over the last five years include current board positions in Idex ASA (Chairman), Total Sports Online AS, Glommen Eiendom AS, Chaos AS, K-Konsult AS, and former directorships in Cxense ASA, Fileflow Technologies AS and A. Sundvall AS. Mr. Opstad was born in 1953 and is a Norwegian citizen.

Tor Mesøy
Board Member

TOR MESØY has served as a management consultant for more than 30 years and today heads his own consulting company. He was formerly a partner with McKinsey & Company and Accenture. He has extensive consulting and counseling experience from a range of industry sectors, including high-tech, telecommunications, healthcare, pharmaceuticals, public sector, energy, utilities, banking, insurance and oil & gas.

Mr. Mesøy is currently the CEO of Agnus Consulting, a company focusing on leadership development and management consulting. He is a guest lecturer at Carnegie Mellon University and the University of Hong Kong, where he lectures on topics related to leadership. Mr. Mesøy received a Bachelor's degree from the University of Oslo (Computer Science, Mathematics), a Master's degree from the University of Minnesota (Mathematics, Philosophy), and has attended the Advanced Business Management Program at Kellogg Graduate School of Business at Northwestern University. Mr. Mesøy was born in 1962 and is a Norwegian citizen.

Preeti Mardia
Board Member

PREETI MARDIA has diverse operational and commercial expertise across Electronics, Telecoms and FMCG sectors. She is a board director with GFinity plc and Maistro plc. Prior she held positions of Senior Vice President Operations at IDEX ÅSA and Operations Director at Access Wireless Ltd and Filtronic plc working with top tier OEMs and international semiconductor partners: She has FMCG experience in manufacturing and quality assurance with Cadbury Schweppes plc. She has a degree in Food Science & Technology and a Master's degree in Management from Ashridge UK. Ms. Mardia was born in 1967 and is a British citizen.

Dr. Laura Oliphant
Board Member

DR. LAURA OLIPHANT is a General Partner with Spirit Ventures, a new venture capital firm focusing on funding key enabling technologies. She is an experienced CEO, board member, and Investor who was an Investment Director in Intel Capital until 2016. At Intel, she was awarded the company's highest award, the Intel Achievement Award, for her contributions. Subsequently, she was the CEO of Translarity, an investor-backed, semiconductor test startup. She also holds board seats at Novelda AS, and Numascale AS, both based in Oslo.

Before Intel Capital, Dr. Oliphant was a Supply Chain Program Manager in Intel's Technology and Manufacturing Group. Dr. Oliphant was a key coordinator for Intel's transition to the 300 mm wafer size in their factories, a project that added to Intel's gross margin. She was also the co-chairperson of the SEMATECH Metrology and Yield Management Advisory Group, and part of the International Technology Roadmap for Semiconductors committee. She is currently on the board of advisors for the UC Berkeley Skydeck Accelerator and has served on the Lawrence Berkeley Lab Innovation Grant Committee.

Dr. Oliphant received her PhD in Chemical Engineering from the University of California, Berkeley.

Executive Management

Kevin Barber
Chief Executive Officer

KEVIN BARBER joined Thinfilm as Managing Director (CEO) in November 2018. He is responsible for driving worldwide strategic growth, scaling product innovation and manufacturing operations while increasing market penetration and identifying new business opportunities.

Mr. Barber was previously Senior Vice President and General Manager Mobile Division of Synaptics, where he drove the strategy, business development, M&A, growing revenue fourfold to more than $1 billion annually. Previously, he was CEO of ACCO Semiconductor, a venture capital funded startup. Prior to ACCO, Mr. Barber served as Senior Vice President, General Manager Mobile Business at Skyworks Solutions, where he led the strategy — achieving top RF power amplifier market share in the high-growth mobile market. Before joining Skyworks, Mr. Barber served as Senior Vice President, Operations at Conexant, where he led strategic efforts of global manufacturing scale, technology development and supply chain management, enabling Conexant to become a leader in diverse markets. He holds a Bachelor of Science degree in Electrical Engineering from San Diego State University and a Master's degree in Business Administration from Pepperdine University. Mr. Barber also currently serves as a Board Director at Intevac.

Ole Ronny Thorsnes
Chief Financial Officer

OLE RONNY THORSNES joined Thinfilm in August 2016 as Chief Financial Officer. In his role he oversees several functions within the company, including Finance, Accounting, Reporting, Investor Relations and Secretary of the board of directors. Prior to Thinfilm, Mr. Thorsnes was most recently Vice President, Mergers & Acquisitions, for Orkla ASA, a leading supplier of branded consumer goods and concept solutions operating primarily in the Nordic and Baltic regions. He previously served as a senior associate at McKinsey & Company, which he joined in 2008, working with a broad range of industries and focusing mainly on strategy, finance and operational initiatives. Mr. Thorsnes holds a Master of Science degree from the Norwegian University of Science and Technology's (NTNU) and the University of Edinburgh.

Christian Delay
Chief Commercial Officer

CHRISTIAN DELAY is the Chief Commercial Officer of Thinfilm. He is responsible for Sales, Business Development and Marketing. He joined Thinfilm in May 2016 as SVP, Strategic Marketing and GM, Software Platforms and was responsible for Thinfilm's software and IT strategy and solutions, the CNECT™ Cloud Platform, and the company's growing ecosystem of software partners.

Mr. Delay was previously with the Ask Partner Network (an IAC company) where he was responsible for the strategy and growth of APN's Mobile business. His efforts focused on building search and advertising solutions that were integrated with, and distributed to, application developers and OEMs, which led to significant user, query and revenue growth. Prior to joining APN, Mr. Delay held senior positions at Opera Software, Obopay, Yahoo and Infospace. He earned his MBA from Duke University after working for Arthur Andersen and JPMorgan in Switzerland.

Shannon Fogle
VP of Global Human Resources

SHANNON FOGLE is Thinfilm's VP of Global Human Resources. In this role she leads the Human Resources functions for Thinfilm at all locations across the world.

Ms. Fogle joined Thinfilm in 2014 as part of Thinfilm's acquisition of Kovio's Technology and the opening of Thinfilm's NFC Innovation Center in San Jose. Ms. Fogle lead the Human Resources functions at Kovio from 2007 until 2014. Prior to Kovio, Ms. Fogle worked in various Operations roles at Spansion and Advanced Micro Devices. Shannon holds a Bachelor of Science degree in Business Management from San Jose State University and is Certified by the Society of Human Resource Management.

Dr. Arvind Kamath
Executive VP, Technology Development

DR. ARVIND KAMATH is Executive Vice President, Technology Development. He joined Thinfilm in January 2014 from Kovio Inc. in San Jose where he served as Sr. Director, Technology Development. At Thinfilm he has built and led several teams in the areas of Technology Development, Engineering and Operations. Most recently he was responsible for the flexible substrate roll to roll PDPS (Printed Dopant Polysilicon) manufacturing scale up and led the teams that built a global ecosystem to enable this. At Kovio his primary responsibility was in leading materials, process and integration of a revolutionary silicon ink based printed electronics platform from initial feasibility to qualified product and yield.

Prior to Kovio he worked at LSI Logic R&D, Santa Clara in various managerial and individual contributor roles. This spanned process engineering, group management, R&D operations and SRAM integration and yield enhancement. Dr. Kamath earned a B.Tech degree in Metallurgical Engineering from the Indian Institute of Technology, Chennai and a Ph.D in Materials Science and Engineering from the microelectronics program at The University of Texas at Austin.

Dr. Matt Kaufmann
VP, Backend Manufacturing and Engineering

DR. MATT KAUFMANN joined Thinfilm in April 2016 as VP, Backend Manufacturing and Engineering. He was named EVP, Operations in February 2019 and oversees internal and external manufacturing, supply chain, and facilities for the company.

Prior to Thinfilm, he was VP, Strategic Accounts at Amkor Technology, a leading semiconductor assembly and test manufacturer, where he was responsible for all commercial, technical, and operational activities in support of the leading consumer mobile products customer. Earlier in his career he served as Managing Director, Worldwide Assembly Operations at Maxim Integrated, and Director, IC Assembly and Packaging Development at Broadcom. Throughout his career, Dr. Kaufmann has brought numerous advanced manufacturing technologies into high-volume production, including wafer-level packaging, optical sensors, and high-performance network processors. He holds multiple patents in electronics assembly technology and has a Ph.D. and M.S. in Mechanical Engineering from the University of Arizona, Tucson.

Giampaolo Marino
EVP Hardware Solutions

GIAMPAOLO MARINO joined Thinfilm in July 2018 as EVP Hardware Solutions. In this role he leads the Product Management and Engineering functions for Thinfilm, as well as the company's Quality Management program and hardware strategic partnerships.

Mr. Marino joined Thinfilm from NXP Semiconductors where he served as GM and Head of Product Line, Audio & Voice Solution Products, IoT, managing a global team responsible for R&D, marketing, business development, system architecture, product definition, and customer application support. Prior to NXP, Mr. Marino held senior product-related positions with Monolithic Power Systems, Texas Instruments, Intersil, and Analog Devices. He earned an MBA in Corporate Entrepreneurship, Marketing and General Management from the Franklin W. Olin School of Business at Babson College. He also holds a Bachelor of Science degree in Electrical Engineering and Computer Science from San Jose State University.

Annual Report 2018

Thin Film Electronics ASA

Thinfilm Electronics ASA

Annual Report 2019

thinfilm

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2019 Year in Review

2019 represented a pivotal year of strategic transition for Thinfilm. The Company experienced significant changes throughout 2019, as it navigated the process of rightsizing and repositioning the Company for future growth. Management remained focused on reducing Thinfilm's cost structure and the advancement of strategic initiatives.

During the first quarter of 2019, following the hiring of a new CEO, Kevin Barber, at the end of 2018, Thinfilm announced a strategic update and corporate restructuring intended to align the business with the then current market adoption of NFC, with plans to focus resources on developing and building market adoption of its brand protection and consumer engagement solutions. Thinfilm paused development of PDPS technology, as PDPS technology was not required nor deemed to be a critical part of building initial market volume. As a result of pausing the printed electronics line, Thinfilm also announced, after exhausting existing inventory with its leading customer, that the Electronic Article Surveillance (EAS) business would be discontinued. Consequently, the Company reduced its global footprint and shifted weight toward San Jose, California. These actions were designed to yield nearly USD 20 million in annualized savings at the operating level and resulted in an approximate 40 percent reduction in the work force.

The Company began the second quarter of 2019 with an investor presentation, released on April 24, 2019. The presentation announced pursuing two unrelated businesses. While the R2R factory has many potential applications, it had become clear that it was not a viable economic or technology fit for NFC and that there was a need to engage beyond NFC to leverage the R2R line technology and maximize the independent potential of the factory. The presentation further provided details related to the Product Solutions Business, highlighting the objectives to secure a go-to-market scale with strategic channel partner and deliver differentiated NFC silicon. On June 17, 2019, Thinfilm announced a contemplated private placement; however, subsequently announced, on June 21, 2019, the cancellation of the aforementioned private placement.

The third quarter of 2019 revealed more significant changes to Thinfilm's operations. On July 1, 2019, the company announced the hiring of a new CFO, Mallorie Burak. Later that month, a second corporate restructuring announcement was made on July 19, 2019, whereby the Company announced the need to narrow its strategic focus as a consequence of its failed fundraise attempt in June 2019. As a result, the Company further reduced its workforce, representing approximately USD 15 million in annualized savings. The Company released its First Half Report on August 30, 2019, providing further business updates, including that management was actively evaluating strategic alternatives to find new and interesting applications for the San Jose, California-based R2R line and continued to pursue paths to maximize the value of the assets and technology. In September 2019, Thinfilm closed an equipment term loan facility for USD 13.2 million. The proceeds were used for working capital to fund ongoing operations and to support its execution of strategic initiatives.

By the end of 2019, Thinfilm had reduced its headcount from 155 employees, as of December 31, 2018, to 23 employees. In addition, the Company continued the process of reducing its global footprint and focusing solely on its presence in Oslo, Norway and operations in San Jose, California. The significant cost savings resulting from operational decisions made in 2019 began to materialize in the fourth quarter, enabling the Company to preserve cash while finalizing its new business strategy for 2020. In January 2020, Thinfilm formalized its strategic shift to focus on the R2R factory and intent to monetize the NFC assets, announcing its updated corporate strategy focused on the design, development, and production of innovative battery solutions targeting existing market demand with differentiated solutions to power wearable devices and connected sensors.

About Thinfilm

Thinfilm is Energizing Innovation™ with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond. Thinfilm's innovative solid-state lithium battery (SSLB) technology is uniquely positioned to enable the production of powerful, lightweight, and cost-effective rechargeable batteries for diverse applications.

The Company's state-of-the-art flexible electronics manufacturing facility, located in the heart of Silicon Valley, combines patented process technology and materials innovation with the scale of roll-to-roll production methods to bring the advantages of SSLB technology to established and expanding markets.

Thin Film Electronics ASA is a publicly listed company in Norway with corporate headquarters in Oslo and global headquarters in San Jose, California.

Report from the Board of Directors

Introduction

Fiscal year 2019 revealed a continuation of the challenges faced during 2018 with respect to developing traction with NFC markets. Management concluded its strategic review of the Company structure, its technical competitive advantages, and the assessment of existing commercial markets the Company can most effectively serve. Thinfilm's change in leadership, with a new CEO, Kevin Barber, joining the Company in November 2018 and a new CFO, Mallorie Burak, joining the Company in July 2019, provided new perspective to this analysis.

The slower-than-expected growth rate of NFC tags on-package deployment, coupled with the inability to secure sufficient financing or monetization of the factory, required the Company to analyze the degree to which the Company could continue to invest in the development of this emerging market. As a result, the decision was made to transition away from the investment required to build the NFC market and proprietary CNECT software platform.

Consequently, Thinfilm began a process to pursue monetizing its CNECT software platform and related NFC assets through potential licensing or sale of its related intellectual property. Preliminary discussions have been initiated with potential multiple partners who are interested in offering NFC enabled solutions supported by a robust data analytics software platform. This can be accomplished by directly empowering the supply chain with cost-effective solutions, while allowing brands to engage consumers using Thinfilm's underlying technology. This decision allows management to focus on establishing a new path for the Company, leveraging its years of significant investment in its roll-to-roll ("R2R") manufacturing and process technology capabilities. The Company's focus on its R2R factory continued throughout 2019. Whereas in 2018 the Company reported several challenges relating to the timeline of the installation and acceptance testing of critical path tools, Thinfilm resolved these issues during 2019.

The Company experienced significant changes throughout 2019, as it navigated the process of rightsizing and repositioning the Company for future growth. Management remained focused on reducing Thinfilm's cost structure and closed a $13.2 million debt financing in the third quarter, enabling advancement of the new strategic initiatives.

Evaluation of new and compelling applications for the San Jose, California based R2R manufacturing plant continued throughout 2019, with the objective of leveraging the Company's years of significant investment in its R2R manufacturing and process technology capabilities. Based on the Company's decision to leverage existing intellectual property and manufacturing assets in the execution of its revised strategy, Thinfilm does not currently expect to issue warrants authorized in the October 23, 2019 Extraordinary General Meeting. The Company also focused on monetizing its remaining EAS inventory and was successful in selling a portion of its on-hand inventory in December 2019.

By the end of 2019, Thinfilm had materially reduced its headcount and cost structure by 42%. In addition, the Company continued the process of reducing its global footprint and focusing solely on its presence in Oslo, Norway and operations in San Jose, California. The significant cost savings resulting from operational decisions made in 2019 began to materialize in the fourth quarter, with further cost saving measures implemented during the first quarter of 2020, enabling the Company to preserve cash while finalizing its new business strategy for 2020.

A going concern assumption has been applied in preparing this 2019 financial report. As stated in the Business Review, slower than anticipated market adoption of on-package NFC tags underscored management's ultimate decision to pivot Thinfilm's strategic focus to existing markets that would enable the Company to leverage its state-of-the-art R2R production facility in San Jose, California.

The planned fundraising objective in March 2020 was impacted by the onset of the COVID-19 global pandemic, resulting in delays in securing commitments from potential investors. On 15 April 2020, an extraordinary general ("April EGM")

meeting was held, whereby the Board expressed its obligation to act on the loss of equity in the Company and proposed to the general meeting measures to restore the equity, also providing a statement on the Company's financial position to the shareholders. In connection with the Company's financial position, a share capital reduction was approved, reducing the par value of Thinfilm's stock from NOK 2.20 to NOK 0.11. Shareholders were advised that the Board was pursuing a Private Placement and should the Private Placement proposed not be approved and/or the Company fails to raise sufficient capital to restore the Company's equity, the Board would consider proposing a dissolution of the Company.

Following the April EGM, on 28 April 2020, the Company announced that the Board had received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants. As part of the total fundraise, and in order to secure the foregoing commitment by the consortium of investors, it is also contemplated that the Board will use its current authorization to issue shares (as provided by the 23 October 2019 extraordinary general meeting) and issue shares to such investors for the full 10% scope of the authorization at a subscription price per share of NOK 0.11, equaling the proposed subscription price in the private placement. The Company has received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and management, at a subscription price per share equal to the subscription price in the private placement. The offer is conditional upon the issuance of two warrants for each share subscribed for in the private placement. The first warrant ("Warrant A") would have an exercise price of NOK 0.11 per share and be exercisable at any time from the date of grant until 31 December 2020. The second warrant ("Warrant B") would have an exercise price of NOK 0.25 per share and be exercisable at any time from the date of grant up to fifteen months from approval by an Extraordinary General Meeting to be held on or about 20 May 2020 ("May EGM"). The Board will also propose to the upcoming May EGM that a subsequent (repair) offering is carried out at a subscription price per share equal to the subscription price in the private placement. The maximum amount of the subsequent offering would be NOK 7 million. In aggregate, we expect to receive NOK 32 million, including the repair issue, and possibly also an additional NOK 32 million in 2020 through the exercise of the first set of warrants (Warrant A), as further described in the Going Concern portion of this Report from the Board of Directors.

Risk exists that approval of the proposed equity investment programs may not be obtained during the May EGM. As of the end of April 2020, Thinfilm's cash was approximately USD 3.3 million. Total cash includes restricted cash of USD 1.6 million representing the security deposit for the San Jose, California building, as shown in Note 11 in the accompanying Notes to the Consolidated Financial Statements. The approximately USD 1.7 million of available cash at the end of April 2020 is more than offset by Thinfilm's approximately USD 3.0 million of current financial obligations to Thinfilm employees, tax authorities in various jurisdictions, and secured and unsecured creditors. In connection with the equity financing proposed for approval at the May EGM, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of Common stock in TFE Holding, owned by Thin Film Electronics ASA, in early May 2020 to ensure adequate cash remains available to operate until the equity financing closes. After closing the private placement, the Company will use the funds to further the development of the SSLB technology, continue pursuing patent filings, and work toward the integration of the SSLB technology for production on its proprietary R2R production line. With funding received through the equity programs to be approved at the May EGM, the Company anticipates having sufficient cash to operate through July 2020, providing the anticipated time required to achieve performance milestones, key among the development of product samples, remains on track and is not significantly impacted by potential supply chain, credit, and market risk resulting from the COVID-19 pandemic.

Should the equity investment programs not be approved at the May EGM, the Board will consider proposing a dissolution of the Company.

Management continues to make significant efforts to reduce its ongoing operating expense as it continues to execute its new Solid-State lithium battery (SSLB) technology as described in the outlook section in the Report from the Board of Directors. These cost cutting measures included a further reduction of headcount during the first quarter of 2020, settlement of long-term contractual obligations for services no longer required under the new strategy, and initiating processes to renegotiate payment terms tied to material agreements.

Upon approval of the private placement and subsequent offering at the May EGM, the Board plans to source additional investment from U.S. sources in order to fully fund the continued working capital requirements to execute upon the SSLB strategy. Due to the uncertain economic environment resulting from the COVID-19 pandemic and the potential supply chain and development delays that could impact Thinfilm's ability to meet its second quarter milestone of producing viable SSLB samples, successfully attracting and raising additional capital in the U.S. or abroad is not guaranteed.

There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern. If the Company fails to obtain additional investment commitments by the end of the second quarter 2020, the Board will consider proposing a dissolution of the Company. Should Thinfilm enter into liquidation, the costs to close as of the end of April 2020 are estimated to be approximately USD 3 million, excluding obligations related to its debt facility and building lease obligations. The USD 1.6 million cash secured letter of credit issued by Thin Film Electronics ASA ("Thinfilm ASA") would be surrendered to the landlord of the Junction Avenue building in San Jose, California. In addition, and as described in Note 6 – Investment in Subsidiaries included in the accompanying footnotes to the Thin Film Electronics ASA Annual Financial Statements 2019, in 2016 Thinfilm ASA executed a Tenancy Guaranty agreement with the San Jose, California landlord. The guaranty was given to secure payment of the lease rent. As of 31 December 2019, the guaranty liability was USD 4 million.

Intellectual property

As of year-end 2019, Thinfilm held 183 registered patents and had 95 patent applications pending. Many patents and submitted applications relate to PDPS technology, materials used, and processes related to the sheet and roll based manufacturing, located in San Jose, California, that will be instrumental to defining Thinfilm's differentiation in the SSLB battery space. In addition, Thinfilm holds trademarks and trade secrets relevant to its business and technology operations.

The group financial statements

Thinfilm's revenue and other income amounted to USD 1,181 thousand in 2019, a decrease of 65.24% from the preceding year (2018: USD 3,397 thousand). The Company continued to reduce its operating cost base, primarily driven by a reduction in headcount, cost control and lower manufacturing activity as the Company prepared for a strategy shift focusing on energy storage solutions to leverage its prior investment in its R2R production line and intellectual property fundamental to solid-state lithium battery technology development

Sales revenue amounted to USD 701 thousand in 2019 (2018: USD 1,288 thousand). A total of 5.8 million EAS tags were shipped during 2019, compared to 13.8 million in 2018. While shipments of NFC SpeedTap tags increased slightly in 2019 compared to the previous year, the sales relate to inventory manufactured in previous years.

Other income in 2019 of USD 472 thousand primarily related to gains on disposal of fixed assets. The company received sublease income from the second floor of its San Jose,California facility amounting to USD 182 thousand.

Salaries and other payroll costs amounted to USD 17,828 thousand in 2019, compared to USD 33,244 thousand in 2018. The decrease is primarily driven by a reduction in headcount, cost control, and lower manufacturing activity. Operating costs (excluding depreciation, amortization and impairment charges) amounted to USD 31,942 thousand during 2019. The corresponding figures for 2018 were USD 54,942 thousand. The decrease in operating costs during 2019, compared to 2018, was USD 22,531 thousand, and was primarily attributable to:

1 USD 14,237 thousand lower payroll due to the reduction in headcount for the year ended December 31, 2019, compared to the same period of 2018.

2 USD 4,953 thousand lower costs for premises and supplies. The worldwide downsizing of operations in 2019 led to a decrease in premises and supply costs. During 2018, Thinfilm's San Jose, California site was operating 24 hours per day, 7 days per week. In addition, with the implementation of IFRS 16 from 1 January 2019, the land component of the San Jose premises is treated as a financial lease, and therefore, no longer recognized as a rental expense, resulting in USD 360 thousand lower rent expense on an annual basis.

3 USD 1,830 thousand lower sales and marketing expenses. Cost savings initiatives resulted in reduced travel expenses and other sales and marketing-related costs in 2019, compared to the same period of 2018.

4 USD 1,179 thousand lower employee share based remuneration costs. The fair value of granted employee subscription rights are valued based on the Black-Scholes formula and expensed over the vesting period. This expense is lower in 2019, compared to the same period of 2018.

During 2019, Thinfilm narrowed its R&D activity to a single location, San Jose, California. During 2019, USD 811 thousand was spent developing manufacturing processes and operating procedures for roll-to-roll ("R2R") manufacturing located in San Jose, California. The corresponding amount for the same period of 2018 was USD 9,907 thousand.

Investments in fixed and intangible assets amounted to USD 6,540 thousand in 2019, compared to USD 20,606 thousand during the same period of 2018. The significant investments made in 2018 were

primarily related to equipment for the new R2R production line at the San Jose site. In 2019, Thinfilm had also made prepayments amounting to USD 3,287 thousand relating to investments in equipment and machinery and USD 4,846 in 2018. These pre-payments are recognized as other receivables, since the equipment and machinery had not been received from suppliers as of 31 December 2019. However, since these prepayments relates to R2R production line and as the Company has impaired all machinery related to the production line, this prepaid amount was also impaired, recorded as a contra asset, "Impairment of Fixed Assets", resulting in a zero balance in the other receivables. Thinfilm's R2R capital expenditure program was determined to cost USD 33,500 thousand versus USD 32,000 thousand initially budgeted in November 2016. Depreciation and amortization charges in 2019 amounted to USD 3,949 thousand, compared to USD 5,214 thousand during the same period in 2018. As of December 31, 2019, Thinfilm recognized an impairment charge of USD 42,379 thousand related to Intangibles and fixed assets located in San Jose, California. The impairment charges for 2018 was 14,332 thousand.

In accordance with IAS 36, the Company has analyzed the recoverability of the carrying amounts of production-related assets and financial leases as of December 31, 2019 versus their respective fair market values. Due to uncertainty related to the timing of the implementation of Thinfilm's energy storage strategy, management concluded that a full impairment was required as of December 31, 2019. In the event Thinfilm sells equipment in the future (to the extent that the equipment has not been pledged as collateral under financing agreements), income from gains on equipment sales may be higher than the impaired book value. Furthermore, in the event of a future change in circumstances, e.g. a change in strategy or market prospects, impairments may be reversed in part or in full, if a higher asset value can be defended.

Net financial items in 2019 amounted to a loss of USD (1,367) thousand compared to a loss of USD (1,089) thousand recognized in 2018. The loss in 2019 reflected realized gains of USD 497 thousand offset by interest expense of USD (1,524) thousand, of which USD (552) thousand relates to Utica lease, as compared to 2018, whereby unrealized foreign currency gains were the largest component.

The loss in 2019 was USD (78,446) thousand, corresponding to a basic loss per share of USD (1.34). In 2018, the loss amounted to USD (71,722) thousand, corresponding to a basic loss per share of USD (1.22).

Non-current assets amounted to USD 558 thousand (2018: USD 35,276 thousand). The decrease in non-current assets from 2018 to 2019 was mainly due to full impairment of the R2R production line in San Jose, California, intangible assets and the financial lease representing the building lease in San Jose, California. Trade and other receivables amounted to USD 2,806 thousand at the end of 2019 (2018: USD 8,862 thousand). The reduction relates mainly to impairment of prepayments to suppliers and equipment vendors for R2R production line equipment not yet received. Non-current liabilities amounted to USD 25,056 thousand (2018: 11,525 thousand) and is relating to future lease payments for the Junction Avenue premises and long-term debt relating to an equipment term loan facility with Utica. The equity ratio was negative (161) percent at the end of 2019, versus 75 percent at the end of 2018.

The group's cash balance decreased by USD 23,716 thousand in 2019 (2018: decreased by USD 65,532 thousand). The net decrease in cash balance is explained by the following principal elements:

1 USD (29,054) thousand outflow from operating activities,

2 USD (4,919) thousand outflow from investing activities,

3 USD 10,257 thousand inflow from financing activities, and

The USD 29,054 thousand outflow from operating activities is primarily explained by an operating loss, excluding depreciation, amortization and impairment charges, of USD 46,328 thousand. The cash outflow from operations and investing activities in 2019 was offset by the inflow from financing activities, primarily attributable to the USD 13,200 thousand Utica debt that closed in September 2019. The cash balance on 31 December 2019 was USD 8,872 thousand, as compared to the cash balance on 31 December 2018 of USD 32,588 thousand.

Parent company financial statements

Revenue and other income in the Parent Company amounted to NOK 5,182 thousand in 2019 (2018: NOK 10,391 thousand).

Personnel and payroll costs were NOK 16,126 thousand in 2019, versus NOK 32,569 thousand in the preceding year. As of 31 December 2019, only the CEO was employed by the Parent Company, as compared to 10 employees as of December 31, 2018. The Parent Company employed, on average, four full-time employees during 2019, compared to an average of nine full-time employees during 2018.

External purchases of services amounted to NOK 18,088 thousand in 2019, a decrease from NOK 18,483 thousand in the preceding year. Of the total amount for 2019, (i) NOK 11,868 (2018: 10,587) thousand related to legal, audit and accounting services, (ii) NOK 4,822 (2018: 5,490) thousand was tied to advisory services, technology support services and recruitment services,

(iii) NOK 1,398 (2018: 1,468) thousand related to remuneration of the Board of Directors and (iv) NOK 0 (2018: 938) thousand related to the purchase of development consulting services.

Purchase of services from subsidiaries decreased to NOK 260,241 thousand in 2019 from NOK 372,229 thousand in 2018, largely as a result of the strategic shift away from the NFC business. Other operating expenses decreased from NOK 20,090 thousand in 2018 to NOK 13,079 thousand in 2019. Capitalized development costs amounted to NOK 2,971 thousand in 2019, compared to NOK 12,932 thousand in 2018. The capitalization is booked as a reduction of other operating expenses.

Amortization and impairment of intangible assets amounted to NOK 22,466 thousand in 2019 compared to NOK 11,752 thousand in 2018. Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the EAS product will not, at this time, be commercialized, and the NOK 10,226 thousand capitalized development work on EAS has been fully impaired.

Net financial items amounted to an expense of NOK 160,151 thousand in 2019, compared to an expense of NOK 140,000, thousand in 2018. The net financial expense mainly consists of impairments of intercompany investments, particularly in Thin Film Electronics Inc., as a result of the property, plant and equipment impairment described in Note 6 of the Consolidated Financial Statements. The net financial items are partly netted by NOK foreign currency gains on USD-denominated assets.

The net result for 2019 for Thinfilm ASA was a loss of NOK (486,323) thousand (2018: Loss of NOK 574,732). The Board does not propose a dividend for 2019.

Share capital

Thinfilm shares were listed on Oslo Axess from 30 January 2008 until 26 February 2015. On 27 February 2015, Thinfilm shares were transferred to Oslo Børs (OSE Main List). On 24 March 2015, Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

At the end of 2019, there were 58,593,581 (2018: 58,593,581 as adjusted for the 20:1 reverse stock split in November 2019) shares in the Company which were held by 6,964 shareholders (2018: 6,045 shareholders). Par value is NOK 2.20 per share.

The closing price of Thinfilm shares on 30 December 2019 was NOK 2.33, reflecting the 20:1 reverse share split recorded in November 2019. On the last trading day in 2018, the closing price was NOK 14.96, as adjusted for the 20:1 reverse share split. The total share turnover during 2019 amounted to NOK 3,107 million compared to NOK 1,550 million in 2018, an increase of approximately one hundred percent.

On 23 October 2019, an Extraordinary General Meeting in Thin Film Electronics ASA was held, in which it was resolved to, inter alia, carry out a 20:1 reverse share split of Thinfilm's shares. Following completion of the reverse share split, the composition of Thinfilm's share capital was changed from 1,171,871,617 shares, each having a par value of NOK 0.11, to 58,593,581 shares, each having a par value of NOK 2.20. The record date of the reverse share split was 4 November 2019.

There were no exercises of vested incentive subscription rights during 2019 nor during 2018. The Annual General Meeting of Thin Film Electronics ASA resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") would be entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans notified the Company that they wished to participate in the exchange program, whereupon such Eligible Holders explicitly waived any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders.
The grants were made under the Company's 2019 Subscription Rights Incentive Plan as resolved at the Annual General Meeting on 28 May 2019. The exercise price of the subscription rights is NOK 4.67 per share, as adjusted for the 20:1 reverse share split. The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each

October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The annual general meeting in 2018 resolved an authorization to the Board to grant up to 5,859,358, as adjusted for the 20:1 reverse share split, independent subscription rights to employees and to individual consultants performing similar work in Thinfilm but limited so that the total number of outstanding subscription rights under all subscription rights programs shall not exceed 10 percent of the share capital. By the end of 2018, the Board had granted 2,603,372 subscription rights under this authorization and the total number of outstanding subscription rights was 4,412,622.

The annual general meeting in 2018 authorized the Board to complete one or more placements by issuing up to 5,859,358 shares, equivalent to NOK 12,890 thousand, which at the time corresponded to 10 percent of the Company's registered share capital.

Further 132,000 subscription rights have been granted, none exercised, and 527,891 forfeited and expired to date in 2020. Consequently, the total number of subscription rights on 23 April 2020 is 4,977,339, hence well within the 10 percent limitation. The authorization expires at the annual general meeting 2020.

Principal risks

Thinfilm is exposed to various risks of a financial and operational nature. The extraordinary current risks of the pandemic and its effect on the world economy are affecting everyone.

The Company's predominant risks are market and business risks, summarized in the following points:

I The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. In connection with the proposed NOK 32 million equity investment that the board is recommending shareholders approve at the upcoming 20 May 2020 Extraordinary General Meeting, lead participants in the investor consortium agreed to and have provided the Company with a NOK 20 million commitment as well as a USD 500 thousand bridge loan to ensure that the Company has sufficient levels of cash to continue its operations until such time that the equity financing closes. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and Management, at a subscription price per share equal to the subscription price in the private placement. In addition, the Company also expects to issue a subsequent offering of NOK 7 million. In aggregate the proposed equity offerings total NOK 32 million.

II Technology development and engineering sample availability on Thinfilm's sheet line can be adversely affected by several factors including but not limited to:

- Quality, composition and consistency of lithium-based materials, chemicals and unanticipated interactions of the various layers and processes resulting in longer than planned learning cycles and corrective actions, delaying customer sample engagements.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- Equipment reliability, modifications needed, and process optimization learning cycle efficiency that may limit the uptime, throughput and quality of the devices produced.
- Issues encountered during handling, processing and assembly of ultrathin substrates and battery stacks.
- Need for new materials or processes and/or equipment to achieve full manufacturing qualification and product reliability.

The startup and product manufacturing yield ramp on the roll-to-roll line can also be negatively influenced by several of the conditions or events noted below (but not limited to):

- Achievement of return to manufacturing readiness and qualification of the tool set.
- On site availability of vendor personnel to assist in requalification of the machines with battery materials set.
- Electro-Static Discharge (ESD) or other phenomena that may cause the need for process or mechanical handling changes in the manufacturing line.
- Lower than anticipated throughputs and uptime of the equipment with the battery material set resulting in a lower capacity than planned.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- New and unknown modes of yield loss necessitating process, practice or equipment modifications that can result in a slower than planned yield ramp.

- Issues encountered during roll handling, processing and assembly of ultrathin substrates and battery stacks.
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

III Many of the markets that Thinfilm targets in connection with its new energy storage strategy, will require time in order to gain traction, and there is a potential risk of delays in the timing of sales. Risks and delays may include, but are not limited to:

- Uncertain global economic conditions may adversely impact demand for our products or cause our customers and other business partners to suffer financial hardship, which could cause delays in market traction and adversely impact our business.
- Our ability to meet our growth targets depends on successful product, Marketing, and operations innovation and successful responses to competitive innovation and changing consumer habits that may result in changes in our customers' specifications.

The Company cannot assure that the business will be successful or that we will be able to generate significant revenue. If we fail to establish and build relationships with our customers, or our customers' products which utilize our solutions do not gain widespread market acceptance, we may not be able to generate significant revenue. We do not sell any products to end users, and we do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our solutions. Instead, we design various devices and products that our OEM customers incorporate into their products, and we depend on such OEM customers to successfully manufacture and distribute products incorporating our solutions and to generate consumer demand through marketing and promotional activities. As a result of this, our success depends almost entirely upon the widespread market acceptance of our OEM customers' products that incorporate our devices. Even if our technologies successfully meet our customers' price and performance goals, our sales could fail to develop if our customers do not achieve commercial success in selling their products that incorporate our devices.

Our ability to generate significant revenue from new markets will depend on various factors, including the following:

- The development and growth of these markets;
- The ability of our technologies and product solutions to address the needs of these markets, the price and performance requirements of OEMs, and the preferences of end users; and
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

IV To a certain extent, Thinfilm is dependent on continued collaboration with technology, material, and manufacturing partners.

There may be process and product-development risks that arise related to time to development and cost competitiveness of the energy storage products Thinfilm is developing.

Many manufacturers of these products have well established relationships with competitive suppliers. Our ongoing success in these markets will require us to offer better performance alternatives to other solutions at competitive costs. The failure of any of these target markets to develop as we expect, or our failure to serve these markets to a significant extent, will impede our sales growth and could result in substantially reduced earnings and a restructuring of our operations. We cannot predict the size or growth rate of these markets or the market share we will achieve or maintain in these markets in the future. Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our operating results. The inability to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Many of the materials used in the production of our products are available only from a limited number of foreign suppliers, particularly suppliers located in Asia.

V Our business results depend on our ability to successfully manage ongoing organizational changes. Our financial projections assume successfully executing certain of these organizational changes, including the motivation and retention of key employees and recruitment of qualified personnel, which is critical to our business success.

Factors that may affect our ability to attract and retain talented leadership, key individual contributors, and sufficient numbers of qualified employees include:

- Employee morale,
- Our reputation,
- Competition from other employers, and
- Availability of qualified personnel.

Our success is dependent on identifying, developing and retaining key employees to provide uninterrupted leadership and direction for our business. This includes developing and retaining organizational capabilities in key technology areas, where the depth

of skilled or experienced employees may be limited and competition for these resources is intense.

VI Thinfilm is exposed to certain financial risks related to fluctuation of exchange rates and interest level.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019 and into the first and second quarters of 2020, in order to reduce the Company's cost structure.

Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Securing commitments for equity funding from current and new shareholders, subject to approval at the May EGM;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy. However, the financial statements do not include adjustments related to the amounts of liabilities that might be necessary, should the Company and the consolidated entity not continue as going concerns.

In April 2020, the Board received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants subject to approval by extraordinary general meeting in May 2020.

The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors. Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

Corporate governance

The board considers that attention to corporate governance is beneficial for companies and investors. Thinfilm seeks to comply with the Norwegian code of practice for corporate governance to the degree possible. The board's review of corporate governance has been included in the annual report.

Outlook

As Thinfilm transitioned its operational and strategic focus away from NFC in 2019, management concurrently concluded its extensive evaluation of multiple markets, in order to determine the most commercially compelling use of the Company's patented process technology innovations and state-of-the-art, production-scale roll-to-roll ("R2R") flexible electronics factory located in San Jose, California.

On 30 January, 2020, the Company announced its updated corporate strategy, focused on the design, development, and production of innovative battery solutions targeting existing market demand with differentiated solutions to power wearable devices and connected sensors.

To address the sizeable existing and expanding applications for wearable devices and connected sensors, the Company will develop a family of rechargeable solid-state lithium battery ("SSLB") products that are ultrathin, flexible, reliable, safe, and cost effective. Thinfilm's facility, located in the heart of Silicon Valley, is ideally positioned to spark rapid development of differentiated products that will offer the wearable market, estimated by IDTechEx to reach $64 billion in 2020 and growing at a 9.5% CAGR through 2024, a superior alternative to today's pouch and coin cell batteries. Thinfilm's distinct value proposition will enable technology innovation by unleashing designers' creativity, previously limited by the lack of flexibility inherent in existing battery technology.

Thinfilm's battery solutions would incorporate an innovative solid electrolyte material that enables thinner, stackable cells that can endure more charging cycles and deliver more power at sub-freezing temperatures, compared to commonly used battery technologies. Because the solid electrolyte cannot catch fire or explode, Thinfilm SSLBs would also improve the safety profile for wearable and medical applications.

Initially pioneered by Oak Ridge National Laboratory in the 1990s, SSLB technology is primarily used in embedded electronics applications including real-time clock and static random-access memory, or SRAM, backup. However, the technology's deployment has been limited by dependencies on rigid substrates, fragile materials, and small-scale manufacturing methods. In contrast, Thinfilm is well positioned to bring the advantages of SSLB technology to a broader market due to the Company's unique combination of existing capabilities, including roll-based production, robust metal foil substrate handling, materials expertise, and manufacturing process knowhow.

By leveraging its core capabilities in materials and manufacturing innovation, the Company believes it can produce compelling energy storage products that provide greater battery life and improved reliability, with the form-factor flexibility to create unique battery shapes enabling sleek, comfortable end products. The Company will initially focus on key portions of the wearables and sensor markets, particularly the rapidly growing connected and wearable medical sensing market, in which continuous glucose monitoring alone is forecasted to double in volume to over 100 million units by 2023, according to IDTechEx. Beyond wearable medical sensing, Thinfilm has identified a number of additional growing applications in existing markets that are expected to provide meaningful opportunities for additional growth. To accelerate the development of ultrathin battery technology in the San Jose factory, Thinfilm has entered into a partnership with a leading process technology development company.

In addition, the Company continues to file provisional patent applications, strengthening Thinfilm's strategy to develop and produce a new and innovative class of of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond.

As Thinfilm completes the transition to its new energy storage strategy, Management foresees five potential revenue and income sources:

1 Sales of its own designed products,

2 Non-recurring engineering fees earned through joint development agreements and/or government grant programs,

3 Monetization of its existing inventory of NFC labels and EAS devices,

4 Monetization of Thinfilm's CNECT software platform and other related NFC assets; and

5 Licensing/royalty revenue, where partners and customers pay for using the Company's intellectual property rights (IPR).

Organization, personnel and the environment

The board of directors would like to thank the Thinfilm management team members, staff, contractors, and ecosystem partners for their dedicated efforts throughout 2019 and early 2020.

Organization

As a result of significant restructuring during 2019, Thinfilm consolidated global organizational functions to the San Jose, California facility to ensure efficient and cost-effective management of the Company's resources and assets. In parallel, Thinfilm began the

process of closing its offices in Hong Kong, Shanghai, Singapore, Sweden, and the United Kingdom. As part of this consolidation, Thinfilm optimized and streamlined its processes and systems. The centralization of global operations facilitated a review of the effectiveness of Thinfilm's systems of internal controls and highlighted opportunities to strengthen and improve its processes and procedures relating to supply chain, accounting, purchasing, order fulfillment, and inventory control. The Company will continue to further optimize and develop its operational workflows.

Personnel

At the date of the report, Thinfilm had 18 full-time employees. Because of the Company's decision to navigate away from the NFC business and subsequent restructurings throughout 2019, Thinfilm reduced its global headcount from 155 at the end of 2018 to 23 full-time employees at the end of 2019, further reducing its workforce to 18 full-time employees in March 2020. With the strategic shift to energy storage having commenced in 2020, driving successful recruitment practices and appropriate staff development is fundamental to Thinfilm's success.

Environment

The board believes that the working environment at Thinfilm is safe, stimulating, challenging, and collaborative for all employees, and complies fully with relevant laws and regulations in regions within which Thinfilm operates.

Thinfilm employees are covered by benefits programs that are in line with practices in their respective countries. Throughout 2019, there were no minor workplace injuries or significant incidents or accidents involving equipment or other assets. Instances of sick leave during 2019 were relatively low and were consistent with previous years.

In addition to the employees of the Thinfilm group, Thinfilm has contracted specialists in business development, technology, design, accounting, and other services. During 2019, patenting and other intellectual property rights (IPR) services were transitioned from AWA Patent to Central California IP Group. In addition, the Company worked with an IPR consultant and received advice from external legal counsel, as needed.

Thinfilm creates and supports equal opportunity for all employees, in all aspects of the workplace. As of 31 December 2019, female employees in the company represented approximately 40%. As of the date of this report, the current management team consists of two men and two women.

Equality is one important aspect considered when recruiting new employees. The board considers the firm's equality standards and measures to be adequate and has not found reason to initiate any corrective measures.

Thinfilm appreciates its corporate responsibility to protect the environment. The Company operates its business to comply with the environmental, health, and safety regulations required for the materials and processes needed to manufacture its products. Thinfilm follows all relevant environmental rules and regulations, as discussed in the Corporate Responsibility Statement in this report.

Board of directors

Thinfilm's board of directors consists of two women and two men, the composition of which satisfies the gender requirements of the Norwegian Public Limited Companies Act. The board includes Mr. Morten Opstad (Chairman), Ms. Preeti Mardia, Mr. Jon Castor, and Ms. Kelly Doss.

At the Company's Annual General Meeting on May 28, 2019, Morten Opstad was re-elected as Chairman for another two-year term. Preeti Mardia was re-elected to continue as a board member. Mr. Castor and Ms. Doss were elected as board members, each for a period of two years.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	Preeti Mardia Board Member	Jon Castor Board Member	Kelly Doss Board Member

Kevin Barber
Managing Director (CEO)

Thin Film Electronics ASA Group

Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Amounts in USD 1,000	Note	2019	2018
Sales revenue	14	701	1,288
Other income	16,17	480	2,110
Total revenue and other income		**1,181**	**3,397**
Salaries and other payroll costs	18	(17,828)	(33,244)
Other operating expenses	19.23	(14,114)	(21,229)
Depreciation, amortization and impairment loss	6,7,8	(46,328)	(19,546)
Operating profit (loss)		**(77,089)**	**(70,622)**
Interest income		152	292
Other financial income		8	66
Interest expense		(1,524)	(1,042)
Other financial costs		(3)	(404)
Net financial items		**(1,367)**	**(1,089)**
Profit (loss) before income tax		**(78,456)**	**(71,711)**
Income tax expense	20	10	(11)
Profit (loss) for the year		**(78,446)**	**(71,722)**
Profit (loss) per share for profit attributable to the equity holders of the Company during the year			
Basic and diluted, USD per share	22	(USD1,34)	(USD1,22)
Profit (loss) for the year		**(78,446)**	**(71,722)**
Other Comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation		(637)	(198)
Total comprehensive income for the year		**(79,083)**	**(71,921)**

Consolidated Statements of Financial Position

Amounts in USD 1,000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	—	22,548
Building – financial lease	8	—	10,375
Intangible assets	7	—	2,353
Other financial receivables	10	559	—
Total non-current assets		**559**	**35,276**
Current assets			
Inventory	9	1	2,640
Trade and other receivables	10	2,806	8,862
Cash and bank deposits	11	8,872	32,588
Total current assets		**11,679**	**44,090**
Total assets		**12,238**	**79,366**
EQUITY	12		
Ordinary shares		18,660	18,660
Other paid-in capital		—	321,575
Currency translation		(14,356)	(13,719)
Retained earnings		(23,964)	(266,806)
Total equity	**25**	**(19,660)**	**59,709**
LIABILITIES			
Non-current liabilities			
Long-term debt	15	11,812	—
Lease liabilities	8	13,244	11,525
Total non-current liabilities		**25,056**	**11,525**
Current liabilities			
Trade and other payables	13,8	5,454	8,132
Current portion of long-term debt	15	1,388	—
Total current liabilities	**24**	**6,842**	**8,132**
Total equity and liabilities		**12,238**	**79,366**

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	John Castor Board Member	Preeti Mardia Board Member	Kelly Doss Board Member	Kevin Barber CEO

Consolidated Statements of Changes in Equity

Amounts in USD 1,000	Note	Share capital	Other paid-in equity	Currency translation	Retained earnings	Total
Balance at 1 January 2019		**18,660**	**321,575**	**(13,719)**	**(266,806)**	**59,709**
Share based compensation		—	190	—	—	190
Impact of change in accounting policy*	8	—	—	—	(477)	(477)
Comprehensive income		—	—	(637)	(78,446)	(79,083)
Transfer for coverage of losses		—	(321,765)	—	321,765	—
Balance at 31 December 2019	**12**	**18,660**	**—**	**(14,356)**	**(23,964)**	**(19,660)**
Balance at 1 January 2018		**18,660**	**319,819**	**(13,520)**	**(195,084)**	**129,874**
Share based compensation		—	1,771	—	—	1,771
Private placement (2017 residual cost)		—	(15)	—	—	(15)
Comprehensive income		—	—	(198)	(71,722)	(71,921)
Balance at 31 December 2018	**12**	**18,660**	**321,575**	**(13,719)**	**(266,806)**	**59,709**

* IFRS16 implementation. See Note 8.

Consolidated Cash Flow Statements

Amounts in USD 1,000	Note	2019	2018
Cash flows from operating activities			
Profit (loss) before income tax		(78,456)	(71,711)
– Share-based remuneration	18	190	1,771
– Depreciation and amortization	6	3,949	3,947
– Write down inventory, machinery and intangible assets	6	42,379	14,832
– Loss / (gain) on sale of fixed assets	6	(241)	(479)
– Taxes paid for the period		10	(91)
– Changes in working capital and non-cash items		1,748	(686)
Net financial items		1,367	—
Net cash from operating activities		**(29,054)**	**(52,418)**
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(3,177)	(6,004)
Prepayments relating to purchase of property, plant and equipment	10	(1,653)	(5,005)
Capitalized development expenses	7	(353)	(1,580)
Proceeds from sale of fixed assets	6	112	1,389
Interest received		152	291
Net cash from investing activities		**(4,919)**	**(10,908)**
Cash flows from financing activities			
Proceeds from issuance of shares	12	—	(15)
Proceeds from debt financing	15	13,200	—
Deposits		(558)	—
Interest paid		(1,525)	—
Lease payments	8	(860)	(600)
Net cash from financing activities		**10,257**	**(615)**
Currency translation effects on cash and bank deposits		—	(1,590)
Net increase (decrease) in cash and bank deposits		**(23,716)**	**(65,532)**
Cash and bank deposits at the beginning of the year		32,588	98,120
Cash and bank deposits at the end of the year*		**8,872**	**32,588**

* Including restricted cash. See Note 11.

Notes to the Consolidated Financial Statements

1. Information about the group

"Thin Film Electronics ASA ("Thinfilm ASA" or "the company") was founded on 22 December 2005. Reference is made to Note 28 for a description of the subsidiaries consolidated into the parent company Thin Film Electronics ASA.

The objectives of the Company shall be the commercialization, research, development and production of technology and products related to solid-state lithium batteries These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem partners.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These group consolidated financial statements were resolved by the board of directors on 11 May 2020.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied. For the purpose of ease of reading, the terms "balance sheet" and "accounting" and variations of these have been used interchangeably with the IFRS terms "statement of financial position" and "recognition".

2.1 Basis of preparation

The annual financial statements have been prepared on a historical cost basis. The financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies adopted are consistent with those of the previous financial year, except for the below descriptions. IFRS is continuously developed and recently published standards, amendments and interpretations have been reviewed and considered. Except from the impact on the implementation of IFRS 16 Leases, as described in Note 2.20 and Note 8, none of the other new standards, amendments and interpretations that apply as of 1 January 2019 had any impact on net result or equity of Thinfilm in 2019. Reference is made to Note 2.20 for a description of changes in IFRS.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019, in order to reduce the Company's cost structure. Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow.

The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors. Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Initiated the process to close a Private Placement and secure a bridge loan from current and new shareholders by May 2020;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy.

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. 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 give it 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 in 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

2.3 Foreign currency translation

a) Functional and presentation currency

The consolidated financial statements are presented in US dollar (USD).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

c) Group companies

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are included in other comprehensive income. When a foreign operation is partially disposed

of or sold, such exchange differences are reversed and recognized in the income statement as part of the gain or loss on the sale.

2.4 Property, plant and equipment

Property, plant and equipment is mainly comprised of construction in progress on the roll-to-roll line, laboratory test equipment, and office equipment. Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method as follows:

- Laboratory equipment — 5 years
- Office equipment — 3–5 years
- Office furnishings and fittings- up to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.5 Inventory

The Company has changed their strategy and hence prior years inventory are fully impaired. Historically, inventory, components and components under production are valued at the lower of cost and net realizable value after deduction of obsolescence. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined using the standard cost method. The FIFO principle is applied. Work in progress includes variable cost and non-variable cost which can be allocated to items based on normal capacity. Obsolete inventory is written down completely.

2.6 Intangible assets

a) Patents and licenses

Acquired patents and licenses are stated at historical cost. Patents and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents and licenses over their estimated useful lives. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In January 2014, Thinfilm acquired an IP portfolio consisting of patents. These assets are initially recognized at fair value and subsequently measured at cost, less accumulated amortisation and impairment losses.

b) Research and development

Research costs are expensed as they are incurred. An intangible asset arising from development expenditure on an individual project is capitalized only when the Group reliably can measure the expenditure and can demonstrate;

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- How the asset will generate future economic benefits
- The group's ability to obtain resources to complete the project

Development costs are amortized over the period of expected use of the asset. Capitalized development expenses relate to Speedtap™. In 2019 it was decided that the capitalized development costs relating to NFC SpeedTap™ would not be further commercialized and the remaining costs of NOK 12,744 were impaired. EAS (Electronic article surveillance) costs were previoualy capitalized, but as a result of the corporate restructuring announced 15 March 2019, these have been impaired as of year-end 2018. Please ref. Note 7 for further details.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill are reviewed for possible reversal of any previous impairment at each reporting date.

2.8 Trade receivables and other receivables

Trade receivables and other short-term receivables are measured at initial recognition at fair value and subsequently measured at amortized cost. Short-term

receivables, which are due within three months, are normally not discounted. Impairment of receivables is evaluated on a case-by-case basis. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

2.9 Cash and bank deposits

Cash and bank deposits include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and any bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to raising new equity are shown as a deduction to the equity, net of tax.

2.11 Trade payables

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

2.12 Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

2.13 Employee remuneration

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

The company only holds defined contribution pension plans. Contributions are expensed and paid when earned.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of goods

During 2019, the Group manufactured and sold NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. The performance obligation was to deliver a distinctive goods, and the performance obligation was satisfied when the control was transferred to the customer being at the point of delivery of the goods. Sales of goods were recognized when the performance obligation was satisfied, the costs incurred or to be incurred with respect to the transaction could be measured reliably and Thinfilm retained neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Group provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the Group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted.

2.15 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants are recognised as other income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

2.16 Financial liabilities

2.16.1 Borrowings

Borrowings are initially recognized at cost and subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs as well as discount or premium on settlement. Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date.

2.16.2 Leases

All leases are recognized in the balance sheet as a right-of-use ("ROU") asset with a corresponding lease liability, except for short term assets in which the lease term is 12 months or less, or low value assets. ROU assets represent a right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract. The depreciation of ROU asset is recognized over the lease term, and interest expenses related to the lease liability are classified as financial items in the income statement. Right-of-use assets are tested for impairment in accordance in accordance with IAS 36.

Thinfilm determines if an arrangement is a lease at inception. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, less any lease incentives. The Company's incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. Extension options are included when it, based on management's judgement, is reasonably certain to be exercised. ROU assets are measured at cost and include the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less and low-value assets.

2.17 Share based remuneration

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The fair value of the instruments is determined using a Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest.

For social security contribution related to equity-settled share-based payment transactions with employees, a liability is recognized. The liability is initially measured at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

2.18 Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

2.19 Segment information

Operating segments, according to IFRS 8, are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance and making strategic decisions, has been identified as the Chief Executive Officer (CEO). Based on Thinfilm's current deliveries, performance obligations, customer characteristic and other information, it has been assessed that Thinfilm has only one operating segment. Hence, primarily information according to IFRS 8 paragraphs –34 is provided.

2.20 Changes in accounting principles

Thinfilm has, with effect from 1 January 2019, implemented the amendments to IFRS 9 Prepayment features with negative compensation, IAS 19 Plan amendment, curtailment or settlement, IAS 28 Long-term Interests in Associates and Joint Ventures, IFRIC 23 Uncertainty over income tax treatments and annual improvements to IFRSs 2015–2017. The implementation of these standards has not had a material impact on the entity in the current reporting period.

From 1 January 2019, the Company has applied IFRS 16 Leases using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The new accounting policies for leases and transition effects to IFRS 16 are outlined in Note 8.

2.21 Approved standards and interpretations not yet in effect

- In addition to these standards, the following new and revised IFRSs have been issued, but are not

yet effective, and in some cases have not yet been adopted by the EU. The Group will assess the potential impact of these new and revised standards in due course.

- IFRS 17 Insurance contracts
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

3. Segment information

Thinfilm's business consists of sale of products, services and development of electronic products and related solutions. The CEO has determined that the Group has only one operating segment. Consequently, no additional segment information is disclosed. Reference is made to Note 6, 14, 15 and 16 for entity-wide disclosures.

4. Capital management and financial risk

4.1 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of equity and current and non-current interest-bearing liabilities. The Group is not subject to any externally imposed capital requirements apart from the requirements according to national laws and regulations for limited liability companies. In September 2019, the Company's subsidiary, Thinfilm Electronics, Inc. closed an equipment term loan facility with Utica for USD 13,200 thousand secured by select fixed assets (see Note 6). The terms of the Master Lease Agreement were interest-only monthly payments for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. The Company used the proceeds from the loans for working capital to fund ongoing operations and to pay for remaining scheduled payments for the R2R line.

The company is working on obtaining additional equity funding. see note on going concern.

4.2 Financial risk factors

Thinfilm is exposed to certain financial risks related to exchange rates and interest level. These are, however, insignificant compared to the business risk.

a. Market risk factors

(i) Currency risk

The Group has the majority of its operations in the USA. As of 31 December 2019, approximately 84% of the Company's cash balance was denominated in USD, in order to mitigate currency risk associated with the increased value of the USD relative to NOK. Management monitors this risk and will take the appropriate actions to address it as the situation requires. The currency risk related to the balance sheet is mostly related to the net investment in the Swedish subsidiary. Management monitors this risk but has not initiated any particular actions to reduce it.

(ii) Interest risk

Thin Film Electronics, Inc., the U.S. operating subsidiary and global headquarters of the Thin Film Electronics Group, closed an equipment term loan facility with Utica Leaseco, LLC for financing of USD 13.2 million, which funded in two tranches during the month of September 2019. The interest rate associated with this debt is fixed, and therefore, does not present the potential risk that would be associated with interest rate fluctuations.

b. Credit risk

The company has some credit risks relating to receivables. The loss on receivables has historically been low.

In connection with the relocation of Thinfilm's US headquarters in the first two quarters of 2017, a USD 1,600 thousand Letter of Credit was issued by Thin Film Electronics ASA to the new landlord of the Junction Avenue facility located in San Jose, California. In addition, the Company entered into a Tenancy Guaranty with the new landlord as additional security of the rent payments. The initial guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis by USD 500 thousand per year, commencing with the second lease year until the liability reaches zero dollars. As of 31 December 2019, the guaranty liability amounted to USD 4,000 thousand. Apart from that, Thinfilm has not issued additional material guarantees.

c. Liquidity risk

Aside from the equipment term loan facility of USD 13.2 million closed in September 2019, Thinfilm does not have any other material interest-bearing debt. In addition, the company has a continued obligation under a lease agreement signed in November 2016 relating to its U.S. headquarters in San Jose, California. The Company was unable to raise equity financing in 2019 and is not yet cash generative and operates at a loss. There is uncertainty tied to the generation of future cash flow in connection with the Company's new business strategy. As described in Note 2.1 Basis of preparation, the Company is currently pursuing alternative forms of generating cash in order to meet

its financial obligations. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

4.3 Fair value estimation

The carrying amounts of trade and other receivables and payables are considered to be the same as their fair values, due to their short-term nature. Accounts payable and accrued liabilities with due date within 12 months have been recognized at carrying value. The fair value of financial liabilities has been estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

4.4 Financial instruments

Thinfilm is not party to any transactions or financial instruments which are not recorded in the balance sheet or otherwise disclosed.

5. Critical accounting estimates and judgments

The financial statements of the group have been prepared based on the going concern assumption. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The estimates and assumptions in the financial statements of the Group mainly relate to share based compensation, deferred tax assets, accounting for research and development, intangible assets, property, plant and equipment and lease.

Share based compensation:

Thinfilm estimates the fair value of options at the grant date. As the subscription rights are structured equal to an option, the Black-Scholes option pricing model is used for valuing the share subscription rights. The model uses the following parameters; the exercise price, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares, and the risk-free interest rate for the life of the option.The cost of share based remuneration is expensed over the vesting period. Such estimates are updated at the balance sheet date. Changes in this estimate will impact the expensed cost of share based remuneration in the period. The variables, assumptions and relevant theoretical foundations used in the calculation of the FV per share subscription right is estimated according to the IFRS 2 standard.

Deferred tax assets:

Deferred tax assets related to losses carried forward is recognized when it is probable that the loss carried forward may be utilized. Evaluation of probability is based on historical earnings, expected future margins and the size of the order back-log. Future events may lead to these estimates being changed. Such changes will be recognized when reliable new estimates can be made. No deferred tax assets have been recognized in the balance sheet as of 31 December, 2019.

Research and development:

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset only when Thinfilm can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, the Company's intention and capability of completing the development and realize the asset, and the net future financial benefits of use or sale. Determining whether an expense meets the definition of a development cost requires judgment to be applied. Capitalized development costs as of 31 December, 2019, has been fully impaired. See Note 7.

Intangible assets:

In connection with the purchase of certain certain assets from Kovio, Inc., in January 2014, Thinfilm acquired an IP portfolio of ninety patent families. In addition, Thinfilm has acquired certain licenses and capitalized certain development costs relating to printed batteries. These assets are recognized in the balance sheet as intangible assets and valued at fair value less accumulated amortization and impairment losses. The book value is dependent on the successful development of the technology in the Parent Company and in the subsidiaries. As of 31 December, 2019 all intangible assets have been impaired. See Note 7.

Property, plant and equipment (PPE):

In connection to establishing US headquarters in San Jose, Thinfilm has invested in PPE, including a roll-based production line. Determining whether equipment / a tool a) is under construction b) is ready for use in production c) will generate sufficient net future benefits on a stand-alone basis or as part of a production line, requires judgment to be applied. The corporate restructuring announced on 15 March, 2019, 19 July, 2019 and 12 September, 2019 triggered impairment testing relating to these assets. See Note 6 for quantification of book values and impairments.

Financial lease:

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarters in San Jose, California. Thinfilm assesses whether the lease has been impaired by applying the requirements in IAS 36 - Impairment of assets. As of 31 December, 2019, the book value of the leased building is USD 0 thousand. See Note 8.

6. Property, plant and equipment

Amounts in USD 1,000	Laboratory and production equipment
	6
2019	
Accumulated cost on 1 January 2019	**45,244**
Additions	6,187
Sale/disposal of assets	(571)
Exchange differences	(2)
Accumulated cost 31 December 2019	**50,858**
Accumulated depreciation	
Accumulated depreciation on 1 January 2019	(22,695)
Depreciation expenses	(2,384)
Impairment	(25,778)
Exchange differences	(1)
Accumulated depreciation 31 December 2019	**(50,858)**
Net book value 31 December 2019	**–**
2018	
Accumulated cost on 1 January 2018	26,910
Additions	19,024
Sale/disposal of assets	(692)
Exchange differences	2
Accumulated cost 31 December 2018	**45,244**
Accumulated depreciation	
Accumulated depreciation on 1 January 2018	(6,388)
Depreciation expenses	(2,743)
Impairment	(13,565)
Exchange differences	1
Accumulated depreciation 31 December 2018	**(22,695)**
Net book value 31 December 2018	**22,549**

All property, plant and equipment are based in San Jose, California.

Impairment:

The company has revised its strategy, and does not foresee to use the roll-to-roll production facility in San Jose to its intended use. This has triggered an impairment test. Management views the roll-to-roll technology, production facility and related assets as broadly applicable to multiple potential applications, including for use in its recently announced strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors (see note 27). However, management believes that the 'value in use' is not readily supportable, as it has only been forecasted in a financial model, with no real data to support the estimates. As there is no observable market data on these assets management have not been able to find a reliable estimate on 'fair value less costs to sell'. Due to these uncertainties the assets, incl. intangible assets (see note 7) right-of-use assets (see note 8), are fully impaired as of 31 December 2019.

Assets pledged as security:

The majority of the production facility assets, incl. the roll-to-roll (R2R) production facility, have been pledged to secure borrowings of the group (see note 15). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

7. Intangible assets

Amounts in USD 1,000	Purchased intellectual property	Capitalized development costs	Total
Amortization period, years (linear)	13–16		
2019			
Acquisition cost			
Accumulated cost on 1 January 2019	1,815	1,252	3,067
Additions	(24)	378	354
Accumulated cost 31 December 2019	**1,791**	**1,630**	**3,421**
Accumulated amortization and impairment on 1 January 2019	(715)	—	(715)
Amortization	(128)	—	(128)
Accumulated amortization impaired assets	(948)	(1,630)	(2,578)
Amortization and Impairment 31 December 2019	**(1,791)**	**(1,630)**	**(3,421)**
Net book value 31 December 2019	**—**	**—**	**—**
2018			
Acquisition cost			
Accumulated cost on 1 January 2018	1,969	847	2,816
Additions	—	1,582	1,582
Impairment at cost	(154)	(1,177)	(1,331)
Accumulated cost 31 December 2018	**1,815**	**1,252**	**3,067**
Accumulated amortization and impairment on 1 January 2018	(626)	—	(626)
Amortization	(151)	—	(151)
Accumulated amortization impaired assets	62	—	62
Amortization and Impairment 31 December 2018	**(715)**	—	**(715)**
Net book value 31 December 2018	**1,100**	**1,252**	**2,352**

Thinfilm will discontinue the Electronic Article Surveillance (EAS) business after exhausting existing inventory, and has also decided to exit the NFC and EAS businesses and ceased all development and sales associated with these two businesses. Therefore, based upon its analysis under IAS 36, an impairment of USD 2,578 thousand has been booked, representing a full impairment of all assets as of 31 December 2019. See Note 6.

The amount of research and development expenditure recognized as an expense in 2019 amounts to USD 1,839 thousand (2018: USD 9,907 thousand). This was mainly related to cost incurred in connection with research & development relating to roll-to-roll printing processes.

8. Leases

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, CA. The lease in San Jose expires in September 2028. The building element of the lease was under IAS 17 classified as a financial lease, as the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. When implementing IFRS 16 from 1 January 2019 the entire contract became a lease, and the land element of the lease which previously was accounted for separately as an operating lease, which included in the right of use asset. The difference between the operating lease commitments after IAS 17, as disclosed in the 2018 financial statements, and lease debt recognized at initial application is reconciled in the table below. See Note 19 for the nature of the short-term leases.

Thinfilm applies exemption for short term leases (12 months or less) and low value leases. There are no extension options available and management's judgement, is reasonably certain to be exercised. The incremental borrowing rate applied in discounting of the nominal lease debt is 7,25% per cent. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract.

	Lease liability
Operating lease commitments as of 31 December 2018:	**4,418**
Short-term leases and leases of low-value assets	-655
Effect of discounting the above amounts	-990
Financial lease liabilities recognized under IAS 17 at 31 December 2019	12,303
Lease liability recognized at 1 January 2019	15,075
Lease payment (see note below)	-1,962
Interest expense	1,063
Lease liability as of 31 December 2019	**14,213**

In the statement of cash flow principle portion of lease payments are included in line Lease payment with an amount of USD 860 thousand, and interest portion of the payment are included in line Interest paid with an amount of USD 1,102 thousand. Both of them are presented as cash flow from financing activities.

The Group has recognized USD 2,543 thousand of right-of-use assets, USD 249 thousand in deferred rent, and USD 2,772 of lease liabilities upon transition to IFRS 16. The difference of USD 477 thousand is recognized in retained earnings. In addition, USD 10,375 thousand recognized as Financial Lease assets as of 31 December 2018 transferred to right-of-use assets when implementing IFRS 16 on 1 January 2019.

For maturity schedule of minimum lease payments, see Note 15.

A small part of the building is sub-leased and classified as operating lease. The income, for which 2019 amounts to USD 182 thousand is presented as other income (see Note 17).

Right-of use assets

Amounts in USD 1,000	Right of use assets
Depreciation period, years (linear)	12
2019	
Net value on 1 January 2019	10,376
Additions	—
Adjustments	2,543
Impairment (see Note 6)	(11,504)
Exchange differences	—
Depreciation	(1,415)
Net book value on 31 December 2019	**—**

Finance lease under IAS17	
2018	
Net value on 1 January 2018	11,534
Additions	—
Adjustments	(105)
Exchange differences	—
Depreciation	(1,053)
Net book value on 31 December 2018	**10,376**

9. Inventory

Amounts in USD 1,000	2019	2018
Finished goods	1	150
Raw materials	—	155
Work in progress	—	2,336
Net book value on 31 December 2019	**1**	**2,641**
Inventory reserved	4,154	2,488

10. Trade and other receivables

Amounts in USD 1,000	31 December 2019	31 December 2018
Customer receivables	928	868
Accrued revenue not yet invoiced	—	75
Prepayments	3,287	4,846
Other receivables	1,878	2,935
Income tax prepayments	—	137
Less: provision for impairment of receivables and prepayments	(3,287)	—
Receivables – net	**2,806**	**8,862**
Of this, receivables from related parties (Note 23)	—	—

Of other receivables, prepayments of USD 3,287 thousand(which is fully impaired); (USD 4,846 thousand in 2018) relate to equipment for San Jose site not yet delivered. All receivables are due within one year and book value approximates fair value.

Other non-current financial receivables of USD 559 thousand relates to security deposit held by Utica Leaseco, LLC.

Total receivables are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2019	31 December 2018
Denominated in NOK	842	2,254
Denominated in SEK	5	334
Denominated in USD	1,873	6,175
Denominated in other currencies, including EUR, CNY, HKD, GBP and CHF	86	97
Total	**2,806**	**8,862**

Trade receivables USD 223 thousand were past due by more than 90 days.

Impairment of receivables is evaluated on a case-by-case basis, and realized losses have historically been low. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

11. Cash and bank deposits

Amounts in USD 1,000	31 December 2019	31 December 2018
Cash in bank excluding restricted cash	7,262	30,572
Deposit for Letter of Credit	1,604	1,629
Deposit for withheld tax (restricted)	6	387
Total	**8,872**	**32,588**

Payable withheld tax amounts in Norway and Sweden at 31 December 2019 were USD 17 thousand and USD 31 thousand (2018: USD 387 thousand and USD 0 thousand).

12. Share capital, warrants and subscription rights

	Number of shares	Number of warrants
Shares at 1 January 2019	**58,593,581**	**—**
Expiry of Warrants, 16 March	—	—
Expiry of Warrants, 14 July	—	—
Shares at 31 December 2019	**58,593,581**	**—**
Shares at 1 January 2018	**58,593,581**	**2,850,866**
Expiry of Warrants, 16 March	—	(850,866)
Expiry of Warrants, 14 July	—	(2,000,000)
Shares at 31 December 2018	**58,593,581**	**—**

Number of warrants and subscription rights	**1 January–31 December 2019**	**1 January–31 December 2018**
Warrants and subscription rights opening balance	4,412,622	6,121,116
Grant of incentive subscription rights	5,429,856	2,603,372
Terminated, forfeited and expired subscription rights	(4,469,248)	(1,461,000)
Exercise of subscription rights	—	—
Allotment of warrants	—	—
Exercise and expiry of warrants	—	(2,850,866)
Warrants and subscription rights closing balance	**5,373,230**	**4,412,622**

In connection with the reverse share split resolved by the extraordinary general meeting of the Company, on 23 October 2019, the general meeting authorized the Board to issue three (3) new shares at par value in order for the Company's registered number of shares to be dividable by 20 (the reverse share split ratio). Pursuant to such board authorization, the Board on 24 October 2019 resolved the issuance of three (3) new shares to an existing shareholder, which new shares subsequently could be used in connection with the rounding up of shareholdings of shareholders, who do not have a number of shares dividable by 20. Following the issue of the new shares, the Company's share capital is NOK 128,905,878.20 divided into 58,593,581 registered shares each with a nominal value of NOK 2.20.

The Annual General Meeting of the Company resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") were entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans have notified the Company that they wish to participate in the exchange program, whereupon such Eligible Holders explicitly waived any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders. The grants were made under the Company's 2019 Subscription Rights Incentive Plan, as resolved at the Annual General Meeting on 28 May 2019.

The exercise price of the subscription rights is NOK 4.67 per share.

The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The number of shares, warrants and subscription rights have been adjusted to reflect the reserve share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

13. Trade and other payables

Amounts in USD 1,000	31 December 2019	31 December 2018
Trade payables	999	1,120
Public duties, withheld taxes and social security taxes due	667	696
Accrued holiday pay and other accrued salary	1,575	2,223
Current lease liabilities	970	635
Other accrued expenses	1,243	3,458
Total	**5,454**	**8,132**
Of this, payables to related parties (Note 23)	445	—

Total payables and accruals are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2019	31 December 2018
Denominated in NOK	1,258	1,399
Denominated in SEK	—	610
Denominated in USD	3,951	5,973
Denominated in HKD	48	11
Denominated in other currencies, including GBP, EUR, CNY and CHF	197	140
Total	**5,454**	**8,132**

14. Sales revenue

The breakdown of the sales revenue is as follows:

Amounts in USD 1,000	2019	2018
Sales of goods	630	1,267
Rendering of services, technology access revenue	71	21
Total	**701**	**1,288**

The Group is domiciled in Norway. There were no sales revenue from external customers in Norway for 2019 and 2018.

The total sales revenue from external customers from other countries is USD 701 thousand, of which USD 218 thousand related to sales to customers in the United States.

In 2018 USD 218 thousand related to sales to customers in the United States out of the total sales revenue of USD 1288 thousand.

Sales revenue of approximately USD 290 thousand (2018: USD 760 thousand) are derived from single customers representing 10% or more of total sales revenue.

No warranty costs, penalties or other losses were related to sales revenue in 2019.

15. Current and long-term debt

In September 2019, the subsidiary in US, Thinfilm Electronics, Inc., closed an equipment term loan facility with Utica for USD 13,200 thousand secured by select fixed assets (see Note 6). The terms of the agreement were interest-only monthly payments for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. For the twelve months ended December 31, 2019, the current portion of the loan principal of USD 1,388 thousand and the long-term portion of the principal of USD 11,812 thousand is recorded as Long-term Debt in the Consolidated Statements of Financial Position.

The interest rate for the financing is at 14%. Table below disclosures principal payment obligations for the company.

Maturity schedule – liabilities

Amounts in USD 1,000									31 December 2019
	Principal and Interest Due								
	Within I year				1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
	1st qtr	2nd qtr	3rd qtr	4th qtr					
Principal obligations due	—	—	682	706	3,084	3,544	5,184	—	—
Interest payments	462	1,136	454	430	1,461	1,000	497	—	—
Lease payments	490	490	490	490	1,996	2,120	2,182	2,245	9,010
Total	**952**	**1,626**	**1,626**	**1,626**	**6,541**	**6,664**	**7,863**	**2,245**	**9,010**

16. Government grants

In 2018 Thinfilm ASA had a project qualified for the SkatteFUNN scheme for the three-year horizon 2018-2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million. Due to a revised strategy the company has ceased the SkatteFUNN project in 2019, and has not included any contribution from this scheme in 2019.

The SkatteFUNN grant has been recognized as Other Income in 2018 (see Note 17).

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway.

17. Other income

Amounts in USD 1,000	2019	2018
Sublease income from the site in San Jose, California (CA)	182	96
Gain on sale of fixed assets, related to sale of equipment from San Jose site.	290	470
Government grants and funded development projects (see Note 16)	8	1,540
Other	—	4
Total	**480**	**2,110**

18. Salaries and other payroll costs

Amounts in USD 1,000	2019	2018
Salaries	14,030	25,858
Social security costs	1,282	2,154
Share-based compensation (subscription rights), notional salary cost	190	1,465
Share-based compensation (subscription rights), accrued employer´s tax*	19	(96)
Pension contribution	519	1,471
Other personnel related expenses, including recruiting costs	1,788	2,392
Total	**17,828**	**33,244**
Average number of employees for the year (full-time equivalent)	75	164

At the end of the year the Group had 23 employees (full-time equivalents), down from 155 at the end of 2018.

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

*Relates to remeasurement of social security costs. See Note 2.17.

Compensation to senior management

Amounts in USD 1,000	Salary	Pension contribution	Bonus	Share-based remuneration
2019				
Kevin Barber, CEO	418	10	191	994
Ole Ronny Thorsnes, CFO (until 30 September 2019)	326	—	—	—
Mallorie Burak, CFO (from 1 July 2019)	155	5	8	35
Christian Delay, CCO (until 12 September 2019)	322	6	—	—
Peter Fischer, COO (until 22 February 2019)	160	4	—	—
Giampaolo Marino, EVP Hardware Solutions	290	10	8	145
Arvind Kamath, EVP Technology Development	279	11	78	53
Matt Kaufmann, EVP Operations (until 30 September 2019)	177	7	—	—
Shannon Fogle, VP of Global Human Resources	193	8	4	17
2018				
Kevin Barber, CEO (from 26 November, 2018)	43	—	—	330
Davor Sutija, CEO (until 26 November, 2018)	446	12	287	338
Ole Ronny Thorsnes, CFO	308	12	124	163
Christian Delay, CCO	286	11	99	140
Christer Karlsson, CTO	226	52	39	115
Peter Fischer, COO	460	11	62	140
Giampaolo Marino, EVP Hardware Solutions (from 23 July, 2018)	121	4	91	30
Arvind Kamath, EVP Technology Development	253	11	63	53
Matt Kaufmann, EVP Operations	240	9	63	39
Shannon Fogle, VP of Global Human Resources	142	7	39	17
Henrik Sjöberg, SVP Product Management (until 29 April, 2018)	97	8	33	—
John McNulty, EVP Marketing (from 13 February, 2018 to 21 June, 2018)	97	4	33	—
Bill Cummings, SVP Marketing Communications (until 20 September, 2018)	256	7	6	86
Tauseef Bashir, EVP Global Sales (until 23 May, 2018)	264	5	35	—

The salary amount is the salary declared for tax purposes. Bonus represents the amount earned and accrued as of year-end. Bonuses earned in 2018 and 2019 were subsequently paid during the first quarter of 2019 and 2020, respectively. The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights. The subscription rights cease when the employee resigns.

There were no subscription rights exercised by senior management in 2019 or 2018.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the Board of Directors

The company has no other obligation to remunerate the board than the board remuneration as resolved by the annual general meeting. The annual general meeting on 28 May 2019 resolved remuneration to the chairman of NOK 325 thousand and USD 40 thousand (or an amount in NOK equivalent thereof) for each board member for the period from the annual general meeting in 2019 to the annual general meeting in 2020. Board member Jon S. Castor shall further receive a remuneration of USD 60 thousand (or an amount in NOK equivalent thereof) fixed annual fee for service as Chairman of a strategy committee to be appointed by the Board of Directors supporting the CEO of the Company in relation to strategic questions from the date of the 2019 Annual General Meeting until the date of the 2020 Annual General Meeting. The company has not issued any advance payments or loans to, or guarantees in favor of, any board member.

19. Other operating expenses

Amounts in USD 1,000	2019	2018
Services	4,458	5,480
Premises, supplies	7,094	12,047
Sales and marketing	1,059	2,889
Other expenses	1,503	814
Total	**14,114**	**21,230**

Thinfilm has lease agreements for premises in the following locations:

Oslo (Norway): The Corporate headquarter was located at Henrik Ibsens Gate 100, Oslo, throughout 2018, with an annual lease amount of NOK 780 thousand per year, and a termination clause of 3 months. The Company has subsequently moved to a new office location at Fridjof Nansens Plass 4, Oslo, in March 2019. The lease amount at the new location is NOK 689 thousand per year, with a termination clause of 3 months. The lease expired on 31 August 2019 and the lease was not renewed.. The Company currently pays rent on a month to month basis. The monthly rent is NOK 11 thousand per month.

San Jose (California, US): The Company entered into a lease agreement in November 2016 relating to the property building of its Global headquarter at Junction Avenue in San Jose, CA. The lease in San Jose expires in September 2028. The average annual lease amount in the period is USD 2,052 thousand. See Note 8 for further description. From Q3 2018, the company receives sublease income from the second floor of the building (see Note 17).

San Francisco (California, US): This office was closed in December 2018. Total lease payments in 2018 related to the SF office space was USD 108 thousand.

Linköping (Sweden): This office was closed in 2019. The annual lease payment in 2019 was SEK 654 thousand per year.

Shanghai (China): This office was closed at the end of 2019. The lease amount was CNY 559 thousand per year.

London (England): This office was closed in 2019. The lease amount was GBP 58 thousand per year.

Singapore: This office was closed in 2019. The lease amount was SGD 44 thousand per year.

Only the lease agreement for the San Jose premises has duration longer than twelve months.

20. Income tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in USD 1,000	2019	2018
Profit (loss) before tax	(78,456)	(71,711)
Tax (tax income) calculated at domestic tax rate 22% (23%)	(17,260)	(16,494)
Effect of other tax rate in other countries	543	578
Share based compensation	97	173
Other permanent differences	(261)	(584)
Effect of change in tax rates	—	2,622
Change in deferred tax asset not recognised in the balance sheet	16,871	13,716
Tax charge	**(10)**	**11**

21. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Amounts in USD 1,000	31 Dec 2018	Charged to profit/loss	Equity	31 Dec 2019
Deferred income tax asset				
Fixed and intangible assets	2,847	6,100	(4)	8,944
Inventory	524	349	—	873
Other accruals	2,776	3,174	—	5,948
Tax loss carried forward outside Norway	381	6	—	387
Tax loss carried forward Norway	53,454	7,390	(539)	60,305
Calculated deferred tax asset 22% (22% 2018)	59,982	17,019	(543)	76,458
Impairment of deferred tax asset	(59,982)	(17,019)	543	(76,458)
Deferred tax in the balance sheet	**—**	**—**	**—**	**—**

The Equity column includes effects of currency translation.

The company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway, Sweden and the US. These tax rates are 22, 22 and 21 per cent respectively (2018: 22, 22 and 21).

22. Profit (loss) per share

Amounts in USD	2019	2018
Profit (loss) attributable to equity holders of the Company (USD 1,000)	(78,446)	(71,722)
Average number of shares in issue	58,593,581	58,593,581
Average diluted number of shares	58,593,581	58,593,581
Profit (loss) per share, basic	**(USD1.34)**	**(USD1.22)**

When the period result is a loss, the loss per diluted number of shares shall not be reduced by the higher diluted number of shares, but the diluted result per share equals the result per basic number of shares.

The diluted number of shares has been calculated by the treasury stock method. If the adjusted exercise price of subscription rights exceeds the average share price in the period, the subscription rights are not counted as being dilutive.

The weighted average basic and diluted number of shares have been adjusted to reflect the reverse share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

23. Related party transactions

a) Transactions with related parties:

Amounts in USD 1,000	2019	2018
Purchases of services from law firm Ræder	747	339
Purchase of services from Robert N. Keith	—	249
Purchase of services from Translarity	—	34

In the period 1 January - 31 December 2019, Thinfilm has recorded USD 747 thousand (net of VAT)

for legal services provided by law firm Ræder, in which Thinfilm's Chairman is a partner.

In the same period, Thinfilm did not record any services from Robert N. Keith, a shareholder of Thinfilm, relating to a service agreement under which he assists Thinfilm in strategic analysis.

Also, in the same period, Thinfilm did not record any transactions for R2R probe card equipment delivered by Translarity. Laura Ann Oliphant was affiliated with Translarity and resigned as a Thinfilm's board member in 2019.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in USD 1,000	2019	2018
Payable to law firm Ræder	445	85
Payable to Translarity	—	—
Payable to Robert N. Keith	—	249

c) Remuneration to the auditor

Amounts in USD 1,000	2019	2018
Audit	130	107
Other assurance services	—	2
Tax services	3	3
Other services	—	—
Total	**133**	**112**

24. Guarantees

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017, a USD 1,600 thousand Letter of Credit has been issued by Thin Film Electronics ASA to the new landlord and is included in the Company's cash balance in Note 11 as restricted cash. Cash and bank deposits. Thin Film Electronics ASA has in addition entered into a Tenancy Guaranty with the new landlord and is included in the Company's cash balance in Note 11. Cash and bank deposits. The Guaranty is given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2019, the Guaranty liability amounted to USD 4,000 thousand.

25. Shares, warrants and subscription rights

At the end of 2019 there were 58,593,581 shares in the company, versus 58,593,581 at the end of 2018. There were 6964 registered shareholders (2018: 6045).

Thinfilm is not aware of any shareholding agreements between shareholders.

Top 20 registered shareholders at 31 December 2019	Shares	Percent
Nordnet Bank AB	5,434,208	9.27%
ALGOT INVEST AS	2,900,000	4.95%
Danske Bank A/S	2,392,138	4.08%
Nordea Bank Abp	1,372,056	2.34%
TIGERSTADEN INVEST AS	1,000,832	1.71%
ANDREAS HOLDING AS	905,000	1.54%
EQUINOR PENSJON	839,938	1.43%
The Bank of New York Mellon SA/NV	822,014	1.40%
SUNDVALL HOLDING AS	790,859	1.35%
Saxo Bank A/S	753,078	1.29%
CODEE HOLDING AS	677,300	1.16%
UBS Switzerland AG	666,859	1.14%
RØNNING, RONNY	627,150	1.07%
Avanza Bank AB	613,365	1.05%
Svenska Handelsbanken AB	606,139	1.03%
JACO INVEST AS	548,008	0.94%
R. SUNDVALL INVEST AS	548,000	0.94%
UBS SWITZERLAND AG	547,844	0.93%
Guttis AS	541,610	0.92%
NORDNET LIVSFORSIKRING AS	528,891	0.90%
Total 20 largest shareholders	23,115,289	39.45%
Total other shareholders	35,478,292	60.55%
Total shares outstanding	**58,593,581**	**100.00%**

Shares, ADRs and subscription rights held by primary insiders and close relations at 31 December 2019.

No insiders held warrants at 31 December 2019.

	Shares	ADRs	Incentive subscription rights
Morten Opstad, Chairman	99,336	—	-
Preeti Mardia, Board Member	7,761	—	-
Jon Castor, Board Member	—	—	400,000
Kelly Doss, Board Member	—	—	200,000
Kevin Barber, CEO	—	—	2,330,120
Mallorie Burak, CFO	—	—	688,539
Giampaolo Marino, EVP Solutions	—	—	300,010
Arvind Kamath, EVP Technology Development & Manufacturing	—	—	376,264
Shannon Fogle, VP Global Human Resources	—	—	183,006
Total	**107,097**	**—**	**4,477,939**

Subscription rights

	2019		2018	
	Weighted average exercise price, NOK	Number of subscription rights	Weighted average exercise price, NOK	Number of subscription rights
Total at 1 January	41.90	4,412,622	71.63	3,270,250
Adjustment to opening balance	—	—	44.60	18,750
Granted	3.28	5,429,856	22.22	2,603,372
Forfeited	39.93	(4,469,248)	58.12	(982,688)
Exercised	—	—	—	—
Expired	—	—	102.47	(497,063)
Total at 31 December	**3.20**	**5,373,230**	**41.90**	**4,412,622**
Number of exercisable subscription rights at 31 December (included in total)		—		—
The average strike price is higher than the quoted share price on the Stock exchange at 31 December 2019.				

Subscription rights outstanding at 31 December 2019

Holder	Number of subscription rights	Weighted average exercise price, NOK
Kevin Barber, CEO	2,330,120	3.86
Mallorie Burak, CFO	688,539	2.76
Giampaolo Marino, EVP Solutions	300,010	3.06
Arvind Kamath, EVP Technology Development & Manufacturing	376,264	2.60
Shannon Fogle, VP Global Human Resources	183,006	2.47
Employees and contractors	1,495,291	2.65
Total	**5,373,230**	**3.20**

There were no subscription rights exercised in 2019 and 2018.

Value of subscription rights and assumptions upon grant	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018	Grants in 2019
Value of subscription right at grant date, NOK per subscription right	17.00–70.20	24.60–50.40	14.40–35.00	4.80–20.60	0.34–2.88
Share price, NOK per share	68.80–151.60	71.20–101.00	49.00–75.80	16.00–45.00	22.04–12.18
Exercise price, NOK per share	79.0–151.60	71.20–101.00	49.00–75.80	16.40–45.40	16.40–45.40
Expected annual volatility	47%–66%	57%–70%	53%–68%	47%–89%	62%–145%
Duration, years	2.0–5.0	2.0–5.0	1.9–5.0	1.0–4.9	1.0–4.2
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	0.65–1.24%	0.53–0.94%	0.56–1.09%	0.74%–1.57%	1.00%–4.18%

All numbers are adjusted for the 20:1 reversed share split

Value of subscription rights and assumptions on 31 December 2019	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018	Grants in 2019
Value of subscription right at 31 December 2019, NOK per subscription right	8.60–34.80	16.80–32.40	2.80–23.00	0.80–7.40	0–1.50
Share price, NOK per share	49.60	49.60	49.60	14.96	2.33
Exercise price, NOK per share	79.00–151.60	71.20–101.00	49.00–75.80	16.40–45.40	16.40–45.40
Expected annual volatility	58%	58%	58%	61%–82%	0%–209%
Duration, years	1.16–4.35	1.15–4.36	0.84–4.35	0.90–4.34	0–3.34
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	0.65–1.20%	0.53–0.94%	0.56–1.09%	0.96%–1.35%	0%–1.38%
Number of outstanding subscription rights at 31 December 2019	371,250	731,500	1,656,750	4,412,622	5,373,230

All numbers are adjusted for the 20:1 reversed share split

26. Statement on management remuneration policy

Thinfilm's executive management during the year 2019 is specified in Note 18.

Several of the executive management team members serve as officers and directors in the subsidiaries without additional remuneration.

The general meeting 2019 resolved guiding and binding executive remuneration policies. Thinfilm's executive remuneration policy in 2019 was a continuation of the prior year's policy, including share-based remuneration in the form of a subscription rights incentive program as resolved at the annual general meeting, latest on 28 May 2019.

Guiding executive remuneration policy and effect of the policies

Thinfilm offers a competitive remuneration consisting of a reasonable base salary with a pension contribution. Salary may be supplemented by performance based cash bonus and incentive subscription rights. Cash bonus plans are limited to fixed percentage of base pay. In addition, the management team, apart from the CEO, may receive additional discretionary bonus payments tied to specific projects.

There is no post-employment remuneration beyond notice periods of 3-6 months. The former CEO, Davor P. Sutija, had a 3-months' severance pay (equal to 3 months ordinary salary) upon expiration of his termination notice period on 31 May 2019. The current CEO, Kevin Barber, has a termination notice period of (i) three months in case of termination by the Company and (ii) one month in case of termination by Mr. Barber. If the Company terminates Mr. Barber's employment (other than for cause) or if Mr. Barber resigns his employment for good reason, Mr. Barber is entitled to a severance pay equivalent to six months of his base salary and target bonus prorated for six months (if Mr. Barber is on schedule to meet the relevant bonus criteria for the year in question) calculated from the end of his termination notice period, all subject to such detailed terms and conditions as set out in his employment agreement

The policy described above has been applied consistently throughout 2019. The principles described above apply also in 2020, however individual bonus targets and salary levels will be revisited during the Company's normal salary process. The executive remuneration policy will be reviewed at the Annual General Meeting in May 2020.

The actual remuneration to the management in 2019 is reported in Notes 18 and 25. In 2018, the Board decided to grant subscription rights to new members of the management team as a form of performance based compensation. The options vest in tranches of 25 per cent each year if the employee has not resigned his position at the vesting date, and expire after five years.

The Annual General Meeting of Thin Film Electronics ASA (the Company) resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") would be entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans, as adjusted for the 20:1 reverse stock split in November 2019, have notified the Company that they wish to participate in the exchange program, whereupon such Eligible Holders explicitly waive any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders. The grants were made under the Company's 2019 Subscription Rights Incentive Plan as resolved at the Annual General Meeting on 28 May 2019. The exercise price of the subscription rights is NOK 4.67, as adjusted for the November 2019 20:1 reverse split, per share. The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The fair value of the subscription rights awarded, calculated according to Black-Scholes option pricing model, was NOK 10.1 million as of December 31, 2019. USD 395 thousand was expensed in 2019. At December 31, 2019, the estimated amount of share-based remuneration cost yet to be expensed throughout the vesting period is NOK 4.4 million.

The Company has regranted the management team the following subscription rights in 2019:

Employee name	Number of SR	Weighted average Exercise Price	Grant date
Kevin Barber, CEO	2,330,120	3.86	3 and 25 September 2019
Mallorie Burak, CFO	688,539	2.76	23, July and 3 September 2019
Giampaolo Marino, EVP Solutions	300,010	3.06	3 and 25 September 2019
Arvind Kamath, EVP Technology Development & Manufacturing	376,264	2.60	3 and 25 September 2019
Shannon Fogle, VP Global Human Resources	183,006	2.47	3 and 25 September 2019
Total	**3,877,939**	**3.41**	

Salary, pension and any bonuses that triggers employer's tax which will be expensed simultaneously with the remuneration.

27. Events after the balance sheet date

- On 30 January 2020, Thinfilm announced its new strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond, enabling the Company to leverage previous investments in technology and equipment related to its roll-to-roll production facility in San Jose, California.

- On 20 February 2020, Thinfilm hosted an Investor Day in Oslo, Norway to present the Company's new energy storage strategy.

- In connection with the 15 April 2020 Extraordinary General Meeting, the Company conducted a reduction of paid in capital by reduction in par value of shares in accordance with the Norwegian Public Limited Companies Act to cover the losses. The implication of this is that a resolution to distribute dividends may not be adopted until three years have elapsed from the registration in the Register of Business Enterprises, unless the share capital subsequently has been increased by an amount at least equal to the reduction.

- On 14 April 2020, Thinfilm announced the filing of multiple provisional patent applications, strengthening the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries (SSLB) for wearable devices, connected sensors, and beyond. The Company also confirmed that, despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure the continuity of its development efforts and mitigate potential delays. If the Company is successful in raising additional capital, management believes that it can continue to deliver samples of its SSLB products at the end of Q2, as previously communicated.

- On 15 April 2020, Thinfilm held an Extraordinary General Meeting to obtain shareholder approval for a private placement; issuance of new shares and the amendment of the Company's Articles of Association. In connection with the Private Placement, shareholder approval was also requested for the issuance of new shares and warrants in connection with a contemplated subsequent offering, and the associated amendment of the Company's Articles of Association.

- At the 15 April 2020 Extraordinary General Meeting, the Board proposed and the shareholders approved a reduction in share capital by a reduction of the par value of the shares from NOK 2.20 to NOK 0.11 per share.

- In connection with its equity financing process, on 29 April 2020, Thinfilm announced an Extraordinary General Meeting in Thin Film Electronics ASA to be held on 20 May 2020 to obtain shareholder approval for a private placement and subsequent equity offerings. In connection with the private placement and to to ensure adequate cash remains available to operate until the equity financing closes, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA. Should the proposed resolutions be approved, the Company's share capital shall be increased with NOK 24,999,999.97 from NOK 6,445,293.91 to NOK 31,445,293.88, by issuance of 227,272,727 new shares, each share having a par value of NOK 0.11, at a subscription price per share of NOK 0.11. The total subscription amount is NOK 24,999,999.97, all constituting share capital. See also further information in the going concern section in note 2.1.

28. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows. The Company is in the process of dissolving some of these subsidiaries in 2020.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group 31 December 2019
Thin Film Electronics Inc.	Research & Development, Manufacturing and Marketing services	USA	100%
Thin Film Electronics AB	Research & Development, Manufacturing and Marketing services	Sweden	100%
Thin Film Electronics KK	Marketing services	Japan	100%
Thin Film Electronics HK Ltd.	Supply chain services	Hong Kong	100%
Thin Film Holding	Owning shares in Thin Film Inc.	USA	100%
Thin Film Electronics UK Ltd.	Marketing services	England, Wales	100%
Thin Film Electronics Co. Ltd.	Supply chain and Marketing Services	China	100%
Thin Film Electronics Singapore Pte. Ltd.	Marketing services	Singapore	100%

29. Contractual committment

Thinfilm has no contractual committment related to equipment for the new roll-based production line at the San Jose site.

Thin Film Electronics ASA
Annual financial statements 2019

Profit and loss statements

Amounts in NOK 1,000	Note	2019	2018
Sales revenue	11	5,182	8,826
Other revenue	12,13,14	—	594
Other income	12,13,14	—	971
Total revenue		**5,182**	**10,391**
Employee salaries and other benefits	15	(16,126)	(32,569)
Services (external)		(18,088)	(18,483)
Services (from subsidiaries)	18,19	(261,595)	(372,229)
Other operating expenses	19	(13,079)	(20,090)
Contribution from Skattefunn scheme	13	—	10,000
Amortization of intangible assets & negative goodwill	7	(22,466)	(11,752)
Operating profit (loss)		**(326,172)**	**(434,732)**
Impairment investment in subsidiary	6	(164,465)	(156,135)
Interest income		1,090	5,163
Other financial income		—	12
Other financial costs		3,223	10,961
Net financial items		**(160,151)**	**(140,000)**
Profit (loss) before income tax		**(486,323)**	**(574,732)**
Income tax expense	16	—	—
Profit (loss) for the year		**(486,323)**	**(574,732)**

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

Balance sheet

Amounts in NOK 1,000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets	7	—	19,494
Investment in subsidiaries	6	37,376	198,969
Total non-current assets		**37,376**	**218,463**
Current assets			
Trade and other receivables	8	1,304	104,124
Cash and bank deposits	9	27,717	242,819
Total current assets		**29,021**	**346,943**
Total assets		**66,397**	**565,406**
EQUITY			
Ordinary shares	10,21	128,906	128,906
Other paid-in capital		—	2,425,538
Total paid-in equity		**128,906**	**2,554,444**
Retained profit/uncovered losses		(136,968)	(2,070,966)
Total equity	**4**	**(8,062)**	**483,478**
LIABILITIES			
Current liabilities			
Deferred revenue		—	222
Accounts payable		6,389	1,736
Withheld tax and public duties payable		313	1,549
Debt to group companies	6,18	63,403	72,380
Other payables and accruals		4,354	6,041
Total liabilities	**20**	**74,459**	**81,928**
Total equity and liabilities		**66,397**	**565,406**

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad
Chairman

Preeti Mardia
Board Member

Jon Castor
Board Member

Kelly Doss
Board Member

Kevin Barber
Managing Director (CEO)

Cash flow statements

Amounts in NOK 1,000	Note	2019	2018
Cash flows from operating activities			
Profit (loss) before income tax		(486,323)	(574,732)
Share-based compensation (equity part)	21	3,489	6,459
Amortization and impairment (reversal)	7	22,466	11,752
Impairment investment in subsidiary	6	164,465	156,135
Change in working capital and other items		83,772	(94,631)
Net cash from operating activities		**(212,131)**	**(495,017)**
Cash flows from investing activities			
Capitalized development expenses	7	(2,971)	(12,932)
Investment in subsidiaries	6	—	(9,867)
Net cash from investing activities		**(2,971)**	**(22,799)**
Cash flows from financing activities			
Proceeds from issuance of shares	10	—	—
Net cash from financing activities		**—**	**—**
Net change in cash and bank deposits		**(215,102)**	**(517,816)**
Cash and bank deposits at the beginning of the year		242,819	760,635
Cash and bank deposits at the end of the year*	**9**	**27,717**	**242,819**

The company had no bank draft facilities at the end of 2019 or 2018.

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

* See Note 9 for restricted amount.

Notes to the Annual Financial Statements Thinfilm ASA

1. Information about the company

Thin Film Electronics ASA ("Thinfilm" or "the Company") was founded on 22 December 2005. See Note 28 of the Consolidated Financial Statements for list of subsidiaries.

Thinfilm is energizing innovation with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These annual financial statements for the parent company were resolved by the company's board of directors on 11 May 2020.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019, in order to reduce the Company's cost structure. Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020.

The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow.

The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April, 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. The Company plans to raise funds in May of 2020. At the end of April 2020, the Board received a commitment by a consortium of investors to invest NOK 20 million with an interim bridge loan to ensure that the Company has sufficient levels of cash to maintain operations, since committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May extraordinary general meeting. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and management, at a subscription price per share equal to the subscription price in the private placement.

To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Continued discussions and the processes required to secure additional equity funding from current and new shareholders;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy. However, the financial statements do not include adjustments related to the amounts of liabilities that might be necessary, should the Company and the consolidated entity not continue as going concerns.

2. Accounting policies

These annual financial statements have been prepared in accordance with the Norwegian accounting act 1998 and generally accepted accounting principles in Norway. The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been applied consistently. The currency of Thin Film Electronics ASA is NOK. The financial statements have been prepared using the historical cost convention.

Principal criteria for valuation and classification of assets and liabilities

Assets for lasting ownership or use have been classified as fixed assets. Other assets have been classified as current assets. Receivables which are due within twelve months have been classified as current assets. Corresponding criteria have been applied when classifying short-term and long-term debt.

Current assets have been valued at the lower of cost and fair value. Other long-term debt and short-term debt have been valued at face value.

Assets and liabilities denominated in foreign currency

Monetary items in foreign currency have been converted at the exchange rate on the balance sheet date.

Shares in subsidiaries

Investment in subsidiaries has been valued at cost in the parent company. In case of impairment which is not temporary, the investment has been written down to fair value if mandated according to GAAP.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Thinfilm ASA recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods

During 2019, the Company sold NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. Sales of goods are recognized when the risks and rewards of ownership are transferred to the customer, the costs incurred or to be incurred in respect of the transaction can be measured reliably and Thinfilm retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Company provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance

sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted. However, revenue from technology access agreements that involve an upfront lump-sum payment that is not tied to any future deliveries from Thinfilm is recognized at the time the agreement is entered into.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants which are related to specific development programs with commercial end-objectives are recognised as other operating revenue over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Grants or other contributions in the form of tax credit are credited against costs.

Intangible assets

Reference is made to Note 2.6 in the Consolidated Financial Statements.

Receivables

Accounts receivable and other receivables have been recorded at face value after accruals for expected losses have been deducted. Accruals for losses have been made based on an individual assessment of each receivable.

Cash and bank deposits

Cash and bank deposits include cash, bank deposits and cash equivalents with a due date less than three months from acquisition.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

Costs

In principle, cost of sales and other expenses are recognized in the same period as the revenue to which they relate. In instances where there is no clear connection between the expense and revenue, the apportionment is estimated.

Share based remuneration

The company may issue independent subscription rights to employees and individual consultants performing similar work and accounts for these transactions under the provisions of NRS 15A and generally accepted accounting principles in Norway. Two types of expenses are recognized related to grant of subscription rights: (i) Notional cost of subscription rights is recognized at time of grant and calculated based on the Black-Scholes model (share price at time of grant, exercise price, expected volatility, duration and risk-free interest rate). The subscription rights vest in four tranches of 25 per cent on each anniversary of the grant, i.e., each tranche has different duration. The notional cost of subscription rights as share based remuneration is expensed but the equity effect is nil because the contra item is a notional equity injection of equal amount. (ii) Employer's tax expense is accrued based on the net present value of the subscription right as an option on the balance sheet date. The value varies with the share price and may entail a net reversal of costs.

When the parent has an obligation to settle the share-based payment transaction with the subsidiaries' employees by providing the parent's own equity instruments, this is accounted for as an increase in equity and a corresponding increase in investment in subsidiaries.

Tax on profit

Tax cost has been matched to the reported result before tax. Tax related to equity transactions has been charged to equity. The tax cost consists of payable tax (tax on the directly taxable income for the year) and change in net deferred tax. The tax cost is split into tax on ordinary result and result from extraordinary items according to the tax base. Net deferred tax benefit is held in the balance sheet only if future benefit can be justified.

Consolidated items

Insignificant items have been combined or included in similar items in order to simplify the statements. Lines which are zero or about zero have been omitted except where it has been deemed necessary to emphasize that the item is zero.

Estimates and judgmental assessments

The preparation of the annual accounts in accordance with the generally accepted accounting principles requires that the management make estimates and assumptions that affect the income statement and the valuation of assets and liabilities. Estimates and related assumptions have been based on the management's best knowledge of past and recent events, experience and other factors which are considered reasonable under the circumstances. Estimates and underlying assumptions are subject to continuous evaluation.

3. Significant events, going concern, events after the balance sheet date, financial risk

- On 30 January 2020, Thinfilm announced its new strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond, enabling the Company to leverage previous investments in technology and equipment related to its roll-to-roll production facility in San Jose, California.

- On 20 February 2020, Thinfilm hosted an Investor Day in Oslo, Norway to present the Company's new energy storage strategy. The fundraising objective and timeline was impacted by the onset of the COVID-19 global pandemic, resulting in delays in securing commitments from potential investors.

- In connection with the 15 April 2020 Extraordinary General Meeting, the Company will also conduct a reduction of paid in capital by reduction in par value of shares in accordance with the Norwegian Public Limited Companies Act to cover the losses. The implication of this is that a resolution to distribute dividends may not be adopted until three years have elapsed from the registration in the Register of Business Enterprises, unless the share capital subsequently has been increased by an amount at least equal to the reduction.

- On 14 April 2020, Thinfilm Electronics ASA announced the filing of multiple provisional patent applications, strengthening the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries (SSLB) for wearable devices, connected sensors, and beyond. The Company also confirmed that, despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure the continuity of its development efforts and mitigate potential delays. The Company therefore believes that it can continue to deliver samples of its SSLB products at the end of Q2, as previously communicated.

- On 15 April 2020, Thinfilm held an Extraordinary General Meeting to obtain shareholder approval for a private placement; issuance of new shares and the amendment of the Company's Articles of Association. In connection with the Private Placement, shareholder approval was also requested for the issuance of new shares and warrants in connection with a contemplated subsequent offering, employee share purchase plan and the associated amendment of the Company's Articles of Association.

- At the 15 April 2020 Extraordinary General Meeting, the Board proposed and the shareholders approved a reduction in share capital by a reduction of the par value of the shares from NOK 2.20 to NOK 0.11.

- In connection with its equity financing process, on 29 April 2020, Thinfilm announced an Extraordinary General Meeting in Thin Film Electronics ASA to be held on 20 May 2020 to obtain shareholder approval for a private placement and subsequent equity offerings. In connection with the private placement and to to ensure adequate cash remains available to operate until the equity financing closes, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA.

Financial risk factors

Reference is made to Note 4.2 in the Consolidated Financial Statements.

4. Equity

Amounts in NOK 1,000	Share capital	Other paid in equity	Uncovered loss	Total
Balance at 1 January 2019	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**
Share based compensation	—	(5,217)	—	(5,217)
Net profit (loss) for the year	—	—	(486,323)	(486,323)
Transfer for coverage of losses	—	(2,420,321)	2,420,321	—
Balance at 31 December 2019	**128,906**	**—**	**(136,968)**	**(8,062)**
Balance at 1 January 2018	**128,906**	**2,410,944**	**(1,496,234)**	**1,043,616**
Share based compensation	—	14,594	—	14,594
Net profit (loss) for the year	—	—	(574,732)	(574,732)
Balance at 31 December 2018	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**

5. Property, plant and equipment

Current facilities are rented with furniture included. Minor computing and communications equipment has been expensed.

6. Investment in subsidiaries

In 2019 the remainder of the subsidiaries were written down to zero, except for Thin Film Electronics AB (Sweden), and the Company is in the process of disolving some of these subsidiaries in 2020.

The shares are held at the lower of cost and fair value in the balance sheet in 2019.

In 2020 the Company made the decision to reduce the share capital to cover the losses.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics AB — Linköping, Sweden			
At 31 December 2019	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,187)
Net book value at 31 December 2019			**37,376**
At 31 December 2018	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,944)
Net book value at 31 December 2018			**36,619**

The local currency of Thin Film Electronics AB is SEK. The net income in SEK in 2019 was a loss of SEK 151 thousand and a net profit SEK 911 thousand in 2018, while the total equity 31 December 2019 was SEK 40,442 thousand (2018; SEK 39,682 thousand).

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Inc. — CA, USA			
At 31 December 2019	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(303,517)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(147,773)
Net book value at 31 December 2018			**155,744**

The local currency of Thin Film Electronics Inc. is USD. The net income in USD in 2019 was a loss of USD 43,009 thousand compared to a loss of USD 16,203 thousand in 2018. The total equity 31 December 2019 was USD (18,917) thousand (USD 23,374 thousand in 2018). The shares are fully impaired as of 31 December 2019. This is mainly triggered by the impairment of PPE in INC as a result of the corporate restructuring (please refer to Note 6 in the Consolidated Financial Statements).

Thin Film Holding (NV, USA), is a 100% owned subsidiary, of which the only activity is holding shares in Thin Film Electronics Inc. Net book value is zero in both 2019 and 2018.

Thin Film Electronics KK (Tokyo, Japan), is a 100% owned subsidiary, which was fully written down in 2016, as all activity in the Japanese legal entity had ceased.

Thin Film Electronics HK Ltd. (Hong Kong), is a 100% owned subsidiary, which was fully written down in 2018. The local currency of Thin Film Electronics HK is HKD. The net loss in HKD in 2019 was HKD 448 thousand, while the total equity 31 December 2019 was HKD (14,906) thousand.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Co. Ltd. — Shanghai, China			
At 31 December 2019	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(21,753)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(16,106)
Net book value at 31 December 2018			**5,647**

The local currency of Thin Film Electronics Co. Ltd. is CNY. The entity was established in February 2017. The net loss of CNY 2,787 thousand (2018; loss of CNY 7,230 thousand) while the total equity 31 December 2019 was CNY 1,557 thousand (2018; CNY 4,467 thousand).

The shares were fully impaired in 2019, as Thinfilm has ceased the operation in Shanghai.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics UK Ltd. — London, England			
At 31 December 2019	100%	100%	
Accumulated cost			564
Accumulated impairment charge			(564)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			564
Accumulated impairment charge			—
Net book value at 31 December 2018			**564**

The local currency of Thin Film Electronics UK Ltd. is GBP. The entity was established in March 2017. The net income in GBP in 2019 was a loss in GBP 76 thousand compared to a profit of GBP 32 thousand in 2018. The total equity 31 December 2019 was GBP (4) thousand (GBP 72 thousand in 2018). The investment was fully impaired in 2019 as Thinfilm has ceased the operation in the UK.

Thin Film Electronics UK Ltd. has taken advantage of section 479a of the UK Companies Act 2006 to be exempt from audit of its financial statements for the years 2019 and 2018.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Singapore Pte Ltd. — Singapore			
At 31 December 2019	100%	100%	
Accumulated cost			395
Accumulated impairment charge			(395)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			395
Accumulated impairment charge			—
Net book value at 31 December 2018			**395**

The local currency of Thin Film Electronics Singapore Pte Ltd. is SGD. The entity was established in November 2017. The net income in SGD in 2019 was a loss of SGD 562 thousand (2018; loss of SGD 983 thousand) while the total equity at 31 December 2019 was SGD (1,532) thousand (SGD 973 thousand in 2018) . The investment was fully impaired in 2019 as Thinfilm has ceased the operation in Singapore.

Guarantees provided to subsidaries

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued by Thin Film Electronics ASA to the new landlord. Thin Film Electronics ASA has in addition entered into a Tenancy Guaranty with the new landlord. The guaranty is given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2019, the Guaranty liability amounted to USD 4,000 thousand.

7. Intangible assets

Amounts in NOK 1,000	Purchased intellectual property	Negative goodwill	Capitalized development costs	Total
Amortization period, years (linear)	13–16	5		
Acquisition cost				
Accumulated cost on 1 January 2019	15,872	(2,925)	9,773	22,721
Additions	—	—	2,971	2,971
Accumulated costs 31 December 2019	**15,872**	**(2,925)**	**12,744**	**25,692**
Accumulated amortization on 1 January 2019	(6,152)	2,925	—	(3,227)
Amortization	(1,329)	—	—	(1,329)
Impairment	(8,391)	—	(12,744)	(21,135)
Amortization at 31 December 2019	**(15,872)**	**2,925**	**(12,744)**	**(25,691)**
Net book value 31 December 2019	**—**	**—**	**—**	**1**
Acquisition cost				
Accumulated cost on 1 January 2018	17,198	(2,925)	7,067	21,341
Additions	—	—	12,932	12,932
Impairment (at costs)	(1,326)	—	(10,226)	(11,552)
Accumulated costs 31 December 2018	**15,872**	**(2,925)**	**9,773**	**22,721**
Accumulated amortization on 1 January 2018	(5,367)	2,340	—	(3,027)
Amortization	(1,330)	585	—	(745)
Accumulated amortization impaired assets	545	—	—	545
Amortization at 31 December 2018	**(6,152)**	**2,925**	**—**	**(3,227)**
Net book value 31 December 2018	**9,720**	**—**	**9,773**	**19,494**

The purchased intellectual property relate to licensing of certain patents. The portfolio is reviewed for impairment annually by comparing the book value to the fair market value at the patent level. In 2019 the remaining unamortized balance of NOK 8,391, has been impaired in full as the company has revised its strategy whereby the future value of these patents are uncertain. 2018 impairments related to patents with a fair market value lower than the recorded book value.

In 2018 capitalized development costs relate to EAS (Electronic article surveillance) and NFC Speedtap™. The capitalized costs of NOK 10,226 thousand related to EAS were fully impaired in 2018, as Thinfilm decided to not further commercialize the EAS product. In 2019 it was decided that the capitalized development costs relating to NFC SpeedTap™ would not be further commercialized and the remaining costs of NOK 12,744 were impaired.

On 21 January 2014, Thinfilm acquired certain assets, contracts and processes from Kovio Inc., a company active in the field of radio frequency enabled products based on printed silicon technology. The difference between total consideration transferred and estimated fair value of assets amounted to NOK 2,925 thousand. This constituted a bargain purchase and the negative goodwill of NOK 2,925 is amortized on a systematic basis over five years as a credit against cost. Reference is made to Note 25 in Consolidated Financial Statements in the 2014 Annual Report for further description.During the year 2018, the remaining NOK 585 thousand was amortized.

8. Trade and other receivables

Amounts in NOK 1,000	31 December 2019	31 December 2018
Customer receivables	2,344	5,411
Accrued revenue not yet invoiced	—	650
Other receivables, prepayments	860	98,063
Less: allowance for doubtful accounts	(1,900)	—
Receivables — net	**1,304**	**104,124**
Of this, receivables from Thinfilm AB	—	943
Of this, receivables from Thinfilm Inc.	—	77,448
Of this, receivables from Thinfilm HK	—	7,018
Of this, receivables from Thinfilm UK Ltd.	—	1,106
Of this, receivables from Thinfilm SG	—	(24)

All receivables are due within one year and book value approximates fair value. The total amount denominated in NOK is 1,304 thousand (2018: NOK 10,446 thousand), NOK — thousand is denominated in GBP (2018: NOK 1,214 thousand), NOK — thousand is denominated in USD (2018: 84,366 thousand), NOK — thousand is denominated in HKD (2018: NOK 1,650 thousand), NOK — thousand is denominated in SEK (2018: NOK 943 thousand), NOK — thousand is denominated in SGD (2018: 6,319), while NOK — thousand is denominated in other currencies (2018: NOK 160 thousand).

Of other receivables NOK 860 thousand were not past due as per 31 December.

Customer receivables, less allowance for doubtful accounts, of NOK 444 thousand were past due by more than 90 days.

The company assesses impairment risk on an individual basis.

9. Cash and bank deposits

Amounts in NOK 1,000	31 December 2019	31 December 2018
Bank deposits excluding restricted cash	13,574	227,659
Deposit for Letter of Credit (restricted)	14,096	14,262
Deposit for withheld tax (restricted)	47	897
Total	**27,717**	**242,819**

As a part of the relocation of Thinfilm INC.'s US headquarter in the second quarter of 2017 a USD 1,600 thousand Letter of Credit was issued to the new landlord.

Payable withheld tax amounts at 31 December 2019 was NOK 47 thousand.

10. Share capital

Reference is made to Note 12 in the Consolidated Financial Statements.

11. Sales revenue

Amounts in NOK 1,000	2019	2018
Sales of goods	4,672	8,729
Rendering of services, delivery of samples, technology access revenue	510	97
Total	**5,182**	**8,826**

No warranty costs, penalties or other losses were related to sales revenue in 2019 or 2018.

12. Other revenue

Amounts in NOK 1,000	2019	2018
Government grants, funded development projects	—	594
Total	—	**594**

13. Government grants

In 2018 Thinfilm ASA had a project qualified for the SkatteFUNN scheme for the three-year horizon 2018-2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million. Due to a revised strategy the company has ceased the SkatteFUNN project in 2019, and has not included any contribution from this scheme in 2019.

The SkatteFUNN grant has been credited against cost on a systematic basis over 2018.

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway.

In February 2015 Thinfilm ASA received an grant from The Research Council of Norway of NOK 12 million relating to enhancing durability and liftetime of Thinfilm smart tags. The project ran until April 1, 2018. The grant has been recognized as Other revenue (see Note 12).

14. Other Income

Amounts in NOK 1,000	2019	2018
Government grants, funded development projects	—	594
Sale of IP rights	—	971
Total	**—**	**1,565**

Sales of IP rights related to the Xerox transaction, amounting to NOK 971 thousand in 2018.

15. Employee salaries and other benefits

Amounts in NOK 1,000	2019	2018
Salaries	10,319	22,009
Social security costs	1,740	2,753
Share-based compensation (subscription rights), notional salary cost	3,489	6,459
Share-based compensation (subscription rights), accrued employer´s tax*	87	(356)
Pension contribution	347	1,001
Other personnel related expenses, including recruiting costs	144	703
Total	**16,126**	**32,569**
Average number of employees for the year	4	9
Number of employees 31 December	1	10

At the end of 2019 there was one full-time employee in the company (2018: 10 full-time employees).

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

Compensation to senior management

	Salary	Pension contribution	Bonus	Share-based remuneration
2019				
Kevin Barber, CEO starting 26 November 2018	3,681	92	1,681	8,743
Mallorie Burak, CFO starting 1 July 2019	1,364	48	68	306
Ole Ronny Thorsnes, CFO until 1 July 2019	2,870	–	–	–
Ole Ronny Thorsnes was terminated from Thinfilm on 30 September 2019.				
2018				
Kevin Barber, CEO starting 26 November 2018	370	–	–	2,680
Davor Sutija, CEO until 26 November 2018	3,625	102	2,336	2,746
Ole Ronny Thorsnes, CFO	2,506	102	1,011	1,327

The salary amount is the salary declared for tax purposes. Bonus is the amount earned during the year and accrued at year-end.

Bonuses earned in 2018 and 2019 were subsequently paid during the first quarter of 2019 and 2020, respectively.

The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights.

No subscription rights were exercised in 2019 or 2018.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the board of directors

Reference is made to Note 18 in the Consolidated Financial Statements.

16. Income tax expense

The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in NOK 1,000	2019	2018
Profit (loss) before tax	(486,323)	(574,732)
Tax (tax income) calculated at corporate tax rate	(106,991)	(132,188)
Permanent differences	37,543	35,014
Effect of change in tax rates (23% to 22%)	—	21,296
Change in deferred tax asset not recognised on the balance sheet	69,448	75,879
Tax charge	**—**	**0.00**
Corporate tax rate	22%	23%

17. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Amounts in NOK 1,000	31 December 2019	31 December 2018
Deferred income tax asset Intangible asset	(8,485)	(4,071)
Tax loss carried forward	(529,470)	(464,436)
Calculated deferred tax asset	(537,955)	(468,507)
Impairment of deferred tax asset	537,955	468,507
Deferred tax asset in the balance sheet	**—**	**—**

The Company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway with tax rate 22 % (22%: 2018).

18. Related party transactions

a) Transactions with related parties:

Amounts in NOK 1,000	2019	2018
Technical development services from Thinfilm AB	8,824	11,834
Sales, marketing, R&D and manufacturing services from Thinfilm Inc.	249,045	363,723
Sales and marketing services from Thinfilm HK	—	69
Sales and marketing services from Thinfilm CN	—	402
Sales and marketing services from Thinfilm UK	5,343	9,005
Internal purchase of goods for resale from Thinfilm Inc.	—	128
Intercompany interest income on loan to Thinfilm Inc.	(2,393)	(2,903)
Intercompany royalty income from Thinfilm Inc.	—	(83)
Purchases of services from law firm Ræder	6,031	2,739
Purchase of services from Robert N. Keith	—	2,000

Services provided by subsidiaries and capitalized in the balance sheet as development costs amount to NOK 2971 thousand (2018: 12,932 thousand).

Thinfilm's chairman, Morten Opstad, is a partner of Advokatfirmaet Ræder AS, who is also Thinfilm's legal counsel. The amounts do not include Mr. Opstad's service as chairman. Mr. Opstad and close associates hold shares in Thinfilm.

Robert N. Keith, a shareholder of Thinfilm, entered into a consulting service agreement with effect from 1 January 2013. Mr. Keith assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in NOK 1,000	2019	2018
Payable to Thinfilm Inc.	25,225	30,971
Payable to Thinfilm AB	37,376	39,670
Payable to Thinfilm HK	—	76
Payable to Thinfilm UK	802	1,260
Payable to Thinfilm CN	—	402
Receivable from Thinfilm AB	—	(943)
Receivable from Thinfilm INC	—	(77,448)
Receivable from Thinfilm HK	—	(7,018)
Receivable from Thinfilm UK	—	(1,106)
Receivable from Thinfilm SG	—	24
Payable to law firm Ræder	3,729	742
Payable to Robert Keith	—	2,000

19. Other operating expenses

Amounts in NOK 1,000	2019	2018
Premises, supplies	4,710	4,105
Sales and marketing	2,883	1,333
Other expenses	5,486	14,652
Sum	**13,079**	**20,090**

Thinfilm has a lease agreement for premises in Oslo (Norway). The lease amount in Oslo is NOK 780 thousand per year, with a termination clause of 3 months. The agreement was terminated effective March 2019, and Thinfilm moved to a new office location in March 2019.

The new lease amounts to NOK 689 thousand per year, with a termination clause of 3 months. The lease expired on 31 August 2019 and the lease was not renewed. The Company pays rent on a month to month basis. The monthly rent is NOK 11 thousand per month.

Thinfilm ASA has not entered into any other lease agreements.

Remuneration to the auditor (ex VAT)

Amounts in NOK 1,000	2019	2018
Audit	1,141	806
Other assurance services	—	15
Tax services	30	28
Other services	—	—
Total	**1,171**	**849**

20. Guarantees

Reference is made to Note 24 in the Consolidated Financial Statements.

21. Shareholders, warrants and subscription rights

Reference is made to Note 25 in the Consolidated Financial Statements.

22. Statement on management remuneration policy

Reference is made to Note 26 in the Consolidated Financial Statements.

Corporate Social Responsibility (CSR) Statement

The Thin Film Electronics ASA Group recognizes that it has important obligations regarding 1) the treatment of its employees, 2) the conditions within its facilities, 3) its impact on the environment, and 4) the relationships it maintains with the communities in which it operates. As such, it adheres to policies related to these obligations and strives to achieve goals that engender safety, health, fairness, diversity, integrity, compliance, and sustainability.

Human rights and workplace practices

Policy

Thinfilm promotes equality and non-discrimination, fairness, and ethical behavior. The Company aims to offer a pleasant, well-equipped, and risk-free work environment. It maintains fair and balanced employment practices and complies with all applicable labor laws applicable to the countries, regions, cities, and towns in which it operates. Thinfilm encourages and expects similar commitments from its customers, partners, suppliers, and other vendors with whom the Company works.

Objective

Maintain a secure, safe, and healthy work environment for all employees of the Company. Continue to be a globally diverse company that strongly distances itself from any form of discrimination. Thinfilm makes every reasonable effort to secure a healthy, safe, and lawful work environment, and the Company complies with all applicable laws, rules, and regulations concerning occupational health, safety, and environmental protection. The Company's policies prohibit discrimination against employees, shareholders, directors, customers, partners, suppliers, and other vendors on account of gender, race, sexual orientation, religion, disability, nationality, political opinion, and social or ethnic origin. Employees are provided with an Employee Handbook outlining corporate policy. Workplace diversity at all levels is highly encouraged and monitored. All persons shall be treated with dignity and respect and are encouraged to assist in creating a work environment free from any form of discrimination. The necessary conditions for a safe and healthy work environment shall be provided for all employees of the Company.

At Thin Film Electronics, Inc. (US subsidiary), all employees are required to complete a safety training course within their first month of employment. In compliance with the Safe Drinking Water and Toxic Enforcement Act of 1986 of the State of California, commonly referred to as Proposition 65, Thin Film Electronics, Inc. also informs employees of the onsite presence of any known chemical known to cause cancer or reproductive toxicity.

Thinfilm is committed to fully complying with all applicable laws regarding equal employment opportunities. Employees who believe they have been subjected to any form of unlawful discrimination may submit a complaint to their manager, any member of the management team, and/or Human Resources. The Company encourages all employees to immediately report incidents of harassment or other conduct prohibited by its anti-harassment policy so that complaints can be resolved in a fair and timely manner.

Conditions Within Facilities and Environmental Impact

Policy

Thinfilm requires that all subsidiaries of the Thinfilm Group follow all current environmental laws and regulations for the jurisdictions in which they reside and operate. Thinfilm routinely evaluates the environmental impact of its production – and manufacturing- related activities, with particular emphasis on the potential risks regarding present and future operations. Thinfilm operates its production facility and laboratories in San Jose, California.

Objective

Thinfilm strives to monitor waste production, such as chemicals and electronics materials, to evaluate where and how the Company can improve – such as using fewer chemicals, leveraging alternative materials, and/or maximize the usage of current materials. Thinfilm recognizes the impact that hazardous waste can have on the environment and takes every reasonable precaution to discard and recycle waste according to federal, state, and regional laws and regulations.

In the San Jose, California facility, Thinfilm partners with a licensed Environmental Services provider and strict guidelines are followed for the storage and disposal of hazardous material. The State of California tracks any Thinfilm hazardous material shipments to the final disposal/incineration site to ensure overall compliance.

Ethics and anti-corruption

Policy

It is important that Thinfilm staff members do not place themselves in situations whereby their fidelity can be undermined or in which they may be vulnerable to external pressures contrary to Thinfilm's or their own integrity. It is communicated and expected that all employees do not accept, either for themselves or on behalf of others, gifts, fees, services or other benefits which could influence the way they discharge their duties, or are intended to exert such influence by the giver.

Objective

Systematize and further improve internal training and education as it relates to ethics and anti-corruption compliance. Thinfilm's Ethical Guidelines are based on respect and fairness in all aspects of the Company's business dealings. We demand and expect that our employees – at every level of the organization – adhere to applicable laws and regulations in the countries where we do business. Thinfilm has a clear stance on corruption. Employees must always comply with applicable anti-bribery laws; and each manager and employee is responsible for compliance within his or her area of authority, and must report any suspected violation to HR, corporate management, and in certain cases, the local authorities.

Responsibility Statement

The board and the CEO have today reviewed and approved this report of the board of directors as well as the annual financial statements for the Thin Film Electronics ASA Group and parent company as of 31 December 2019. The consolidated annual financial statements have been prepared in accordance with IFRS as adopted by the EU and the additional requirements in the Norwegian accounting act. The annual financial statements for the parent company have been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway. The notes are an integral part of the respective financial statements. The report of the board of directors has been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway.

We confirm that, to the best of our knowledge, the information presented in the financial statements gives a true and fair view of the group's and the parent company's assets, liabilities, financial position and result for the period viewed in their entirety, and that the report from the board of directors and Managing Director (CEO) gives a true and fair view of the development, performance, and financial position of the group and the parent company, and includes a description of the principal risks and uncertainties which the group and the parent company are facing.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	Preeti Mardia Board Member	Jon Castor Board Member	Kelly Doss Board Member

Kevin Barber
Managing Director (CEO)

Auditor's Report

Deloitte.

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To the General Meeting of Thin Film Electronics ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Thin Film Electronics ASA, which comprise:

- The financial statements of the parent company Thin Film Electronics ASA (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Thin Film Electronics ASA and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at 31 December 2019, the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements of the Group and Note 1 in the financial statements of the parent and in the Board of Directors' report. The Group and the parent have historically operated at a loss and are in immediate need of cash. There is no assurance that management will be successful in raising funds. Failure to obtain funding would adversely affect the ability to continue as a going concern and consequently the Group and the parent might enter into liquidation. As stated in Note 2 in the financial statements of the Group and note 1 in the financial statements of the parent and in the Board of Directors' report, the liquidity situation, along with other matters as set forth in the notes and the Board of Directors' report, indicate that a material uncertainty

exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

From the matters communicated with 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

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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Deloitte.

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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 11 May 2020
Deloitte AS

Mette Herdlevær

Mette Herdlevær
State Authorised Public Accountant (Norway)

Corporate Governance

Resolved by the board of directors of Thin Film Electronics ASA (the "Company") on 22 April 2020.

The statement outlines the position of the Company in relation to the recommendations contained in the Norwegian Code of Practice for Corporate Governance dated 17 October 2018 ("the Code"). The Code is available at www.nues.no and from Oslo Børs. In the following, the board of directors will address each section of the Code and explain the areas, if any, where the Company does not fully comply with the recommendations and underlying reasons.

1. Implementation and reporting on Corporate Governance

The Company seeks to create sustained shareholder value. The Company makes every reasonable effort to comply with the word and intent of the laws, rules and regulations in the countries and markets in which it operates. Thinfilm is not aware of being or having been in breach of any such statutory laws, rules or regulations. The Company pays due respect to the norms of the various stakeholders in the business. In addition to the shareholders, the Company considers its employees, Thinfilm's business partners, the society in general and the authorities as stakeholders. Thinfilm is committed to maintain a high standard of corporate governance, be a good corporate citizen and demonstrate integrity and high ethical standards in all its business dealings.

The board believes that in the present organization

- The Thinfilm Group presently has 18 ordinary employees and a few consultants on site

- The board of directors and the management have adequate monitoring and control systems in place to ensure insight into and control over the activities. (Note: In this review, the noun "the management" includes all persons conducting managerial functions, whether employed or otherwise contracted.)

The board has resolved ethical guidelines that apply to all employees, consultants and contractors as well as the elected board members. The ethical guidelines also incorporate the Company's guidelines on corporate social responsibility.

2. Thinfilm's business

As announced in January 2020, the objectives of the Company shall be Energizing Innovation™ with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond. Thinfilm's innovative solid-state lithium battery (SSLB) technology is uniquely positioned to enable the production of powerful, lightweight, and cost-effective rechargeable batteries for diverse applications. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company's business goals and principal strategies are defined in the business plans adopted by the board of directors. The plans are reviewed and revised periodically, and when needed.

Thinfilm satisfies the recommendations under this section of the Code by publishing the material at www.thinfilmsystems.com instead of in the annual report.

3. Equity and dividends

The board is aware of and acknowledges the equity requirements and duty of action in connection with loss of equity, as set out in the Norwegian Public Limited Companies Act (the "PLCA"). In the past, the Company has been in need of raising equity on several occasions to fund its operations and working capital requirements. The board has proposed to the general meeting only reasonable authorizations for share issues and incentive schemes. Such board authorizations have explicitly stated the type and purposes of transactions in which the authorizations may be applied. As of the general meeting(s) to be held in 2020, any proposed authorizations to issue shares shall be considered and voted separately by each type and purpose of such share issues.

The board authorizations to issue shares have been valid until the next annual general meeting, as recommended by the Code. The proposals have been approved by the shareholders.

The Company has in place an authorization to the board to acquire up to 10 percent of the Company's own shares for a maximum price of NOK 1,000 per share. The board was authorized to decide upon the manner and terms of the acquisition, disposition, transfer and sale of its own shares. The length of the authorization is limited to the earlier of (i) the next annual general meeting of shareholders (scheduled for 19 May 2020) or (ii) 30 June 2020.

Thinfilm has not as yet declared or paid any dividends on its shares. The Company does not anticipate paying any cash dividends on its shares in the next few years. Thinfilm intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay dividends will depend on the Company's financial condition, results of operation and capital requirements.

4. Equal treatment of shareholders and transactions with close associates

The Company places great emphasis on ensuring equal treatment of its shareholders. The Company has one class of shares. There are no trading restrictions or limitations relating only to non-residents of Norway under the Articles of Association of the Company. Each share carries one vote. There are no restrictions on voting rights of the shares.

In the authorizations to issue shares to raise additional capital for the Company, where the existing shareholders have resolved to waive the pre-emptive right to subscribe for shares, the rationale for doing so shall be presented as part of the decision material presented to the general meeting. If and when such transactions are conducted, the justification will also be included in the announcements to the market.

All related party transactions in effect are entered into on an arm's length basis. Any material future related party transactions shall be subject to an independent third-party valuation unless the transaction by law requires shareholder approval. The Company takes legal and financial advice on these matters when relevant. Members of the board and the management are obliged to notify the board if they have any material direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares

All shares are freely assignable. The Articles of Association do not contain any restrictions on negotiability of the shares.

6. General meetings

The annual general meeting of shareholders, the Company's highest decision-making body, provides a forum for shareholders to raise issues with the board as such and with the individual board members. To the maximum degree possible, all members of the board shall be present at the general meeting. The Company's auditors shall also be present at the general meeting. The shareholders elect a person to chair the general meeting. The board will arrange for an independent candidate if so requested by shareholders. Notice of a meeting of the shareholders shall be sent in a timely manner and the Company shall issue the notice and documents for a general meeting, including the proxy form, no later than 21 days before the date of the general meeting. Foreign residents will receive the notice and documents in English. When appropriate, the documents will be made available at the Company's website and not sent to the shareholders.

The board of directors endeavors to provide comprehensive information in relation to each agenda item in order to facilitate productive discussion and informed resolutions at the meeting. The notice will also provide information on the procedures shareholders must observe in order to participate in and vote at the general meeting. Shareholders who are unable to attend in person will be provided the option to vote by proxy in favor or against each of the board's proposals. The notice shall contain a proxy form as well as information of the procedure for proxy representation. At the meeting, votes shall be cast separately on each subject and for each office/candidate in the elections. Consequently, the proxy form shall, to the extent possible, facilitate separate voting instructions on each subject and on each office/candidate in elections. The notice, as well as the Company's website, will set out that the shareholders have the right to propose resolutions in respect of matters to be dealt with at the general meeting.

The general meeting has included in Section 7 of the Company's Articles of Association that documents which have been made available in a timely manner on the website of the Company and which deal with matters that are to be handled at the general meeting, need not be sent to the Company's shareholders.

All reports will be issued on the Oslo Børs marketplace (www.oslobors.no and www.newsweb.no) within the Oslo Stock Exchange, and on the OTCQX International Marketplace (www.otcmarkets.com/marketplaces/otcqx). The reports and other pertinent information are also available at www.thinfilmsystems.com.

7. Nomination committee

Under the Articles of Association, Thinfilm has a nomination committee that is elected by the annual general meeting for a term of two years. The nomination committee shall have three members, including a Chairman. The nomination committee shall prepare and present proposals to the annual general meeting in respect of the following matters:

- Propose candidates for election to the board of directors
- Propose the remuneration to be paid to the board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members shall be resolved by the annual general meeting

The Company provides information on its website about the composition of the nomination committee and any deadlines for submitting proposals to the committee.

8. Corporate assembly and board of directors; composition and independence

Thinfilm does not have a corporate assembly.

The board acknowledges the Code's recommendation that the majority of the members of the board of directors shall be independent of the Company's management and material business contacts. All board members are required to make decisions objectively in the best interest of the Company, and the presence of independent directors is intended to ensure that additional independent advice and judgement is brought to bear. The current board meets the independence criteria of the Code. The board meets the statutory gender requirements for the board.

Board members stand for election every two years. The board believes that it is beneficial for the Company and its shareholders that the board members also are shareholders in the Company and encourages the member of the board of directors to hold shares in the Company.

The board pays attention to ensure that ownership shall not in any way affect or interfere with proper performance of the fiduciary duties, which the board and the management owe the Company and all shareholders.

As and when appropriate, the board takes independent advice with respect to its procedures, corporate governance and other compliance matters.

9. The work of the board of directors

The division of duties and responsibility between the CEO and the board of directors is based on applicable laws and well-established practices, which have been formalized in writing through a board instruction in accordance with the Norwegian Public Limited Companies Act. The board instruction also sets out the number of scheduled board meetings per year and the various routines in connection with the board's work and meetings.

The board instructions state that in situations when the Chairman is not impartial or not operative, the most senior board member shall chair the board until a deputy Chairman has been elected by and among the board members present.

The board of directors shall evaluate its performance and expertise annually. Moreover, the board will produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.

With a compact board of only four members, there has not been any need for subcommittees to date. The future need for any sub-committees will be considered at a minimum annually in connection with the annual review of the Company's corporate governance.

Thinfilm is not obliged to have a separate audit committee and in view of the small number of board members, the Company's Audit Committee consists of all board members who are not also executives or have similar roles in the Company. The board instruction includes an instruction for the audit committee.

10. Risk management and internal control

The board of directors has adopted internal rules and guidelines regarding, amongst other things, risk management and internal control, which rules and guidelines take into account the extent and nature

of the Company's activities as well as the Company's corporate values and ethical guidelines, including the corporate social responsibility. The board of directors shall carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

In view of the size of the Company and the number of board members, the board has chosen to elect the full board (except any board members who hold executive positions) to constitute the audit committee. The audit committee policies and activities are compliant with the Norwegian Public Limited Companies Act.

The board of directors has adopted an insider manual with ancillary documents intended to ensure that, among other things, trading in the Company's shares by board members, executives and/or employees, including close relations to the aforementioned, are conducted in accordance with applicable laws and regulations.

Internal control and risk management of financial reporting:

Thinfilm publishes four interim financial statements in addition to the ordinary annual financial statements. The financial statements shall satisfy legal and regulatory requirements and be prepared in accordance with the adopted accounting policies and be published according to the schedule adopted by the board. Closing of accounts, financial reporting and key risks analysis are provided monthly to the board of directors.

Thinfilm has established a series of risk assessment and control measures in connection with the preparation of financial statements. In connection with subsidiaries' closing of accounts, internal review meetings are held. In addition, separate meetings are held to identify risk factors and measures linked to important accounting items or other factors. The board also has separate meetings with the external auditor to review such risk factors and measures and conducts preparatory reviews of interim financial statements and annual financial statements that particularly focus on reporting of operational costs and investments.

A financial manual provides detailed instruction for financial planning, treasury, accounting and reporting, and is reviewed and updated annually by the board.

11. Remuneration to the board of directors

A reasonable cash remuneration to the board members for their services from the annual general meeting in 2018 until the annual general meeting in 2019 was proposed to and resolved at the 2019 annual general meeting. To lessen the cash outflow, the annual general meeting granted an option to the board members to receive all or part of the remuneration in the form of shares in the Company. No board members took up this option in 2019. The nomination committee will propose board remuneration for the period between the annual general meetings of 2019 and 2020.

At the 2019 Annual General Meeting, two US residents were elected as new Board members. In order for the Company to be able to attract the interest of these two individuals, a grant of subscription rights was proposed to, and resolved by, the 2019 Annual General Meeting, as share-based incentives represent a relatively customary and expected board remuneration and incentive in the US market. The Board acknowledges that such grants were in contradiction to the Corporate Governance recommendations, but remains of the view that it was in the Company and shareholders' mutual best interest to make these grants in order to secure the services of these two US-based board members.

Advokatfirmaet Ræder AS, in which the Chairman, Morten Opstad, is a partner, renders legal services to the Company. A board member performing work for the Company beyond the board duty shall ensure that such arrangements do not in any way affect or interfere with proper performance of the fiduciary duties as a board member. Moreover, the board (without the participation of the interested member) shall approve the terms and conditions of such arrangements. Adequate details shall be disclosed in Thinfilm's annual financial statements.

12. Remuneration of the management

Thinfilm offers market-based compensation packages for the executives and employees in order to attract and retain the competence that the Company needs. The exercise price for any subscription right is equal to or higher than the market share price at the time of the grant. The subscription rights vest in tranches over three years.

The board shall determine the compensation of the CEO. There is a maximum amount of incentive remuneration per calendar year. It follows from the nature of the incentive subscription rights program resolved by the annual general meeting that the limit does not apply to the possible gain on subscription rights. The board has adopted a policy for the CEO's remuneration of the employees.

At the annual general meeting, the board will present to the shareholders for their approval a statement of remuneration to the management. The resolution by the annual general meeting is binding to the extent it relates to share-based compensation and advisory in other aspects.

13. Information and communication

The board of directors places great emphasis on the relationship and communication with the shareholders. The primary channels for communication are the interim reports, the annual report and the associated financial statements. Thinfilm also issues other notices to the shareholders when necessary or appropriate. The general meeting of shareholders provides a forum for the shareholders to raise issues with the board as such and the individual board members. All reports are issued and distributed according to the rules and practices at the market place(s) where Thinfilm shares are listed. The Company shall in due course publish an annual financial calendar for the following year; setting forth the dates for major events such as its annual general meeting, publication of interim reports, any scheduled public presentation, any dividend payment date, etc. The reports and other pertinent information are also available on the Company's website, www.thinfilmsystems.com.

The board of directors has adopted the following policies:

- Policy for reporting of financial and other information and investor relations;
- Policy for contact with shareholders outside general meeting; and
- Policy for information management in unusual situations attracting or likely to attract media or other external interest.

The financial reporting of Thinfilm is fully compliant with applicable laws and regulations. As of the interim financial information for the third quarter 2007, Thinfilm has prepared its consolidated financial reports in accordance with IFRS. The current information practices are adequate under current rules.

14. Take-overs

There are no take-over defense mechanisms in place. The board will endeavor that shareholder value is maximized and that all shareholders are treated equally. The board shall otherwise ensure full compliance with Section 14 of the Code.

15. Auditors

The Company's auditor is fully independent of the Company. Thinfilm represents a minimal share of the auditor's business. Thinfilm does not obtain business or tax planning advice from its auditor. The auditor may provide certain technical and clerical services in connection with the preparation of the annual tax return and other secondary reports, for which Thinfilm assumes full responsibility.

The board of directors has established written guidelines to the CEO with respect to assignments to the auditor other than the statutory audit.

The board of directors shall otherwise ensure full compliance with Section 15 of the Code.

Articles of Association

§1 The name of the company

The name of the Company is Thin Film Electronics ASA. The Company is a public limited company.

§2 The company's business

The company's business shall encompass multiple complimentary technologies, including but not limited to, enabling Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. The company's business shall also include maximizing the value of its San Jose, California Roll-to-Roll factory's unique combination of capabilities, including roll-based production, process knowhow, and print expertise, which are relevant to market needs for a broad range of applications within flexible large-area electronics. The Company's objectives may be carried out in full internally or in whole or in part externally through collaborative efforts with one or more of the company's ecosystem and commercial partners. The Company's business may be carried out directly by the Company and/or through subsidiary companies. The Company may hold ownership positions in companies with similar activities.

§3 Registered office

The registered office of the Company is situated in Oslo.

§4 The company's share capital

The Company's share capital is NOK 6,445,293.91 divided into 58,593,581 shares each having a par value of NOK 0.11.

§5 The company's governance

The Company's board of directors shall consist of from three to nine members, as decided by the general meeting. The board may grant powers of procuration.

§6 The general meeting

The ordinary general meeting shall consider and decide:

1. Adoption of the annual financial statement and report of the board of directors, including the declaration of a dividend.
2. Election of chairman and members of the nomination committee, and determination of remuneration to the members of the nomination committee.
3. Any other business required by the laws or the articles of association to be transacted by the general meeting.

The general meetings of the Company shall as a general rule be conducted in the Norwegian language. However, the board of directors may decide that the English language shall be used.

§7 Exemption from requirements to submit documents with notice of general meeting

Documents which timely have been made available on the Internet site of the Company, and which deal with matters that are to be handled at the general meeting, do not need to be sent to the Company's shareholders.

§8 Registration for general meeting

A shareholder who wishes to attend the general meeting, in person or by proxy, shall notify its attendance to the Company no later than two days prior to the general meeting. If the shareholder does not notify the Company of its attendance in a timely manner, the Company may deny the shareholder access to the general meeting.

§9 Nomination committee

a Thin Film Electronics ASA shall have a nomination committee. The nomination committee shall have three members, including a chairman. Members of the nomination committee shall be elected by the Annual General Meeting for a term of two years.

b The nomination committee shall:

- Propose candidates for election to the Board of Directors
- Propose the remuneration to be paid to the Board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members

c The mandate of the nomination committee shall be resolved by the Annual General Meeting.

§10 Relation to the Norwegian Public Limitied Companies Act

Reference is also made to the legislation concerning public limited companies in force at the relevant time.

Board of Directors

Morten Opstad
Chairman

MORTEN OPSTAD has served as Chairman of the Board of the Company since 2 October 2006. He is a partner and Chairman of the Board of Directors in Advokatfirmaet Ræder AS in Oslo. He has rendered legal assistance with respect to establishing and organizing several technology and innovation companies within this line of business. His directorships over the last five years include current board positions in Idex ASA (Chairman), Total Sports Online AS, Glommen Eiendom AS, Chaos AS, K-Konsult AS, and former directorships in Fileflow Technologies AS and A. Sundvall AS. Mr. Opstad was born in 1953 and is a Norwegian citizen.

Preeti Mardia
Board Member

PREETI MARDIA has diverse general management and operations expertise across electronics, semiconductors, telecommunications, aerospace, and food sectors. Preeti is currently Senior Vice President Operations at IDEX ASA, a leading fingerprint imaging and recognition technology company based in Norway. Prior to IDEX she was Vice President Operations for Axxcss Wireless UK Ltd. She previously worked within Filtronic Plc as Operations Director and established commercial and supply relationships with Tier One OEMs for mobile telecoms infrastructure. She was responsible for implementing a world class highly automated electronics manufacturing plant and establishing global supply chain partnerships. She managed and scaled a semiconductor foundry from technology phase to high volume manufacturing of Gallium Arsenide semiconductor devices for the mobile handset, aerospace, and base-station markets. Preeti has extensive FMCG experience in manufacturing, product development and quality assurance with Cadbury Schweppes Plc and supplied into major international retailers. Preeti has a degree in Food Science & Technology and is undertaking a Masters degree in Executive Management at Ashridge, UK. Mrs Mardia was born in 1967 and is a British citizen.

Jon Castor
Board Member

JON CASTOR Jon Castor is an entrepreneur and active independent private and public company director. His 25 years of senior leadership experience has included building both classic Silicon Valley venture funded startups and two new divisions for Fortune 500 companies. He also has considerable private and public company M&A experience, including leading the team of a venture he co-founded through a double exit. His industry experience includes ICs, systems, and software, digital media, consumer electronics and services, and multiple forms of advanced and renewable power generation. Jon's Silicon Valley venture successes include Omneon, where the team built the world leader in broadcast video servers, and TeraLogic, a pioneering HDTV venture supported by Sony, Mitsubishi, and Samsung, where he was co-founder and CEO. Jon has an MBA from Stanford's Graduate School of Business, and a BA with Distinction from Northwestern University. Jon joined the Thin Film Board of Directors in May 2019 and served as Chairman of the Strategy Committee.

Kelly Doss
Board Member

KELLY DOSS Kelly Doss is a senior marketing executive and brand consultant. She has over 25 years of experience in global brand management with a strong track record of delivering breakthrough revenue and sales growth in varying channels of distribution. She has considerable expertise across the marketing, innovation, and operational functions in both the alcoholic beverage and beauty categories. Her industry experience includes 15 years in the global spirits category, leading marketing for Beam Suntory in both EMEA and North America and over 10 years in the beauty industry across hair care, skin care, and color cosmetics. Over the course of her career, leading cross-functional teams, she has launched well over 100 new products & multiple global packaging restages. Kelly has a Masters in International Management from the Thunderbird School of Global Management, and a BA with honors from the University of Michigan. Kelly joined the Thin Film Board of Directors in May 2019.

Executive Management

Kevin Barber
Chief Executive Officer

KEVIN BARBER Kevin Barber joined Thinfilm as CEO in November 2018. He is responsible for driving worldwide strategic growth, scaling product innovation and manufacturing operations while increasing market penetration and identifying new business opportunities. Mr. Barber was previously Senior Vice President, General Manager Mobile Division of Synaptics, where he drove the strategy, business development, M&A and execution of growing revenue fourfold to over $1 billion annually. Previously, he was CEO of ACCO Semiconductor a Venture Capital funded startup. Prior to ACCO, Mr. Barber served as Senior Vice President, General Manager Mobile Business at Skyworks Solutions where he led the strategy achieving top RF power amplifier market share in the high growth mobile market. Prior to Skyworks, Mr. Barber served as Senior Vice President, Operations at Conexant leading strategic efforts of global manufacturing scale, technology development, and supply chain management enabling Conexant to be a leader in diverse markets. He holds a Bachelor of Science in Electrical Engineering from San Diego State University and an MBA from Pepperdine University. Mr. Barber currently serves as a Board Director at Intevac.

Mallorie Burak
Chief Financial Officer

MALLORIE BURAK joined Thinfilm in July 2019. In her role, she oversees finance, accounting, legal, and investor relations activities. She is an experienced financial executive, bringing over 25 years of expertise across a broad spectrum of industries ranging from early stage software start-ups to multi-national, public corporations. Over the span of her career, she has negotiated and managed over five hundred million dollars of successful financing and M&A deals, having spent the last 12 years focused on turn-arounds of both public and venture backed companies. Prior to joining the Thinfilm team, she served as CFO at Alta Devices, a GaAs thin-film solar technology start-up, where she secured over $56 million in funding to facilitate the build-out of its pilot manufacturing line. Prior to Alta Devices Ms. Burak served as CFO at FriendFinder Networks, Rainmaker Systems, FoodLink, and Southwall Technologies. She has a proven track record of creating a high-performance culture with a strong focus on operational excellence and maximizing shareholder value, as evidenced by the successful acquisition of Southwall Technologies, after having repositioned, restructured, and grown the company. Ms. Burak has significant experience working with a variety of financing sources, both public and private, as well as significant experience leading and managing M&A related activities. She holds a BSBA and MBA from San Jose State University.

Dr. Arvind Kamath
EVP Technology Development & Manufacturing

DR. ARVIND KAMATH joined Thinfilm in January 2014 from Kovio, Inc., where he served as Sr. Director, Technology Development. At Thinfilm, he has built and led several teams in the areas of Technology Development, Engineering and Operations. Most recently, he was responsible for the flexible substrate roll to roll PDPS (Printed Dopant Polysilicon) manufacturing scale-up and led the teams that built a global ecosystem to enable this. At Kovio, Dr. Kamath led materials and process development and integration of a revolutionary printed electronics platform based on silicon ink, from feasibility to qualification and yield enhancement. Prior to Kovio, he worked at LSI Logic in various managerial and specialist roles, including process engineering, group management, R&D operations, SRAM integration and yield enhancement. Dr. Kamath earned a B.Tech degree in Metallurgical Engineering from the Indian Institute of Technology, Chennai and a Ph.D in Materials Science and Engineering from the microelectronics program at The University of Texas - Austin.

Shannon Fogle
VP Global Human Resources

SHANNON FOGLE joined Thinfilm in January 2014 from Kovio, Inc. She leads the Human Resources functions for all Thinfilm locations. Ms. Fogle led the Human Resources functions at Kovio from 2007 until 2014. Prior to Kovio, Ms. Fogle worked in various Operations roles at Spansion and Advanced Micro Devices. Shannon holds a Bachelor of Science degree in Business Management from San Jose State University and is Certified by the Society of Human Resource Management.

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Annual Report 2019

Thin Film Electronics ASA

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Annual Report 2018

thinfilm

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2018 Commercial Highlights

BERICAP and Thinfilm partner to implement advanced closure technology

Thinfilm and BERICAP, a supplier of world-class high value added plastic caps and closures for food, beverage, pharmaceutical, and industrial markets, signed a Letter of Intent in April 2019 for an exclusive joint partnership to develop fully integrated digital authentication solutions for closures in over-the-counter pharmaceuticals and industrial applications. The collaboration will embed advanced chips into the closures to create dependable and cost-effective solutions for brand protection and authentication purposes.

Tapì and Thinfilm join forces for multi-year strategic partnership

In March 2019, Tapì, the international leader specializing in high-end bottle closures, and Thinfilm signed an exclusive three-year strategic joint partnership to combine their industry-leading innovation capabilities to better serve the needs of the wine & spirits industry. The partnership encompasses development, delivery and implementation of Thinfilm's NFC-enabled solutions. The collaboration is intended to create dependable, cost-effective closure solutions for brand protection and consumer engagement purposes.

Thinfilm joins NFC Forum Board

In December, Thinfilm was accepted for membership in the NFC Forum board of directors and upgraded its membership level from Principal to Sponsor. The board is the organization's governing body and is responsible for the overall technical, compliance, and market-facing strategy of the NFC Forum, the global standards organization for NFC technology. Thinfilm joins Apple, Dai Nippon Printing, Google, Infineon, MasterCard Worldwide, NXP, Qualcomm, Samsung, Sony, STMicroelectronics and Visa on the NFC Forum Board.

Kilchoman integrated label provides new insights

Following a successful hangtag pilot, Kilchoman Distillery integrated 200,000 tags into its on-bottle labelling for its two main single malt products, Sanaig and Machir Bay. The smart bottles were exported to more than 50 countries. Through this implementation, and the ability to follow the tags via Thinfilm's CNECT® platform, Kilchoman gained clear insights into the supply chain and its distribution network. Kilchoman was able to use the consumer engagement data to understand how frequently consumers engaged with the product and how user interest between the two products varied on a country-by-country level. The same consumer scan data gave Kilchoman a new window into the performance of the supply chain, helping to verify the so-called 'ship to shelf' time between the distillery and availability for purchase in a retail shop. This kind of supply chain intelligence is traditionally expensive to gather or simply unavailable, but cloud-powered NFC technology made it both possible and refreshingly simple.

Francis Ford Coppola Winery links the wine and film worlds

The Sonoma-based winery was looking for a unique way to launch its Apocalypse Now 2015 Red Blend wine, named after the Oscar-winning movie, on the occasion of the 40th anniversary of its release. Together with Thinfilm, Coppola developed an NFC-enabled label that was affixed to the back of the bottles. With the tap of a smartphone, consumers connected to exclusive content, including a series of rare videos on the making of the legendary film.

Mackmyra uses solutions to connect directly to consumers

Based in Sweden, the award-winning distiller of single-malt whisky is using Thinfilm's NFC mobile marketing solution to connect directly with customers via smartphone, raise awareness of its Private Cask program, and launch social media-driven campaigns that promote its most popular products.

Mackmyra's initial order of Thinfilm NFC tags builds digital provenance information into Mackmyra's Private Cask offering, which allows consumers to create and bottle their own unique whisky. Each individual bottle originating from the Private Cask will link back to detailed information about that specific cask. Following this, a second campaign will promote a customer-submitted drink recipe competition featuring the distillery's flagship "MACK" whisky and its premium Lab+Distillery gin.

Slikhaar disrupts with NFC-tagged hair-care products

The innovative men's hair care leader and digital disruptor from Denmark ordered 100,000 tags for its interactive personal care products. Slikhaar uses Thinfilm's NFC mobile marketing solution to connect directly with consumers via smartphone, promote its SlikhaarTV channel on YouTube, and deepen relationships with its growing number of brand enthusiasts. It is integrating NFC tags in select major hair and skin care products under its popular By Vilain brand. Each uniquely identifiable NFC tag integrates seamlessly with Thinfilm's CNECT® Cloud Platform to enable the delivery of custom digital content and experiences to Slikhaar's predominantly mobile-first consumer base.

Boehringer Ingelheim Korea uses tags to educate patients

The pharmaceutical company introduced patients to its new Vahelva Respimat inhaler by motivating them tap on NFC tags integrated into packaging which allowed them to view a 3 ½ minute how-to-use-it video. This reduced the burden on medical personnel and increased patients' understanding of the product.

El Jimador kicks off World Cup campaign

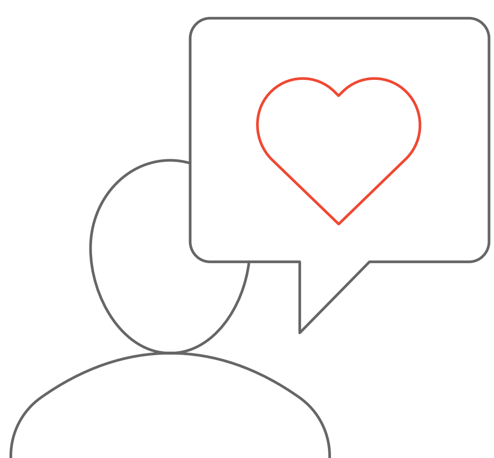
The leading tequila brand of Brown-Forman, one of the largest American-owned companies in the wine and spirits industry, used Thinfilm's complete NFC mobile marketing solution to enhance marketing efforts for its summer soccer campaign called "Soccer Moments". The six-figure-unit, in-market deployment was believed to be the industry's largest NFC-related activation ever for a tequila brand. El Jimador incorporated NFC tags in custom bottle-neckers and branded coasters. When tapped with a smartphone in-store, at home, or on the go, El Jimador customers were able to instantly submit their favorite soccer story for a chance to win $25,000, custom jerseys, and other prizes.

YUNI Beauty leads with NFC tags on its packaging

YUNI Beauty's all-natural, sustainable products use Thinfilm's fully integrated solution to connect directly with a mobile-first customer base, deliver custom digital experiences to shoppers, and drive in-store conversions at the point of sale. YUNI Beauty initially used Thinfilm's solution to promote its two leading products – Shower Sheets and Chillax – and to launch a new product called Yunicorn.

Thinfilm releases CNECT Cloud Platform 2.0

Thinfilm continued to upgrade its CNECT platform with features including expanded analytics capabilities and an enhanced digital experience builder, giving users the ability to easily and effectively create and measure innovative experiences delivered through the tap of a smartphone. Using the new platform, brands can easily digitize products, create and deliver unique mobile experiences, and view real-time, interactive analytics that provide meaningful and actionable insights.



About Thinfilm

Thinfilm is enabling Intelligence Everywhere® through our Near Field Communications (NFC) solutions. We help clients engage directly with consumers, protect brand equity, and understand their supply chains as never before.

Our award-winning, fully integrated NFC solutions reduce complexity and accelerate client success by overcoming the limitations of search and email marketing, defending against counterfeiting and gray market trade, and providing actionable supply chain insights throughout the product and consumer journeys. We enable companies to take back control to protect their brands and engage their consumers directly. By combining state-of-the-art NFC tag hardware, integration expertise, and the flexibility enabled by the CNECT® Cloud Platform, Thinfilm brings dynamic digital life to everyday products and packages. Thinfilm is a leading participant in the NFC community through its participation on the NFC Forum board of directors, committees, and working groups.

Thin Film Electronics ASA is a publicly listed company in Norway with corporate headquarters in Oslo, global headquarters in San Jose, California, and offices worldwide.

Report from the Board of Directors

Introduction

The 2018 business year for Thinfilm was challenging, and the company went through a series of significant changes. A change of management, a strategic review in the second half of the year and a cost-reduction program led to a rethinking of the company's priorities and a pivot in the company's go-to-market strategy.

While acceptance of Thinfilm solutions is growing, adoption of non-payment NFC solutions has been slower than anticipated. The NFC Forum estimates that at the end of 2018 there were more than 2 billion smartphones in use worldwide. As adoption increases, we believe that non-payment NFC solutions too will become ubiquitous. Thinfilm and its fully integrated connected product solutions are well positioned to take a significant share of that market. Interest in NFC solutions rose following the introduction of the new series of iPhone XS, XS Max and XR in the third quarter of 2018. Apple announced that its new iPhone models are able to read NFC tags to launch content without requiring a separate NFC reader app. Furthermore, NFC tags can now be read directly from the phone's locked screen. To underline its commitment to NFC technology, late in the year Thinfilm joined the NFC Forum board of directors.

In 2018, Thinfilm delivered more than 40 in-market solutions with leading brands in the wine & spirits, cosmetics and over-the-counter pharmaceuticals industries. Pilot customers turned into repeat customers, and Thinfilm acquired new customers to continue building our business. Some prominent implementations included Kilchoman Distillery, Francis Ford Coppola Winery, YUNI Beauty cosmetics, Danish hair-care products company Slikhaar, and Boehringer Ingelheim Korea. Throughout the year, order bookings for consumer engagement grew, while interest in brand protection use cases gained traction. In Q3, the company introduced a cost-reduction program which included a 20 percent reduction in head-count.

The company's roll-to-roll printed dopant polysilicon (PDPS) manufacturing project continued in 2018, albeit with delays beyond the original plan announced in 2016. Several path-critical tools were delayed at the vendor and required modification, thus creating further postponement of installation and factory acceptance testing. By the end of the year, the timeline had slipped to where roll-based NFC product qualification was forecasted to occur by the end of the first half of 2020. Continuous efforts were made to shorten the time to product qualification, however the company had previously been too optimistic about the complexity and challenges involved in developing the world's first roll-to-roll printed electronics process incorporating multiple tools.

In the fourth quarter, the company saw a change in leadership. The board of directors named Kevin Barber as the company's new Chief Executive Officer effective 26 November 2018. Prior to joining Thinfilm, Kevin Barber served as Senior Vice President, General Mobile Division of Synaptics, a NASDAQ listed company. At Synaptics, he drove strategy, business development, M&A and execution of growing revenue fourfold to over USD 1 billion annually. In his 30-year career, he played an active role in leading companies which helped architect and then benefit from three previous technical revolutions: the dawn of the internet, widespread adoption of the mobile phone and the overwhelming success of the smartphone. He now brings his experience to lead Thinfilm into the next revolution - the expansion of the internet of things to make smart products commonplace.

In March 2019, following a comprehensive strategic review, Thinfilm announced a corporate restructuring that included pausing development of the roll-to-roll technology. The board of directors and executive team determined that it was not nor was ever a critical part of building initial market volume. In the event of a very significant market growth, Thinfilm may reassess this decision. In addition, the company realigned its sales organization and its go-to-market strategy, sharpened its focus on complete product solutions, integrating hardware and software, and reduced its global footprint and while shifting weight toward San Jose. These actions were designed to yield nearly USD 20 million in annualized savings at the operating level and resulted in an approximate 40 percent reduction in the work force.

As announced in the Q4 2018 report, the company plans to raise capital by the end of May 2019, and reference is made to the Going Concern section for further information about the funding situation.

Product and solution updates

SpeedTap® tags

Officially launched in Q2 2016, SpeedTap tags are thin, flexible NFC tags that empower brands to establish direct one-to-one connections with consumers. The tags enable consumer-initiated interactions with products through the tap of a smartphone. Each SpeedTap tag fully integrates with the CNECT® software platform and has a unique ID permanently encoded during the manufacturing process, making it nearly impossible to hack and streamlining integration on high-volume customer production lines.

OpenSense® tags

OpenSense tags are similar to SpeedTap tags but have a dual-state ID along with dynamic sensing functionality. In combination with a smartphone or reader, the wireless tags can detect a product's factory-sealed and opened states. As such, they are ideal for thwarting counterfeiters by fighting against refill fraud and package tampering in addition to addressing consumer engagement and product authentication needs.

CNECT® software platform and apps

Thinfilm's CNECT® Cloud Platform launched in February of 2017 and is designed to enable two primary use cases: Brand Protection and Consumer Engagement. It provides customers with insights into consumer activity, anti-tampering and supply chain monitoring. The integrated solution empowers marketers to connect directly with consumers — through the tap of a smartphone — to deliver custom content and unique digital experiences. It also provides brands with a simple and secure way to store, manage and track the tags while addressing key business needs such as consumer engagement and product authentication.

The CNECT platform has shown tremendous value to Thinfilm's customer base and has proven to be a key unique differentiator for Thinfilm globally. During 2018, Thinfilm rolled out the CNECT 2.0 software platform around the world, including China. Enhancements include: a cleaner, more intuitive user interface (UI), enhanced tag-management capabilities to simplify tag management at scale, streamlined templates to simplify creation of dynamic NFC-triggered consumer experiences based on time, location, and multi-stage interaction, and improved control over analytics and visualizations that provide insights into both product-level and user-level interaction across product batches and experiences.

EAS (Electronic Article Surveillance) tags

EAS tags were introduced to the market commercially by Thinfilm in 2014 as the company's first wireless/RF (radio frequency) product. The anti-theft tags, delivered as wet inlays to be applied directly during manufacture (source tagging), are easily integrated with merchandise such as shoes, denim and other apparel. These labels do not reactivate, eliminating the risk of tag pollution and helping to safeguard the retailer from theft.

Thinfilm has discontinued the business and will exhaust the remaining inventory with a leading customer. All in all, EAS has been maintained as a tool to improve roll to roll factory learning, but it did not contribute to Thinfilm profitability.

Expanding and enhancing operations

Thinfilm pursued several initiatives in an effort to address interest in the marketplace, enhance the productivity and efficiency of operations around the world, and improve overall quality of the products and solutions it delivers.

Leadership and staff

In addition to the new CEO Kevin Barber, Thinfilm hired Poorab Shah as EVP Software in June 2018. In this role he is responsible for the leadership and management of Thinfilm's software and IT strategy/solutions, the CNECT™ Cloud Platform, and the company's growing ecosystem of software partners.

Christian Delay, formerly SVP, Strategic Marketing and GM, Software Platforms and EVP Software, was promoted to Chief Commercial Officer, overseeing all of the sales, marketing and business development operations.

Giampaolo Marino joined Thinfilm in July 2018 as EVP Hardware Solutions. In this role, he leads Thinfilm's product management, engineering, and quality management functions, in addition to the company's strategic hardware partnerships.

Thinfilm ended 2018 with 155 full-time employees globally, down from 167 at the end of 2017, a decrease of 8 percent. At the date of the report, Thinfilm had 145 full-time employees, of which 65 are in their termination period.

Events and media coverage

Throughout 2018 and the beginning of 2019, Thinfilm participated in numerous industry, academic and thought leadership activities around the world. Events are often a key source of sales and business development leads, and many of them included sponsorship roles and speaking engagements. These events included Mobile World Congress, Tax Free World Expo, The World Spirits Conference, eTail Asia, eTail Europe, LOPEC, Shoptalk and IDTechEx.

A review of event strategy in late 2018 led the company to choose a more measured and deliberate approach to events that will maximize their effectiveness for the company's marketing efforts. Going forward, Thinfilm will exhibit at strategically relevant and impactful events in all of the regions in which it is active, as well as packaging and vertical-specific events around the world.

Thinfilm received media coverage from trade and mainstream media, especially as it related to NFC mobile marketing, the internet of things, intelligent packaging and the role Thinfilm plays as a leader in these markets. Publications covering Thinfilm through 2018 included Advertising Age, Forbes, MarTech Today, Just-Drinks.com, Fortune, eMarketer, Packaging World, NFC World, thespiritsbusiness.com, Bloomberg and the Silicon Valley Business Journal.

Intellectual property

As of year-end 2018, Thinfilm held 155 registered patents and had 103 patent applications pending. Many patents and submitted applications relate to PDPS technology, materials used, and processes related to the sheet- and roll-based manufacturing of Thinfilm products. Several applications relate to tag management and uses of passive RFID and NFC labels. The IP portfolio also relates to assembly, software and systems solutions. In addition, Thinfilm also has trademarks and trade secrets relevant to its business and technology operations.

The group financial statements

Thinfilm's revenue and other income amounted to USD 3,397 thousand in 2018, a decrease of 42% from the preceding year (2017: USD 5,907 thousand). Thinfilm experienced a 57% decrease in sales revenue, year over year. Thinfilm also received revenues from Joint Development Agreement (JDA) activities with a global pharmaceutical company, which were completed during 2017. No JDA revenues were recorded in 2018.

Excluding the other income recognized in the period, total revenue amounted to USD 1,288 thousand (2017: USD 5,020 thousand), a decrease of USD 3,732 thousand compared to the corresponding revenues in 2017. Part of this decrease can be attributed to the fact that government grants and other funded projects were classified as other revenue in 2017 but classified as "other income" in 2018. This reclassification is in line with the implementation of the IFRS 15 and aligned with IFRS guidelines on revenue recognition. Total government grants in 2018 amounted to USD 1,540, classified as other income, compared to USD 2,040 in 2017, classified as other revenue.

Sales revenue amounted to USD 1,288 thousand in 2018 (2017: USD 2,980 thousand). 13.8 million EAS tags were shipped during 2018, compared to 25.9 million in 2017, while shipments of NFC SpeedTap tags were slightly down.

Excluding government grants, other income amounted to USD 570 thousand in 2018 (2017: USD 887 thousand). Other income in both periods is primarily related to gains on disposal of fixed assets. Disposed assets included those acquired when the Company secured the Junction Avenue facility, in addition to surplus Linköping site assets. During the first half of 2017, the company received sublease income from the Company's previous production facility at Zanker Road in San Jose. From Q3 2018, the company receives sublease income from the second floor of its Junction Avenue, San Jose facility.

Salaries and other payroll costs amounted to USD 33,244 thousand in 2018, compared to USD 30,096 thousand in 2017. The increase is mainly related to an increase in the average number of global full-time equivalents (FTEs) during the first eight months of 2018, including contract workers, as a result of the company's increased activities. In Q3, the company reduced headcount by 27 FTEs through a reduction-in-force.

Operating costs (excluding depreciation, amortization, and impairment charges) amounted to USD 54,473 thousand during 2018, including the notional cost of share-based compensation of USD 1,465 thousand. The corresponding figures for 2017 were USD 58,994 thousand and USD 2,200 thousand, respectively. The decrease in operating costs during 2018, compared to 2017, was USD 4,520 thousand, and was primarily attributable to:

1) USD 3,607 thousand lower costs for premises and supplies. The decrease is mainly due to costs related to overlap of rent and move-related costs in the first six months of 2017 when the US subsidiary moved from Zanker Road to Junction Avenue. Additionally, the downsizing of activities at the Linköping site led to a decrease in office and rent costs in Sweden.

2) USD 2,703 thousand lower other expenses. Primary components contributing to the lower cost base are lower production variances costs, and a higher portion of development costs qualifying for capitalization in 2018 compared in 2017.

3) These savings are offset by USD 3,149 thousand in higher payroll costs. This is mainly related to an increase in the average number of global full-time equivalents (FTEs) during the first eight months of 2018, including contract workers, as a result of the company's increased activities. In Q3, the company reduced headcount by 27 FTEs through a reduction-in-force. FTEs through the full year 2018 averaged 164, compared to 161 in 2017. The company employed 155 FTEs (permanent and temporary) per 31 December 2018.

4) The residual year-over-year movement is explained by USD 902 thousand lower Sales and Marketing costs, mainly relating to lower travel expenses, and USD 457 thousand lower external service costs.

During 2018, Thinfilm's San Jose site was operating 24 hours per day, 7 days per week.

During 2018, USD 9,907 thousand was spent developing manufacturing processes and operating procedures for roll-to-roll manufacturing, of which USD 1,580 thousand development costs were capitalized to the balance sheet. The corresponding amount for last year was USD 16,549 thousand, of which USD 702 thousand in development costs were capitalized to the balance sheet. Investments in fixed and intangible assets amounted to USD 20,606 thousand in 2018, compared to USD 17,222 thousand in 2017. The investments are mostly related to equipment for the new roll-based production line at the San Jose site.

As of 31 December 2018, Thinfilm had also made prepayments amounting to USD 4,846 thousand relating to investments in equipment and machinery (2017: 11,484 thousand). These pre-payments are recognized as other receivables since only part of the equipment and machinery had been received from suppliers as of 31 December 2018. Thinfilm's roll-to-roll CAPEX program is expected to cost USD 36,100 thousand vs USD 32,000 thousand initially budgeted in November 2016. 72 percent of these costs have been incurred, including the pre-payments referred to above. By end of Q1 2019, it is expected that the company will have incurred 82% of the total project costs.

Depreciation, amortization and impairment charges amounted to USD 19,546 thousand in 2018 (2017: USD 6,991 thousand). As announced by the Company on 15 March 2019, Thinfilm has placed the PDPS R2R line on pause, following a slower customer adoption of NFC tags on-package than anticipated. The decision will not be changed unless there is a significant change in the market. This market development triggered an impairment test of the company's assets, as described in more detail in Note 6 of the Consolidated Financial Statements. The resulting fixed asset impairment amounted to USD 13,565 thousand. As a result of pausing the printed electronics line, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the roll-to-roll EAS product will not at this time be commercialized, and the USD 1,177 thousand capitalized development work on EAS has been impaired in full. In addition, 2018 figures include USD 90 thousand impairments related to fair value adjustments of the patent portfolio. In 2017, impairment charges of USD 3,025 thousand primarily related to equipment and licenses for the memory and sensor programs that were discontinued. Depreciation charges remained steady from USD 2,696 thousand in 2017 to USD 2,743 thousand in 2018. Amortization of the financial lease contract on the Junction Avenue premises in San Jose amounted to USD 1,053 thousand in 2018 (2017: USD 1,073 thousand).

The net financial items in 2018 amounted to an expense of USD 1,089 thousand compared to an income of USD 374 thousand in 2017. This expense was mainly related to unrealized foreign currency losses and the interest element of the financial lease of the building at Junction Avenue. The net financial income in 2017 was largely due to interest income on bank deposits.

The Company operates at a loss and there is a tax loss carry forward position in the Parent Company and in the American and Swedish subsidiaries. While local taxes are paid in some of the subsidiaries, the Parent Company in Norway has not paid any tax costs in 2018 or the prior year. The Group has not recognized any deferred tax assets in its balance sheet because these potential assets do not yet qualify for inclusion.

The net result for 2018 was a loss of USD 71,722 thousand, representing a loss of USD 0.06 per basic share. In 2017, the loss amounted to USD 59,581 corresponding to a similar loss of USD 0.07 per basic share.

At the end of 2018, cash and bank deposits amounted to USD 32,588 thousand, which represented 41 percent of the total assets of USD 79,366 thousand. On 31 December 2017, the cash position amounted to USD 98,120 thousand, or 66 percent of total assets. Non-current assets amounted to USD 35,276 thousand (2017: USD 34,246 thousand). The increase in non-current assets from 2017 to 2018 was mainly due to the aforementioned investment in the roll-based production line at the San Jose site, partly offset by fixed asset impairments. Trade and other receivables amounted to USD 8,862 thousand at the end of 2018 (2017: USD 16,245 thousand). The reduction relates mainly to a reduction in prepayments to suppliers and equipment vendors. Non-current liabilities amounted to USD 11,525 thousand (2017: 12,125) and is relating to future lease payments for the Junction Avenue premises. The Company does not have any interest-bearing debt and the equity ratio was 75 percent at the end of 2018, versus 87 percent at the end of 2017.

The group's cash balance decreased by USD 65,532 thousand in 2018 (2017: increased by USD 23,915 thousand). The decrease in cash balance is explained by three principal elements: 1) an outflow of USD 52,418 thousand from operating activities, 2) a USD 10,908 thousand outflow from investing activities and finally 3) an outflow from financing activities of USD 615, of which USD 600 is attributable to financial lease payments. The net increase in the cash balance in 2017 was mainly due to the private placement in Q4 2017.

Parent company financial statements

Revenue and other income in the Parent Company amounted to NOK 10,391 thousand in 2018 (2017: NOK 30,146 thousand), where NOK 8,826 thousand was recorded as sales revenue (2017: NOK 24,808 thousand). Other revenue of NOK 594 thousand (2017: NOK 4,271 thousand) related to government grants. Other income consists of NOK 971 thousand, attributable to sale of IP rights. In 2017, other income amounted to NOK 1,068 thousand.

The difference between Group and Parent Company other revenue is explained by some of the grant revenue being recognized in the subsidiaries as well as the contribution from SkatteFUNN. SkatteFUNN amounted to NOK 10 million in 2018 (2017: NOK 10 million) and has been credited against cost, while it has been booked as other income in the Consolidated Financial Statements. Personnel and payroll costs were NOK 32,569 thousand in 2018, up from NOK 25,975 thousand in the preceding year. The number of employees working for the Parent Company was 10 at the end of December 2018, compared to 10 employees as at 31 December 2017. The Parent Company employed, on average, nine full-time employees in 2018, compared to an average of nine full-time employees during 2017. The increase in payroll costs year-over-year is mainly relating to a different mix of employees during 2017 and 2018 with different compensation levels, in addition to higher subscription right costs and recruitment-related costs.

External purchases of services amounted to NOK 18,483 thousand in 2018, a decrease from NOK 21,426 thousand in the preceding year. Of the total amount for 2018, (i) NOK 10,587 (2017: 11,039) thousand related to legal, audit and accounting services, (ii) NOK 5,490 (2017: 4,540) thousand were tied to advisory services, technology support services and recruitment services, (iii) NOK 1,468 (2017: 1,401) thousand related to remuneration of the Board of Directors and (iv) NOK 938 (2017: 4,446) thousand relating to the purchase of external development work services.

Purchase of services from subsidiaries decreased to NOK 385,161 thousand in 2018 from NOK 490,332 thousand in 2017, largely explained by the reduced activity at the site in Linköping, Sweden. Other operating expenses increased from NOK 3,578 thousand in 2017 to NOK 7,158 thousand in 2018. Capitalized development costs amount to NOK 12,932 thousand in 2018, compared to NOK 5,765 in 2018. The capitalization is booked as a reduction of other operating expenses.

Amortization and impairment of intangible assets & negative goodwill amounted to NOK 11,752 thousand in 2018 compared to NOK 11,650 thousand in 2017. As a result of pausing the printed electronics line, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the roll-to-roll EAS product will not at this time be commercialized, and the NOK 10,226 thousand capitalized development work on EAS has been impaired in full. The 2017 impairment was mainly relating to licenses for the memory and sensor programs that were discontinued.

Net financial items amounted to an expense of NOK 140,000 thousand in 2018, compared to an expense of NOK 14,719 thousand in 2017. The net financial expense mainly consists of impairments of intercompany investments, particularly in ThinFilm Electronics INC, as a result of the property, plant and equipment impairment described in Note 6 of the Consolidated Financial Statements. The net financial items are partly netted by NOK foreign currency gains on USD-denominated assets.

The net result for 2018 for Thinfilm ASA was a loss of NOK 574,732 thousand (2017: Loss of NOK 527,533). The Board of Directors proposes that the loss is carried forward as uncovered loss. The Board does not propose a dividend for 2018.

Share capital

Thinfilm shares were listed on Oslo Axess from 30 January 2008 until 26 February 2015. On 27 February 2015 Thinfilm shares were transferred to Oslo Børs (OSE Main List). On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

At the end of 2018, there were 1,171,871,617 (2017: 1,171,871,617) shares in the Company which were held by 6,045 shareholders (2017: 5,542 shareholders). Par value is NOK 0.11 per share.

On 19 October 2017, it was announced that the Company had raised NOK 881 million in gross proceeds through a private placement consisting of 352,500,000 new shares (the "Private Placement") equal to 43 percent of the shares in Thinfilm. The subscription price in the Private Placement was set to NOK 2.50 per share , equivalent to a 7.8 per cent premium to the closing price on the Oslo Stock Exchange 19 October 2017. The new shares allocated in the Private Placement were issued in two separate tranches. Tranche 1 consisted of 81,500,000 new shares and was issued based on an authorization to the Board of Directors granted by the Company's Annual General Meeting on 5 May 2017 (the "Tranche 1 Shares"). Tranche 2 consisted of 271,000,000 new shares (the "Tranche 2 Shares"), and was approved by the Extraordinary General Meeting held on 13 November 2017 (the "EGM"). Tranche 1 shares were subscribed for by several investors. Tranche 2 shares were subscribed for by Woodford Investment Management, Invesco Asset Management and several other investors.

The were no exercises of vested incentive subscription rights during 2018. Employees exercised vested incentive subscription rights on several occasions in 2017, in a combined total of 2,612,500 shares at average price NOK 1.98 per share.

The annual general meeting in 2018 resolved an authorization to the Board to grant up to 117,187,161 independent subscription rights to employees and to individual consultants performing similar work in Thinfilm but limited so that the total number of outstanding subscription rights under all subscription rights programs shall not exceed 10 percent of the share capital. By the end of 2018, the Board had granted 52,067,432 subscription rights under this authorization and the total number of outstanding subscription rights was 88,252,432.

The annual general meeting in 2018 authorized the Board to complete one or more placements by issuing up to 117,187,161 shares, equivalent to NOK 12,890 thousand, which at the time corresponded to 10 percent of the Company's registered share capital.

Further 490,000 subscription rights have been granted, 0 exercised, and 3,010,000 forfeited and expired to date in 2019. The total number of subscription rights on 30 April 2019 is 85,732,432, hence well within the 10 percent limitation. The authorization expires at the annual general meeting 2019.

Principal risks

Thinfilm is exposed to various risks of a financial and operational nature. It is the duty of the board to present the principal risks of Thinfilm and its business. The company's predominant risks are market and business risks, summarized in the following points:

I Many of the emerging markets that Thinfilm targets, as well as the markets it intends to pursue, are still immature for in-market deployments and there is a potential risk of delays in the timing of sales.

II To a certain extent, Thinfilm is dependent on continued collaboration with technology, material, and manufacturing partners.

III There may be process and product-development risks that arise related to cost-functionality competitiveness of the products Thinfilm is developing.

IV The company is not yet cash generative and operates at a loss, and there is uncertainty tied to the generation of future cash flow. The company plans to raise funds by the end of May 2019. The company's cash balance by the end of March 2019 was USD 20.0 million.

Going forward, Thinfilm foresees four important revenue sources:

1. Sales of its own designed products, and;
2. Sales of conventional NFC labels manufactured for Thinfilm and suitably encoded for use by its platforms, and;
3. Monetization of Thinfilm's CNECT software platform, and;
4. Licensing/royalty revenue, where partners and customers pay for using the company's intellectual property rights (IPR).

Thinfilm is exposed to certain financial risks related to fluctuation of exchange rates and interest level. Reference is made to Note 4 to the consolidated financial statements.

On 31 December 2018, equity amounted to USD 75,588 thousand, representing 80% of the gross balance sheet and 405% of the share capital.

Going concern

The board confirms that the financial statements of the group as well as the parent company have been prepared under the going concern assumption. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 million. Per end of Q1 2019, the company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

To address the funding requirements of the consolidated entity the board of directors has, since early Q1 2019, undertaken the following initiatives:

- Entered into discussions to secure additional equity funding from current and new shareholders;
- Engaged Carnegie AS and DNB Markets, a part of DNB Bank ASA, to act as its financial advisors;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued their focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources.

The directors are confident that they will be able to complete a capital raising that will provide the consolidated entity with required funding to support its planned level of activity under the new strategy after the reorganization. Based on this it is appropriate to prepare the financial statements on the going concern basis. However, in the event that the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the company and consolidated entity will continue as going concerns.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

Corporate governance

The board considers that the attention to corporate governance is beneficial for companies and investors. Thinfilm seeks to comply with the Norwegian code of practice for corporate governance to the degree possible. The board's review of corporate governance has been included in the annual report.

Outlook

Thinfilm sees Near Field Communication (NFC) wireless tags as an enabler for smart product connectivity and a massive market opportunity across targeted use cases and verticals. This market is driven by a rapidly growing availability of NFC-enabled smartphones worldwide, with the NFC Forum estimating that there are currently more than two billion of these devices in circulation worldwide.

The company continues to build a leading market position by enabling large-scale NFC deployments together with partners and customers. While the non-payment NFC market is still nascent, Thinfilm management is confident that this technology will see significant market adoption over time, garnering more support from key ecosystem stakeholders and further evidence of adoption by major partners. During the coming year, Thinfilm expects to enter into significant strategic partnerships which will further enhance the value of its hardware and software solutions.

The demand outlook for Thinfilm's NFC solutions depends on the degree to which major brands deploy NFC tags as an integral part of their primary or secondary packaging. While the forecasted size of the NFC connected market is substantial, the slower-than-expected deployment rate of NFC tags on package creates uncertainty.

A corporate restructuring in early 2019 refocused the company's priorities. Following these changes management retains the long term outlook conveyed in the Q4 2018 outlook. Customer case studies have demonstrated that Thinfilm's product solution addresses customer pain points of authentication, anti-tampering and mobile marketing use cases, in particular in the wine & spirits, health & beauty and over-the-counter pharmaceutical verticals. We believe that Thinfilm can take a leading position in the NFC market by delivering a comprehensive solution offering and, in turn, drive unit volumes into the billions. Thinfilm offers fully integrated solutions which incorporate NFC tags, integrating them into products and delivering data and actionable insights via the CNECT® cloud-based platform at scale. Thinfilm's offer is clearly differentiated to product solutions from other providers.

Organization, personnel and the environment

The board of directors would like to thank Thinfilm management team members, staff, contractors, and ecosystem partners for their dedicated efforts throughout 2018 and early 2019.

Organization

Thinfilm made significant investments in 2018 to professionalize and improve daily operations across the organization, develop its teams, and expand use of its quality management systems, and its enterprise resource planning, knowledge management, and supply chain management platforms.

Thinfilm passed an audit to the new ISO 9001:2015 standard with excellent results, a reflection of the major improvements made to the QMS throughout the year and the company's drive for continuous improvement.

Thinfilm continued to develop and invest in its enterprise resource planning (ERP), which has formalized and significantly improved processes and procedures related to supply chain, accounting, purchasing, order fulfillment, and inventory control. The company will continue to further optimize and develop the system.

Personnel

At the date of the report, Thinfilm had 145 full-time employees, of which 65 are in their termination period. As a product solutions-focused company with global scope of operations and international reach, driving successful recruitment practices and appropriate development of staff is central to Thinfilm's success. The frontline teams added staff members in the US and EMEA and structured their respective organizations to optimize go-to-market activities and customer acquisition efforts. Additional key staff members were added in marketing, software, and quality management.

During 2018, Thinfilm was able to hire a significant number of highly qualified employees with valuable industry experience and unique skill sets. The board is pleased that the company possesses the ability to attract, recruit, and retain staff members with world class competence and expertise across a range of disciplines.

Environment

The board believes that the working environment at Thinfilm is safe, stimulating, challenging, and collaborative for all employees, and complies fully with relevant laws and regulations in the regions within which Thinfilm operates.

Thinfilm employees are covered by benefit programs that are in line with practices in their respective countries. Throughout 2018, there were 2 minor workplace injuries that resulted in an absence from work, however no significant incidents or accidents involving equipment or other assets occurred during the year. Instances of sick leave during 2018 were relatively low and were consistent with previous years.

In addition to employees of the parent company and its subsidiaries, Thinfilm has contracted specialists in business development, technology, design, accounting, and other services. Patenting and other intellectual property rights (IPR) services are procured from AWA Patent, from an IPR consultant and from external legal counsel as needed.

Thinfilm creates and supports equal opportunity for all employees in all aspects of the workplace. As of 31 December 2018, the share of female employees in the company was approximately 28%, which is higher than the reported level in 2017. The current management team consists of six men and one woman.

Equality is one important aspect considered when recruiting new employees. The board considers the firm's equality standards and measures to be adequate and has not found reason to initiate any corrective measures.

Thinfilm appreciates its corporate responsibility to protect the environment. Thinfilm operates its business to comply with the environmental, health and safety regulations required for the materials and processes needed to manufacture its products. Thinfilm follows all relevant environmental rules and regulations, as discussed in the Corporate Responsibility Statement in this report.

Board of directors

Thinfilm's board of directors consists of two women and two men, the composition of which satisfies the gender requirements of the Norwegian Public Limited Companies act. The board includes Mr. Morten Opstad (Chairman), Ms. Preeti Mardia, Mr. Tor Mesøy and Dr. Laura Oliphant.

At the company's Annual General Meeting on 4 May 2018, Morten Opstad was re-elected as Chairman for the second year of his term. Preeti Mardia was re-elected for another two-year term. Richard P. Bernstein was elected as board member for a period of two years, replacing Rolf Åberg. Mr. Bernstein resigned from the board on 25 February 2019 for personal reasons.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad Chairman	Tor Mesøy Board Member	Preeti Mardia Board Member	Laura Oliphant Board Member

Kevin Barber
Managing Director (CEO)

Thin Film Electronics ASA Group
Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Amounts in USD 1,000	Note	2018	2017
Sales revenue	14	1,288	2,980
Other revenue	15,16,17	0	2,040
Other income	15,16,17	2,110	887
Total revenue and other income		**3,397**	**5,907**
Salaries and other payroll costs	18	(33,244)	(30,096)
Other operating expenses	19,23	(21,229)	(28,898)
Depreciation, amortization and impairment loss	6,7,8	(19,546)	(6,991)
Operating profit (loss)		**(70,622)**	**(60,078)**
Interest income		292	343
Other financial income		66	1,384
Interest expense		(1,042)	(737)
Other financial costs		(404)	(616)
Net financial items		**(1,089)**	**374**
Profit (loss) before income tax		**(71,711)**	**(59,704)**
Income tax expense	20	(11)	122
Profit (loss) for the year		**(71,722)**	**(59,581)**
Profit (loss) per share for profit attributable to the equity holders of the Company during the year			
Basic and diluted, USD per share	22	(USD0,06)	(USD0,07)
Profit (loss) for the year		**(71,722)**	**(59,581)**
Other Comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation		(198)	456
Total comprehensive income for the year		**(71,921)**	**(59,126)**

Consolidated Statements of Financial Position

Amounts in USD 1,000	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	6	22,548	20,522
Building — financial lease	8	10,375	11,534
Intangible assets	7	2,353	2,190
Total non-current assets		**35,276**	**34,246**
Current assets			
Inventory	9	2,640	709
Trade and other receivables	10	8,862	16,245
Cash and bank deposits	11	32,588	98,120
Total current assets		**44,090**	**115,073**
Total assets		**79,366**	**149,319**
EQUITY	12		
Ordinary shares		18,660	18,660
Other paid-in capital		321,575	319,817
Currency translation		(13,719)	(13,520)
Retained earnings		(266,806)	(195,083)
Total equity	**25**	**59,709**	**129,874**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	21	—	—
Long-term financial lease liabilities	8	11,525	12,125
Total non-current liabilities		**11,525**	**12,125**
Current liabilities			
Trade and other payables	13,8	8,132	7,320
Total current liabilities	**24**	**8,132**	**7,320**
Total equity and liabilities		**79,366**	**149,319**

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad
Chairman

Tor Mesøy
Board Member

Preeti Mardia
Board Member

Laura Oliphant
Board Member

Kevin Barber
Managing Director (CEO)

Consolidated Statements of Changes in Equity

Amounts in USD 1,000	Note	Share capital	Other paid-in equity	Currency translation	Retained earnings	Total
Balance at 1 January 2018		**18,659**	**319,819**	**(13,520)**	**(195,084)**	**129,874**
Share based compensation			1,771			1,771
Private placement (2017 residual cost)			(15)			(15)
Comprehensive income				(198)	(71,722)	(71,921)
Balance at 31 December 2018	**12**	**18,659**	**321,575**	**(13,719)**	**(266,806)**	**59,709**
Balance at 1 January 2017		**13,876**	**219,097**	**(13,976)**	**(135,503)**	**83,495**
Share issue employees		34	574			608
Share based compensation			2,220			2,220
Private placement		4,749	97,928			102,677
Comprehensive income				456	(59,581)	(59,126)
Balance at 31 December 2017	**12**	**18,659**	**319,819**	**(13,520)**	**(195,084)**	**129,874**

Consolidated Cash Flow Statements

Amounts in USD 1,000	Note	2018	2017
Cash flows from operating activities			
Profit (loss) before income tax		(71,711)	(59,704)
- Share-based remuneration	18	1,771	2,220
- Depreciation and amortization	6	3,947	3,966
- Write down inventory, machinery and intangible assets	6	14,832	3,175
- Loss/(gain) on sale of fixed assets	6	(479)	(350)
- Taxes paid for the period		(91)	(38)
- Changes in working capital and non-cash items		(686)	(1,588)
Net cash from operating activities		**(52,418)**	**(52,319)**
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(6,004)	(15,910)
Prepayments relating to purchase of property, plant and equipment	10	(5,005)	(11,484)
Purchases of intangible assets		—	(63)
Capitalized development expenses	7	(1,580)	(702)
Proceeds from sale of fixed assets	6	1,389	1,052
Interest received		291	343
Net cash from investing activities		**(10,908)**	**(26,764)**
Cash flows from financing activities			
Proceeds from issuance of shares	12	(15)	103,285
Financial lease payments	8	(600)	(456)
Net cash from financing activities		**(615)**	**102,829**
Currency translation effects on cash and bank deposits		(1,590)	170
Net increase (decrease) in cash and bank deposits		**(65,532)**	**23,915**
Cash and bank deposits at the beginning of the year		98,120	74,205
Cash and bank deposits at the end of the year		**32,588**	**98,120**

Notes to the Consolidated Financial Statements

1. Information about the group

Thin Film Electronics ASA ("Thinfilm ASA" or "the company") was founded on 22 December 2005. Reference is made to Note 28 for a description of the subsidiaries consolidated into the parent company Thin Film Electronics ASA.

The objectives of the Company shall be to enable Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTQX International.

These group consolidated financial statements were resolved by the Board of directors on 30 April 2019.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied. For the purpose of ease of reading, the terms "balance sheet" and "accounting" and variations of these have been used interchangeably with the IFRS terms "statement of financial position" and "recognition".

2.1 Basis of preparation

The annual financial statements have been prepared on a historical cost basis. The financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies adopted are consistent with those of the previous financial year, except for the below descriptions. IFRS is continuously developed and recently published standards, amendments and interpretations have been reviewed and considered. None of the new standards, amendments and interpretations that apply as of 1 January 2018 had any impact on the net result or equity of Thinfilm in 2018. Reference is made to Note 2.20 for a description of changes in IFRS.

Going concern

The board confirms that the financial statements of the group as well as the parent company have been prepared under the going concern assumption. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 million. Per end of Q1 2019, the company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

To address the funding requirements of the consolidated entity the board of directors have, since early Q1 2019, undertaken the following initiatives:

- Entered into discussions to secure additional equity funding from current and new shareholders;
- Engaged Carnegie AS and DNB Markets, a part of DNB Bank ASA, to act as its financial advisors;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and

- Continued their focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources.

The directors are confident that they will be able to complete a capital raising that will provide the consolidated entity with required funding to support its planned level of activity under the new strategy after the reorganization. Based on this it is appropriate to prepare the financial statements on the going concern basis. However, in the event that the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the company and consolidated entity will continue as going concerns.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. 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 give it 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 in 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

2.3 Foreign currency translation

a) Functional and presentation currency

The consolidated financial statements are presented in US dollar (USD).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

c) Group companies

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are included in other comprehensive income. When a foreign operation is partially disposed of or sold, such exchange differences are reversed and recognized in the income statement as part of the gain or loss on the sale.

2.4 Property, plant and equipment

Property, plant and equipment is mainly comprised of construction in progress on the roll-to-roll line, laboratory test equipment, and office equipment. Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method as follows:

- Laboratory equipment — 5 years
- Office equipment — 3–5 years
- Office furnishings and fittings — up to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.5 Inventory

Inventory, components and components under production are valued at the lower of cost and net realizable value after deduction of obsolescence. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined using the standard cost method. The FIFO principle is applied. Work in progress includes variable cost and non-variable cost which can be allocated to items based on normal capacity. Obsolete inventory is written down completely.

2.6 Intangible assets

a) Patents and licenses

Acquired patents and licenses are stated at historical cost. Patents and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents and licenses over their estimated useful lives. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In January 2014, Thinfilm acquired an IP portfolio consisting of patents. These assets are initially recognized at fair value and subsequently measured at cost, less accumulated amortisation and impairment losses.

b) Research and development

Research costs are expensed as they are incurred. An intangible asset arising from development expenditure on an individual project is capitalized only when the Group reliably can measure the expenditure and can demonstrate;

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- How the asset will generate future economic benefits
- The group's ability to obtain resources to complete the project

Development costs are amortized over the period of expected use of the asset. Capitalized development expenses relate to Speedtap™. Thin Film Electronics estimates that the present value of future cash flows will exceed the amount of capitalized development expenses. EAS (Electronic article surveillance) costs were previously capitalized, but as a result of the slower than expected market development, these have been impaired. Please ref. Note 7 for further details. Capitalized costs regarding Memory™ were disposed of in 2017 as part of an asset transfer agreement with Xerox.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill are reviewed for possible reversal of any previous impairment at each reporting date.

2.8 Trade receivables and other receivables

Trade receivables and other short-term receivables are measured at initial recognition at fair value and subsequently measured at amortized cost. Short-term receivables, which are due within three months, are normally not discounted. Impairment of receivables is evaluated on a case-by-case basis, and realized losses have historically been low. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

2.9 Cash and bank deposits

Cash and bank deposits include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and any bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to raising new equity are shown as a deduction to the equity, net of tax.

2.11 Trade payables

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

2.12 Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

2.13 Employee remuneration

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

The company only holds defined contribution pension plans. Contributions are expensed and paid when earned.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods

The Group manufactures and sells NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. The performance obligation is to deliver a distinctive goods, and the performance obligation are satisfied when the control are transferred to the customer being at the point of delivery of the goods. Sales of goods are recognized when the performance obligation are satisfied, the costs incurred or to be incurred in respect of the transaction can be measured reliably and Thinfilm retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Group provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted.

2.15 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants are recognised as other operating revenue over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

2.16 Leases

2.16.1 Finance lease

Leases of property, plant and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

2.16.2 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases and the leasing fee is charged to the profit and loss statement.

2.17 Share based remuneration

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The fair value of the instruments is determined using a Black & Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest.

For social security contribution related to equity-settled share-based payment transactions with employees, a liability is recognized. The liability is initially measured at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

2.18 Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

2.19 Segment information

Operating segments, according to IFRS 8, are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance and making strategic decisions, has been identified as the Chief Executive Officer (CEO). Based on Thinfilm's current deliveries, performance obligations, customer characteristics, and other information, it has been assessed that Thinfilm has only one operating segment. Hence, primarily information according to IFRS 8 paragraphs 32–34 is provided.

2.20 Changes in accounting principles

The following amendments to IFRSs are effective for an accounting period beginning after 1 January 2018.

- IFRS 15 was issued May 2014 and establishes a new five step model that applies to revenue arising from contract with customers. Under IFRS 15 revenue is recognized at the amount that reflects the consideration to which an entity expects to be entitled to in exchange for goods or services to a customer. This revenue standard supersedes all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2018. The Group has implemented a modified retrospective application of IFRS 15. In connection to adoption of IFRS 15, and in association to IFRS guidelines on revenue recognition, the group has decided to reclassify government grants from Other operating revenue to Other income for the year 2018. The adoption of IFRS 15 did not have any further material effects on the disclosures or amounts recognized in the Group's consolidated financial statements.
- IFRS 9 Financial Instruments was issued in July 2014 and introduces new classification and measurement requirements, a new hedge accounting model and a new impairment model. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements. There has been no change relating to classification or measurement. The Group does not hold long-term loans, equity investments, or non-vanilla financial assets, and does not hedge.
- Annual improvements to IFRS Standards 2014–2016 Cycle: Amendments to IFRS 1 and IAS 28. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements.
- Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration. This amendment had no material impact on the disclosures or amounts recognized in the Group's consolidated financial statements.

2.21 Approved standards and interpretations not yet in effect

- IFRS 16 leases will apply for annual periods beginning after 1 January 2019. IFRS 16 specifies how to recognize, measure and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The group plans to adopt the new standard on the required effective date. Currently all leases are classified as operating leases, with the exception of the San Jose site building which is already booked as a financial lease (please see Note 8). The land component of the San Jose site will be booked to the balance sheet as a financial lease in Q1 2019, with a book value of USD 2,036 thousand. Comparative periods will not be restated. The Group has elected to not apply the change to leases for which the lease term ends within 12 months of the date of initial application. There will be no further material changes as a result of the implementation of IFRS 16.

In addition to these standards, the following new and revised IFRSs have been issued, but are not yet effective, and in some cases have not yet been adopted by the EU. These new and revised standards are not expected to materially impact the Group.

- Annual improvements to IFRS Standards 2015–2017 Cycle
- IFRS 14 Regulatory Deferral Accounts
- IFRS 17 Insurance Contracts
- Amendments to IAS 28: Long term interest in associates and joint ventures
- Amendments to IFRS 9 Prepayment Features with Negative Compensation
- IFRIC 23 Uncertainty over Income Tax Treatments
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- Amendments to References to the Conceptual Framework in IFRS Standards
- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)

3. Segment information

Thinfilm's business consists of sale of products, services and development of printed memory and systems that include memory, sensing, display, and wireless communication. The CEO has determined that the Group has only one operating segment. Consequently, no additional segment information is disclosed. Reference is made to Note 6, 14, 15 and 16 for entity-wide disclosures.

4. Capital management and financial risk

4.1 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of equity and current and non-current non-interest bearing liabilities. The Group is not subject to any externally imposed capital requirements apart from the requirements according to national laws and regulations for limited liability companies. The Group has no interest-bearing long-term debt except a financial lease liability and is not subject to loan covenants.

4.2 Financial risk factors

Thinfilm is exposed to certain financial risks related to exchange rates and interest level. These are, however, insignificant compared to the business risk.

a. Market risk factors

(i) Currency risk

The Group has the major part of its operations in USA while the majority of the cash is held in NOK. Increased value of USD relative to NOK therefore constitutes a currency risk. The management monitors this risk and will take the appropriate actions to address it as the situation requires.

The currency risk related to the balance sheet is mostly related to the net investment in the Swedish subsidiary. The management monitors this risk but has not initiated particular actions to reduce it.

(ii) Interest risk

Thinfilm does not have any material interest-bearing debt.

b. Credit risk

The company has some credit risks relating to receivables. The loss on receivables has historically been low.

As a part of the relocation of Thinfilm's US headquarters in the first two quarters of 2017 a USD 1,600 thousand Letter of Credit has been issued to the new landlord. The Company has in addition entered into a Tenancy

Guarantee with the new landlord. The guarantee is given to secure payment of the lease rent. The initial guarantee liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2018, the guarantee liability amounted to USD 4,500 thousand. Apart from that, Thinfilm has not issued guarantees or mortgages.

c. Liquidity risk

Thinfilm does not have any material interest-bearing debt and has hitherto been able to raise adequate equity. As described in the section Share Capital in the Report from the Board of Directors, the Company raised NOK 881 million in gross proceeds from several new and existing investors in Q4 2017. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 million. Per end of Q1 2019, the Company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

4.3 Fair value estimation

The carrying amounts of trade and other receivables and payables are considered to be the same as their fair values, due to their short-term nature. Accounts payable and accrued liabilities with due date within 12 months have been recognized at carrying value. The fair value of financial liabilities has been estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

4.4 Financial instruments

Thinfilm is not party to any transactions or financial instruments which are not recorded in the balance sheet or otherwise disclosed.

5. Critical accounting estimates and judgments

The financial statements of the group have been prepared based on the going concern assumption. Please refer to Note 2 for details regarding going concern. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The estimates and assumptions in the financial statements of the group mainly relate to property, plant and equipment, share based compensation, deferred tax assets, accounting for research and development and intangible assets.

Property, plant and equipment (PPE):

In connection to establishing US headquarters in San Jose, Thinfilm has invested in PPE, including a roll-based production line. Determining whether equipment/a tool a) is under construction b) is ready for use in production c) will generate sufficient net future benefits on a stand-alone basis or as part of a production line, requires judgment to be applied. In addition, Thinfilm has contractual liabilities primarily related to the new roll-based production line. The slower customer adoption of NFC tags on-package than anticipated triggered impairment testing relating to these assets. See Notes 6 and 29 for quantification of book values and impairments.

Intangible assets:

In connection with the purchase of certain certain assets from Kovio, Inc., in January 2014, Thinfilm acquired an IP portfolio of ninety patent families. In addition, Thinfilm has acquired certain licenses and capitalized certain development costs relating to printed batteries. These assets are recognized in the balance sheet as intangible assets and valued at fair value less accumulated amortization and impairment losses. The book value is dependent on the successful development of the technology in the Parent Company and in the subsidiaries. As of 31 December 2018 intangible assets of USD 1,102 thousand are recognized in the balance sheet. See Note 7.

Share based compensation:

Thinfilm estimates the fair value of options at the grant date. As the subscription rights are structured equal to an option, the Black-Scholes-Merton option pricing model is used for valuing the share subscription rights. The model uses the following parameters; the exercise price, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares, and the risk-free interest rate for the life of the option. The cost of share based remuneration is expensed over the vesting period. Such estimates are updated at the balance sheet date. Changes in this estimate will impact the expensed cost of share based remuneration in the period. The variables, assumptions and relevant theoretical foundations used in the calculation of the FV per share subscription right is estimated according to the IFRS 2 standard.

Deferred tax assets:

Deferred tax assets related to losses carried forward is recognized when it is probable that the loss carried forward may be utilized. Evaluation of probability is based on historical earnings, expected future margins and the size of the order backlog. Future events may lead to these estimates being changed. Such changes will be recognized when reliable new estimates can be made. No deferred tax assets have been recognized in the balance sheet as of 31 December 2018.

Research and development:

Research costs are expenses as incurred. Development expenditure on an individual project is recognised as an intangible asset only when Thinfilm can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, the Company's intention and capability of completing the development and realize the asset, and the net future financial benefits of use or sale. Determining whether an expense meets the definition of a development cost requires judgment to be applied. Capitalized development costs as of 31 December 2018, amounted to USD 1,252 thousand. See Note 7.

Financial lease:

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, California. The building element of the lease agreement is classified as a financial lease, where the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. Determining whether the lease should be classified as a financial or operating lease requires judgment as the present value calculation for future lease payments is very sensitive to interest rates assumptions. If different interest rate assumptions had been made it could be argued that the present value of the minimum lease payments does not amount to substantially all of the fair value of the leased asset, hence resulting in the lease being accounted for as an operating lease. Thinfilm assesses whether the lease has been impaired by applying the requirements in IAS 36 — Impairment of assets. As of 31 December 2018, the book value of the leased building is USD 10,375 thousand. See Note 8. As described in Note 2, the land element of the San Jose site will also be booked to the balance sheet as a financial lease starting January 1, 2019, as a result of the implementation of IFRS 16. The book value on that date will be USD 2,036 thousand.

6. Property, plant and equipment

Amounts in USD 1,000	Laboratory and production equipment
Useful life, years	5
2018	
Accumulated cost on 1 January 2018	**26,910**
Additions	19,024
Sale/disposal of assets	(692)
Exchange differences	2
Accumulated cost 31 December 2018	**45,244**
Accumulated depreciation and impairment	
Accumulated depreciation on 1 January 2018	(6,388)
Depreciation expenses	(2,743)
Impairment	(13,565)
Exchange differences	1
Accumulated depreciation and impairment 31 December 2018	**(22,695)**
Net book value 31 December 2018	**22,548**

As per 31 December 2018, property, plant and equipment include construction in progress amounting to USD 16,651 thousand and relating to roll-based production line.

Other receivables include USD 4,846 thousand prepayments related to investment in equipment and machinery that had not been received from the suppliers as of 31 December 2018.

The total of Property, plant and equipment located in Sweden is USD 32 thousand (2017: 490 thousand) and in the US is USD 22,458 thousand (2017: 20,301 thousand). Property, plant and equipment is not held in any other countries.

2017	
Accumulated cost on 1 January 2017	14,398
Additions	16,344
Impairment at cost	(484)
Reclassifications	113
Sale/disposal of assets	(4,032)
Exchange differences	572
Accumulated cost 31 December 2017	**26,910**
Accumulated depreciation and impairment	
Accumulated depreciation on 1 January 2017	(5,242)
Depreciation expenses	(2,696)
Impairment	(1,322)
Sale/disposal of assets	3,129
Exchange differences	(257)
Accumulated depreciation and impairment 31 December 2017	**(6,388)**
Net book value 31 December 2017	**20,522**

2018 impairments of USD 13,565 thousand are the result of slower than expected market adaption, as decribed further below. 2017 impairments are primarily related to equipment for the Memory and sensor programs that were discontinued.

Property, plant and equipment valuation

Management's strategic initiative for PDPS roll-to-roll technology and factory

As announced by the Company 15 March 2019, Thinfilm has placed the PDPS R2R line on pause and the decision will not be reassessed unless there is very significant market growth. This triggers an impairment test on the company's assets. In accordance with IAS 36 recoverable amount is the higher of fair value less costs of disposal or value in use. As the Company does not foresee to use PDPS R2R technology in its own business, fair value less costs of disposal on a tool-by-tool basis has been applied to assess the recoverable amount. More specifically, the following assessments have been made:

- **New roll-to-roll (R2R) printed electronics equipment:** The R2R equipment ranges from 0 to 12 months old and has not yet been placed in ordinary production. Whereas the R2R equipment line is unique as a whole when including all the individual units, the individual modular components of the line are not unique and the tools themselves are reusable for different product families. The R2R modules are not only applicable to NFC-related production, but with minor modifications are also applicable for several other industries. These tools are also very much part of the standard offering to the various equipment vendors. In light of this, it has been assessed that a fair market value for these tools is the purchase price (which approximate the carrying value) included a 15% discount related to costs associated with shipping and modifications.
- **Building/cleanroom improvements related to production equipment:** As the fair value less costs of disposal methodology is used to assess the individual production tools, associated building and cleanroom improvements that has been capitalized have been fully impaired;
- **Old equipment:** Old equipment (including the S2S line, and other lab/fab/back-end equipment) have been valued with same approach as for R2R.

It should be noted that the fair value less costs of disposal used is subject to assessments as there is no observable market place for such equipment. The prices are considered to be level 3 inputs in the fair value hierarchy in accordance with IFRS 13. The estimates are therefor subject to uncertainty.

An impairment of USD 13,565 thousand has been booked to the production-related property, plant, and equipment balance as of 31 December 2018 following this assessment.

Regardless of the impairment assessment described above, management views the printed electronics technology and factory assets as broadly applicable to multiple potential applications beyond NFC and intends to maximize the value creation from these tools.

Management will make all efforts to maximize the value, including scenarios of maintaining the full production line integrated, rather than selling it piece by piece. A multi-tiered strategy has therefore been initiated. Management expects these efforts to continue over some time.

7. Intangible assets

Amounts in USD 1,000	Purchased intellectual property	Capitalized development costs	Total
Amortization period, years (linear)	13–16		
2018			
Acquisition cost			
Accumulated cost on 1 January 2018	1,969	847	2,816
Additions	—	1,582	1,582
Impairment at cost	(154)	(1,177)	(1,331)
Accumulated cost 31 December 2018	**1,815**	**1,252**	**3,067**
Accumulated amortization and impairment on 1 January 2018	(626)	—	(626)
Amortization	(151)	—	(151)
Accumulated amortization impaired assets	62	—	62
Amortization and Impairment 31 December 2018	**(715)**	**—**	**(715)**
Net book value 31 December 2018	**1,100**	**1,253**	**2,353**
2017			
Acquisition cost			
Accumulated cost on 1 January 2017	3,250	444	3,695
Additions	63	702	765
Impairment at cost	(1,344)	—	(1,344)
Disposals (at cost)	—	(300)	(300)
Accumulated cost 31 December 2017	**1,969**	**847**	**2,816**
Accumulated amortization and impairment on 1 January 2017	(553)	—	(553)
Amortization	(199)	—	(199)
Accumulated amortization impaired assets	126	—	126
Amortization and Impairment 31 December 2017	**(626)**	**—**	**(626)**
Net book value 31 December 2017	**1,343**	**847**	**2,190**

As a result of slower customer adoption of NFC tags on-package than anticipated, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the EAS product will not at this time be commercialized, and the USD 1,177 thousand capitalized development work on EAS has been impaired in full.

2017 impairments comprise patents related to the Memory™ and sensor programs that were discontinued.

The amount of research and development expenditure recognized as an expense in 2018 amounts to USD 9,907 thousand (2017: USD 16,549 thousand). This was mainly related to cost incurred in connection with research & development relating to roll-to-roll printing processes in 2018, in addition to printed batteries and displays in 2017.

8. Financial lease

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, CA. The lease in San Jose expires in September 2028. The building element of the lease agreement is classified as a financial lease as the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. The land element of the lease has been accounted for separately as an operating lease.

Amounts in USD 1,000	Building
Depreciation period, years (linear)	12
2018	
Net value on 1 January 2018	11,534
Adjustments	(105)
Depreciation	(1,053)
Net book value on 31 December 2018	**10,375**
2017	
Net value on 1 January 2017	12,607
Depreciation	(1,073)
Net book value on 31 December 2017	**11,534**

Amounts in USD 1,000	Minimum lease payments	Present value of minimum lease payments
Finance liabilities are payable as follows at		
Year ended 31 December 2018		
Finance lease liabilities are payable as follows:		
Less than one year	1,589	1,493
Between one and five years	6,812	5,481
More than five years	9,285	5,697
Total	**17,686**	**12,671**
Less future finance charges	(5,015)	
Present value of minimum lease payments	**12,671**	**12,671**

9. Inventory

Amounts in USD 1,000	2018	2017
Finished goods	150	167
Raw materials	155	131
Work in progress	2,336	411
Net book value on 31 December 2018	**2,640**	**709**
Inventory reserved	2,488	1,736

10. Trade and other receivables

Amounts in USD 1,000	31 December 2018	31 December 2017
Customer receivables	868	1,776
Accrued revenue not yet invoiced	75	153
Other receivables, prepayments	7,781	14,269
Income tax prepayments	137	47
Less: provision for impairment of receivables	—	—
Receivables – net	**8,862**	**16,245**
Of this, receivables from related parties (Note 23)	—	—

Of other receivables, prepayments of USD 4,846 thousand (USD 11,484 thousand in 2017) relate to equipment for San Jose site. In addition, USD 1.2 million of other receivables relate to government grant receivables.

All receivables are due within one year and book value approximates fair value.

Total receivables are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2018	31 December 2017
Denominated in NOK	2,254	1,738
Denominated in SEK	334	342
Denominated in USD	6,175	8,496
Denominated in HKD	1	42
Denominated in GBP	34	5,131
Denominated in other currencies, including EUR, CNY and CHF	62	496
Total	**8,862**	**16,245**

Of net receivables USD 8,466 thousand were not past due as per 31 December. USD 13 thousand were past due by less than 30 days.

USD 301 thousand were past due between 31 and 90 days, and USD 82 thousand were past due by more than 90 days.

Impairment of receivables is evaluated on a case-by-case basis, and realized losses have historically been low. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

11. Cash and bank deposits

Amounts in USD 1,000	31 December 2018	31 December 2017
Cash in bank excluding restricted cash	30,572	96,420
Deposit for Letter of Credit	1,629	1,604
Deposit for withheld tax (restricted)	387	96
Total	**32,588**	**98,120**

Payable withheld tax amounts in Norway and Sweden at 31 December 2018 were USD 387 thousand and USD 0 thousand (2017: USD 82 thousand and USD 14 thousand).

12. Share capital, warrants and subscription rights

	Number of shares	Number of warrants
Shares at 1 January 2018	**1,171,871,617**	**57,017,326**
Expiry of Warrants, 16 March	—	(17,017,326)
Expiry of Warrants, 14 July	—	(40,000,000)
Shares at 31 December 2018	**1,171,871,617**	**—**
Shares at 1 January 2017	**816,759,117**	**88,267,326**
Share issue to employees, 24 February	105,000	—
Share issue to employees, 5 May	2,057,500	—
Share issue to employees, 11 August	450,000	—
Private Placement October, Tranche 1	81,500,000	—
Private Placement November, Tranche 2	271,000,000	—
Expiry of Warrants, 14 November	0	–31,250,000
Shares at 31 December 2017	**1,171,871,617**	**57,017,326**

Number of warrants and subscription rights	**1 January – 31 December 2018**	**1 January – 31 December 2017**
Warrants and subscription rights opening balance	122,422,326	127,584,826
Grant of incentive subscription rights	52,067,432	33,550,000
Terminated, forfeited and expired subscription rights	–29,220,000	–4,850,000
Exercise of subscription rights	—	–2,612,500
Allotment of warrants	—	—
Exercise and expiry of warrants	–57,017,326	–31,250,000
Warrants and subscription rights closing balance	**88,252,432**	**122,422,326**

2018:
The number of shares remained unchanged during the year 2018. There were no exercises of employee share options during the year.

2017:
On 19 October 2017, it was announced that the Company raised NOK 881 million (approx. USD 110 million) in gross proceeds through a private placement consisting of 352,500,000 new shares (the "Private Placement"). The subscription price in the Private Placement was NOK 2.50 per share, equivalent to a 7.8% premium to the closing price on the Oslo Stock Exchange 18 October 2017. The Private Placement was divided into two tranches; Tranche 1 consisting of 81,500,000 million shares and a Tranche 2 consisting of 271,000,000 shares. The Tranche 1 shares were issued based on an authorization to the Board of Directors granted by the Company's Annual General Meeting on 5 May 2017. The completion of the Tranche 2 of the Private Placement was approved by an Extraordinary General Meeting held on 13 November 2017. Tranche 1 shares were subscribed for by several investors. Tranche 2 shares were subscribed for by Woodford Investment Management, Invesco Asset Management and several other investors.

Several employees exercised vested incentive subscription rights on several occasions in 2017, in a combined total of 2,612,500 shares at average price NOK 1.98 per share.

13. Trade and other payables

Amounts in USD 1,000	31 December 2018	31 December 2017
Trade payables	1,120	1,410
Public duties, withheld taxes and social security taxes due	696	831
Share-based liability (subscription rights), employer´s tax	0	86
Accrued holiday pay and other accrued salary	2,223	2,555
Current lease liabilities	635	562
Other accrued expenses	3,458	1,875
Total	**8,132**	**7,320**
Of this, payables to related parties (Note 23)	0	0

Total payables and accruals are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2018	31 December 2017
Denominated in NOK	1,399	1,463
Denominated in SEK	610	1,639
Denominated in USD	5,973	3,973
Denominated in HKD	11	60
Denominated in other currencies, including GBP, EUR, CNY and CHF	140	184
Total	**8,132**	**7,320**

14. Sales revenue

The breakdown of the sales revenue is as follows:

Amounts in USD 1,000	2018	2017
Sales of goods	1,267	1,644
Rendering of services, technology access revenue	21	1,336
Total	**1,288**	**2,980**

The Group is domiciled in Norway. The sales revenue from external customers in Norway amounts to USD 0 thousand (2017: 1).

The total sales revenue from external customers from other countries is USD 1,288 thousand, of which USD 218 thousand related to sales to customers in the United States. In 2017 USD 235 thousand related to sales to customers in the United States out of the total sales revenue of USD 2,979 thousand.

The breakdown of the major components of the total of revenue from external customers from other countries is disclosed above.

Sales revenue of approximately USD 760 thousand (2017: USD 2,613 thousand) are derived from single customers representing 10% or more of total sales revenue.

No warranty costs, penalties or other losses were related to sales revenue in 2018.

15. Other revenue

Amounts in USD 1,000	2018	2017
Government grants and funded development projects	0	2,040
Total	**0**	**2,040**

In 2018, in connection with the implementation of IFRS 15, and aligned with IFRS guidelines on revenue recognition, the group has decided to reclassify government grants from Other operating revenue to Other income.

Reference is made to Note 16 “Government grants” and Note 17 “Other income” for details on the Government grants for FY2018.

16. Government grants

SkatteFUNN grants for research and development projects are contingent on pre-approved project applications and approved completion reports to the Research Council of Norway. Thinfilm has an approved SkatteFUNN project covering the period 2018–2020. The recognised amount in 2018 represents Thinfilm’s estimated claim based on the costs incurred related to the relevant research and development projects. This accounting treatment is in line with prior years and standard practice in Norway. The SkatteFUNN project accounts should be subject to audit procedures and the costs will be assessed by the Norwegian Tax Administration through the tax filing system.

A recent update to the Norwegian tax guidelines (Skatte-ABC 2018/19) published by the Norwegian Tax Administration has created uncertainty regarding the requirements for the 2018 SkatteFUNN grants. The Norwegian Tax Administration has announced it will review and clarify its position later in 2019. Thinfilm has accounted for the SkatteFUNN grant in accordance with past practice and Thinfilm’s understanding of the regulation at the date of resolution of the financial statements for 2018.

In February 2014, Thinfilm ASA received a government grant of NOK 5.9 million from The Research Council of Norway relating to development of production methods for printed electronics. The project ran until February 1, 2017. In February 2015 Thinfilm ASA received an additional grant from The Research Council of Norway of NOK 12 million relating to enhancing durability and liftetime of Thinfilm smart tags. The project ran until April 1, 2018. In 2017 Thinfilm ASA had a project qualified for the SkatteFUNN scheme (tax credit scheme), which relates to the development of integration and assembly methods for printed smart labels. The project ran until December 2017. In 2018 Thinfilm ASA had a new project qualified for the SkatteFUNN scheme for the three-year horizon 2018–2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). In 2018, net contribution from the SkatteFUNN scheme was NOK 10 million (2017: NOK 10 million).

In February 2015 Thinfilm AB received a EUR 440 thousand grant from the European Commission through the Horizon 2020 programme. The grant relates to development of printing methods for organic transistors and ran until 31 December 2018. In February 2016, Thinfilm AB received a grant of EUR 472 thousand relating to the development of a platform for the integration of mass-market products within the digital world. The grant ran until December 2018.

In August 2015 Thinfilm Inc. received a grant of USD 350 thousand relating to development of smart labels featuring Near Field Communications (NFC) capabilities. The grant ran until February 2017.

In connection to adoption of IFRS 15, and in association to IFRS guidelines on revenue recognition, the group has decided to reclassify government grants from Other operating revenue to Other income in 2018. Government grants amounted to USD 1,295 thousand for the year 2018, compared to USD 2,040 thousand for the year 2017. The accounting policy adopted for these grants is to recognize income over the periods in which the Company recognizes as expenses the related costs for which the grant is intended to compensate.

To receive grants from SkatteFUNN, the company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the company reports progress and achievements to the Research Council of Norway. Similar progress reports are required in all the grants.

17. Other income

Amounts in USD 1,000	2018	2017
Sublease income from the site in San Jose, California (CA)	96	247
Gain on sale of fixed assets, related to sale of equipment from Linköping and San Jose sites.	470	587
Government grants and funded development projects*	1,540	—
Other	4	52
Total	**2,110**	**887**

In 2018, in connection with the implementation of IFRS 15, and aligned with IFRS guidelines on revenue recognition,

The group has decided to reclassify government grants from Other operating revenue to Other income.

Reference is made to Note 15 “Other revenue” for details on the Government grants for FY2017.

18. Salaries and other payroll costs

Amounts in USD 1,000	2018	2017
Salaries	25,858	23,128
Social security costs	2,154	2,256
Share-based compensation (subscription rights), notional salary cost	1,465	2,200
Share-based compensation (subscription rights), accrued employer´s tax*	(96)	(229)
Pension contribution	1,471	1,220
Other personnel related expenses, including recruiting costs	2,392	1,520
Total	**33,244**	**30,096**
Average number of employees for the year (full-time equivalent)	164	161

At the end of the year the Group had 155 employees (full-time equivalents), down from 167 at the end of 2017.

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

The average number of FTEs throughout FY2018 was 164,2 up from 161 FTEs for FY2017.

*Relates to remeasurement of social security costs. See Note 2.17.

Compensation to senior management

Amounts in USD 1,000	Salary	Pension contribution	Bonus	Share-based remuneration
2018				
Kevin Barber, CEO (from 26 November 2018)	43	—	—	330
Davor Sutija, CEO (until 26 November 2018, full-year salary)	446	12	287	338
Ole Ronny Thorsnes, CFO	308	12	124	163
Christian Delay, CCO	286	11	99	140
Christer Karlsson, CTO	226	52	39	115
Peter Fischer, COO	460	11	62	140
Giampaolo Marino, EVP Hardware Solutions (from 23 July 2018)	121	4	91	30
Arvind Kamath, EVP Technology Development	253	11	63	53
Matt Kaufmann, EVP Operations	240	9	63	39
Shannon Fogle, VP of Global Human Resources	142	7	39	17
Henrik Sjöberg, SVP Product Management (until 29 April 2018)	97	8	33	—
John McNulty, EVP Marketing (from 13 February 2018 to 21 June 2018)	97	4	33	—
Bill Cummings, SVP Marketing Communications (until 20 September 2018)	256	7	6	86
Tauseef Bashir, EVP Global Sales (until 23 May 2018)	264	5	35	—
2017				
Davor Sutija, CEO	390	15	266	367
Christer Karlsson, CTO	177	45	29	126
Henrik Sjöberg, SVP Product Management	157	23	26	122
Peter Fischer, COO	441	11	121	121
Tauseef Bashir, EVP Global Sales	238	11	149	121
Christian Delay, SVP Software Platforms	251	11	78	99
Bill Cummings, SVP Corporate Communications	215	9	35	92
Ole Ronny Thorsnes, CFO	219	13	96	146
Erwan Le Roy, EVP Business Development (until 3 November 2017)	330	10	84	—

The salary amount is the salary declared for tax purposes. Bonus is the amount earned during the year and accrued at year-end. This amount is adjusted for any difference between the bonus earned in 2017 and accrued for at year-end 2017 and the actual bonus paid in 2018. The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights.

Subscription rights excercised by senior management

	2018	2017
Davor Sutija, CEO	—	750,000
Christer Karlsson, CTO	—	500,000
Henrik Sjöberg, SVP Product Management	—	400,000
Peter Fischer, COO	—	450,000
Total	**—**	**2,100,000**

The company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the Board of Directors

The company has no other obligation to remunerate the board than the board remuneration as resolved by the annual general meeting. The annual general meeting on 4 May 2018 resolved remuneration to the chairman of NOK 325 thousand and NOK 250 thousand for each board member for the period from the annual general meeting in 2017 to the annual general meeting in 2018. The board members had the option to receive part or all of the remuneration in the form of shares. No board members chose this option. The company refunds relevant out-of-pocket expenses incurred by the board members. The company has not issued any advance payments or loans to, or guarantees in favor of, any board member.

Thinfilm has accrued NOK 923 thousand for the probable cost of board remuneration from the annual general meeting 2018 and up to the end of 2018. Such remuneration, if any, shall be resolved by the annual general meeting 2019.

19. Other operating expenses

Amounts in USD 1,000	2018	2017
Services	5,480	5,937
Premises, supplies	12,047	15,654
Sales and marketing	2,889	3,791
Other expenses	814	3,516
Total	**21,229**	**28,898**

Thinfilm has lease agreements for premises in the following locations:
Oslo (Norway): The Corporate headquarter was located at Henrik Ibsens Gate 100, Oslo, throughout 2018, with an annual lease amount of NOK 780 thousand per year, and a termination clause of 3 months. The Company has subsequently moved to a new office location at Fridjof Nansens Plass 4, Oslo, in March 2019. The lease amount at the new location is NOK 689 thousand per year.
San Jose (California, US): The Company entered into a lease agreement in November 2016 relating to the property building of its Global headquarter at Junction Avenue in San Jose, CA. The lease in San Jose expires in September 2028. The average annual lease amount in the period is USD 2,052 thousand. See Note 8 for further description. In addition, the company pays property tax and other costs related to the building. From Q3 2018, the company receives sublease income from the second floor of the building.
San Francisco (California, US): The Thinfilm INC sales team moved from Montgomery Street to California Street in 2018. The lease in California Street was cancelled per 31 December 2018 and the sales team is now located in our office in San Jose. Total lease payments in 2018 related to the SF office space was USD 108k.
Linköping (Sweden): In April 2018, Thinfilm AB moved to a new location in Linköping, Westmansgatan 47. The annual lease payment is SEK 654 thousand per year, with a termination clause of 3 months. Thinfilm had three subleases in Linköping under termination as per 31 December 2017. The termination period for one sublease expired on 31 January 2018. The termination period for the remaining two subleases expired on 30 September 2018.

Shanghai (China): Thinfilm China rents an office in Dong Fang Road, Shanghai. The lease amount is CNY 559 thousand per year, with a 3 month termination clause. The lease agreement is scheduled to end by December 2019.
Hong Kong (China): Hong Kong lease was terminated in August 2018. The Hong Kong operations are managed from China.
London (England): Thinfilm UK rents an office in Eastbourne Terrace, London. The lease amount is GBP 58 thousand per year.
Singapore: From April 2018, Thinfilm Singapore rents a shared office space at 71 Robinson Road, Singapore. The lease amount is SGD 44 thousand per year.

Only the lease agreement for the San Jose premises has duration longer than twelve months. Minimum lease payments for premises, other than the San Jose site, and due within one year amount to USD 595 thousand. Payments between one and five years amount to USD 71 thousand (present value: USD 69 thousand).

20. Income tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in USD 1,000	2018	2017
Profit (loss) before tax	(71,711)	(59,704)
Tax (tax income) calculated at domestic tax rate 23 % (24%)	(16,494)	(14,329)
Effect of other tax rate in other countries	578	395
Share based compensation	173	146
Other permanent differences	(584)	(2,000)
Effect of change in tax rates	2,622	1,809
Change in deferred tax asset not recognised on the balance sheet	13,716	14,101
Tax charge	**11**	**122**

21. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Amounts in USD 1,000	31 Dec 2017	Charged to profit/loss	Equity	31 Dec 2018
Deferred income tax asset				
Fixed and intangible assets	-920	3,796	-29	2,847
Inventory	335	189	—	524
Other accruals	1,858	918	—	2,776
Tax loss carried forward outside Norway	558	(176)	—	381
Tax loss carried forward Norway	47,595	9,088	(3,229)	53,454
Calculated deferred tax asset 22% (23 % 2017)	49,426	13,814	-3,258	59,982
Impairment of deferred tax asset	(49,426)	(13,814)	3,258	(59,982)
Deferred tax in the balance sheet	**—**	**—**	**—**	**—**

The Equity column includes effects of currency translation.

The company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway, Sweden and the US. These tax rates are 22, 22 and 21 per cent respectively (2017: 23, 22 and 21).

22. Profit (loss) per share

Amounts in USD	2018
Profit (loss) attributable to equity holders of the Company (USD 1,000)	(71,722)
Average number of shares in issue	1,171,871,617
Average diluted number of shares	1,171,871,617
Profit (loss) per share, basic	**(USD0,06)**

The weighted average basic and diluted number of shares for the fourth quarter of 2018 is equal to the weighted average for the year 2018.

When the period result is a loss, the loss per diluted number of shares shall not be reduced by the higher diluted number of shares, but the diluted result per share equals the result per basic number of shares.

The diluted number of shares has been calculated by the treasury stock method. If the adjusted exercise price of subscription rights exceeds the average share price in the period, the subscription rights are not counted as being dilutive.

23. Related party transactions

a) Transactions with related parties:

Amounts in USD 1,000	2018	2017
Purchases of services from law firm Ræder	339	478
Purchase of services from Robert N. Keith	249	232
Purchase of services from Translarity	34	34

In the period 1 January – 31 December 2018, Thinfilm has recorded USD 339 thousand (net of VAT) for legal services provided by law firm Ræder, in which Thinfilm's Chairman is a partner.

In the same period, Thinfilm has recorded USD 249 thousand (net of VAT) for services provided by Robert N. Keith, a shareholder of Thinfilm, relating to a service agreement under which he assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Aslo, in the same period, Thinfilm has recorded USD 34 thousand (net of VAT) for R2R probe card equipment delivered by Translarity, a company in which Thinfilm board member Laura Oliphant is a shareholder, and held the position as CEO until July 2018.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in USD 1,000	2018	2017
Payable to law firm Ræder	85	142
Payable to Translarity	—	36
Payable to Robert N. Keith	249	—

c) Remuneration to the auditor

Amounts in USD 1,000	2018	2017
Audit	107	102
Other assurance services	2	7
Tax services	3	29
Other services	—	2
Total	**113**	**140**

Thin Film Electronics UK Ltd., in which Thin Film Electronics ASA holds all the shares, has taken advantage of section 479a of the UK Companies Act 2006 to be exempt from audit of its financial statements for the period from establishment through 31 December 2018.

24. Contingent liabilities

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued to the new landlord. The Company has in addition entered into a Tenancy Guarantee with the new landlord. The guarantee is given to secure payment of the lease rent. The initial guarantee liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2018, the guarantee liability amounted to USD 4,500 thousand.

25. Shares, warrants and subscription rights

At the end of 2018 there were 1,171,871,617 shares in the company, versus 1,171,871,617 at the end of 2017. There were 6045 registered shareholders (2017: 5542).

Thinfilm is not aware of any shareholding agreements between shareholders.

Top 20 registered shareholders at 31 December 2018	Shares	Percent
The Northern Trust Comp, London Br	241,725,378	20.63%
INVESCO PERPETUAL HIGH INCOME FUND	103,550,137	8.84%
FERD AS	77,505,267	6.61%
INVESCO PERPETUAL INCOME FUND	72,116,529	6.15%
The Northern Trust Comp, London Br	49,799,833	4.25%
Nordnet Bank AB	43,654,929	3.73%
FIRST GENERATOR	42,449,728	3.62%
Citibank, N.A.	30,618,759	2.61%
BNP Paribas Securities Services	26,296,790	2.24%
MP PENSJON PK	23,321,167	1.99%
STATOIL PENSJON	16,941,020	1.45%
Danske Bank A/S	16,757,833	1.43%
SUNDVALL HOLDING AS	15,817,165	1.35%
MELIN HOLDING AS	13,545,981	1.16%
VERDIPAPIRFONDET FIRST GLOBALT	12,153,936	1.04%
Nordea Bank Abp	12,001,548	1.02%
NORDNET LIVSFORSIKRING AS	7,631,589	0.65%
The Bank of New York Mellon	7,390,220	0.63%
Skandinaviska Enskilda Banken AB	7,077,969	0.60%
The Bank of New York Mellon SA/NV	6,447,367	0.55%
Total 20 largest shareholders	826,803,145	70.55%
Total other shareholders	345,068,472	29%
Total shares outstanding	**1,171,871,617**	**100.00%**

Shares, ADRs and subscription rights held by primary insiders and close relations at 31 December 2018.

No insiders held warrants at 31 December 2018.

	Shares	ADRs	Incentive subscription rights
Morten Opstad, Chairman	1,986,708	—	—
Preeti Mardia, Board Member	193,552	—	—
Laura Oliphant, Board Member	375,000	53,000	—
Tor Mesøy, Board Member	463,926	—	—
Richard Bernstein, Board Member	500,000	—	—
Kevin Barber, CEO	—	—	38,437,432
Davor Sutija, CEO (until 26 November, 2018)	3,100,000	—	8,250,000
Ole Ronny Thorsnes, CFO	50,000	—	3,100,000
Christian Delay, CCO	50,000	—	2,850,000
Peter Fischer, COO	70,000	—	3,350,000
Giampaolo Marino, EVP Hardware Solutions (from 23 July, 2018)	—	—	2,000,000
Arvind Kamath, EVP Technology Development	—	—	1,300,000
Andrew Scott, VP Marketing	—	—	1,000,000
Linda Renate Pedersen, Sr Director Finance & Accounting	—	—	240,000
Federica Brugnera, VP Controlling	—	—	500,000
Shannon Fogle, VP of Global Human Resources	—	—	420,000
Matt Kaufmann, EVP Manufacturing	—	—	800,000
Total	**6,789,186**	**53,000**	**62,247,432**

The annual general meeting on 4 May 2018 resolved a subscription rights incentive programme for the years 2018–2023. The 2017 programme was closed. Under the 2018 programme, the board may grant up to 117,187,161 independent subscription rights to employees and to individual consultants performing similar work in Thinfilm. The number of outstanding subscription rights under all subscription rights incentive programs shall not exceed 10 percent of the number of shares in the company at the time of the annual general meeting 2018. The exercise price shall be equal to the higher of (i) average closing share price on the ten trading days preceding the grant date, and (ii) the last closing share price. The subscription rights vest in four tranches of 25 percent on each year beginning one year from the Vesting Commencement date. The Vesting Commencement date is the last of the following dates preceding the date of grant of subscription rights; (i) 15 January, (ii) 15 April, (iii) 15 July or (iv) 15 October. In case of change of control, the subscription rights vest immediately. The subscription rights expire on 4 May 2023.

By 31 December 2018, the board had granted 52,067,432 subscription rights under the 2018 programme.

15,000,000 conditional instruments have been granted to Kevin Barber with similar service condition structure to his 2018 subscription rights grant. In additon to normal service conditions, these instruments will vest based on capital raised to always make sure he has a subscription rights percentage of 2% of the total shares in Thin Film.

The fair value of the subscription rights awarded, calculated according to Black & Scholes option pricing model, was NOK 170.8 million as of 31 December 2018. USD 1,771 thousand was expensed in 2018. At 31 December 2018, the estimated amount of share-based remuneration cost yet to be expensed throughout the vesting period is NOK 16.0 million.

Subscription rights

	2018		2017	
	Weighted average exercise price, NOK	Number of subscription rights	Weighted average exercise price, NOK	Number of subscription rights
Total at 1 January	3.58	65,405,000	4.47	39,317,500
Adjustment to opening balance	2.23	375,000	0.00	—
Granted	1.11	52,067,432	2.57	33,550,000
Forfeited	2.91	(19,653,750)	4.50	(4,035,000)
Exercised	0.00	—	1.98	(2,612,500)
Expired	5.12	(9,941,250)	5.17	(815,000)
Total at 31 December	**2.09**	**88,252,432**	**3.58**	**65,405,000**
Number of exercisable subscription rights at 31 December (included in total)		—		16,417,500
As the average strike price is higher than the quoted share price on the Stock exchange				

Subscription rights outstanding at 31 December 2018

Holder	Number of subscription rights	Weighted average exercise price, NOK
Kevin Barber, CEO (from 26 November 2018)	38,437,432	0.83
Davor Sutija, CEO (until 26 November 2018)	8,250,000	3.54
Ole Ronny Thorsnes, CFO	3,100,000	3.44
Christian Delay, CCO	2,850,000	3.13
Christer Karlsson, CTO	2,850,000	3.51
Peter Fischer, COO	3,350,000	3.02
Giampaolo Marino, EVP Hardware Solutions (from 23 July 2018)	2,000,000	1.91
Arvind Kamath, EVP Technology Development	1,300,000	3.59
Matt Kaufmann, EVP Operations	800,000	3.11
Shannon Fogle, VP of Global Human Resources	420,000	3.79
Employees and contractors	24,895,000	2.85
Total	**88,252,432**	**2.09**

0 subscription rights were exercised in 2018 (2017: 2612500).

Value of subscription rights and assumptions upon grant	Grants in 2014	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018
Value of subscription right at grant date, NOK per subscription right	1.23–3.19	0.85–3.51	1.23–2.52	0.72–1.75	0.24–1.03
Share price, NOK per share	4.70–6.10	3.44–7.58	3.56–5.05	2.45–3.79	0.80–2.25
Exercise price, NOK per share	4.70–6.10	3.95–7.58	3.56–5.05	2.45–3.79	0.82–2.27
Expected annual volatility	46%–65%	47%–66%	57%–70%	53%–68%	47%–89%
Duration, years	2.0–5.0	2.0–5.0	2.0–5.0	1.9–5.0	1.0–4.94
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	1.24–2.01%	0.65–1.24%	0.53–0.94%	0.56–1.09%	0.74%–1.57%

Value of subscription rights and assumptions on 31 December 2018	Grants in 2014	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018
Value of subscription right at 31 December 2018, NOK per subscription right	0.55–2.63	0.43–1.74	0.84–1.62	0.14–1.15	0.04–0.37
Share price, NOK per share	2.48	2.48	2.48	2.48	0.748
Exercise price, NOK per share	4.70–6.10	3.95–7.58	3.56–5.05	2.45–3.79	0.82–2.27
Expected annual volatility	58%	58%	58%	58%	61%–82%
Duration, years	1.10–4.62	1.16–4.35	1.15–4.36	0.84–4.35	0.90–4.34
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	1.4–1.7%	0,65–1.2%	0.53–0.94%	0.56–1.09%	0.96%–1.35%
Number of outstanding subscription rights at 31 December 2018	6,965,000	7,425,000	14,630,000	33,135,000	88,252,432

26. Statement on management remuneration policy

Thinfilm's executive management during the year 2018 is specified in Note 18.

Several of the executive management team members serve as officers and directors in the subsidiaries without additional remuneration.

The general meeting 2018 resolved guiding and binding executive remuneration policies. Thinfilm's executive remuneration policy in 2018 was a continuation of the prior year's policy, including share-based remuneration in the form of a subscription rights incentive program as resolved at the annual general meeting, latest on 4 May 2018.

Guiding executive remuneration policy and effect of the policies

Thinfilm offers a competitive remuneration consisting of a reasonable base salary with a pension contribution. Salary may be supplemented by performance based cash bonus and incentive subscription rights. Cash bonus plans are limited to fixed percentage of base pay. Management team members working directly with sales may receive commission on certain sales and product deployments. In addition, the management team, apart from the CEO, may receive additional discretionary bonus payments tied to specific projects.

There is no post-employment remuneration beyond notice periods of 3–6 months. The former CEO, Davor P. Sutija, has a 3-months' severance pay (equal to 3 months ordinary salary) upon expiration of his termination notice period on 21 May 2019. The current CEO, Kevin Barber, has a termination notice period of (i) three months in case of termination by the Company and (ii) one month in case of termination by Mr. Barber. If the Company terminates Mr. Barber's employment (other than for cause) or if Mr. Barber resigns his employment for good reason, Mr. Barber is entitled to a severance pay equivalent to six months of his base salary and target bonus prorated for six months (if Mr. Barber is on schedule to meet the relevant bonus criteria for the year in question) calculated from the end of his termination notice period, all subject to such detailed terms and conditions as set out in his employment agreement.

The policy described above has been applied consistently throughout 2018. The principles described above apply also in 2019, however individual bonus targets and salary levels will be revisited during the Company's ordinary salary process during April. The executive remuneration policy will be reviewed at the Annual General Meeting in May 2019.

The actual remuneration to the management in 2018 is reported in Notes 18 and 25. For 2018, the Board has decided to grant subscription rights to new members of the management team as a form of performance based compensation.

The options vest in tranches of 25 percent each year if the employee has not resigned his position at the vesting date, and expire after five years.

The Company has granted the management team the following subscription rights in 2018:

Employee name	Number of SR	Weighted average Exercise Price	Grant date
Kevin Barber, CEO	38,437,432	0.83	26 November 2018
Giampaolo Marino, EVP Hardware Solutions	2,000,000	1.91	16 August 2018
Total	**40,437,432**	**0.88**	

Salary, pension and any bonuses that triggers employer's tax which will be expensed simultaneously with the remuneration.

27. Events after the balance sheet date

In the Board meeting on 27 February 2019, the Board resolved to grant a total of 360,000 Employee Subscription Rights to new employees of the Company, each with an exercise price of NOK 0,64.

On 15 March 2019, Thinfilm announced a corporate restructuring in order to align the business with the current market adoption of NFC.

In the Board meeting on 30 April 2019, the Board resolved to grant a total of 130,000 Employee Subscription Rights to new and existing employees of the Company, each with an exercise price of NOK 0.32.

The Company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year.

28. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group 31 December 2018
Thin Film Electronics Inc.	Research & Development, Manufacturing and Marketing services	USA	100%
Thin Film Electronics AB	Research & Development, Manufacturing and Marketing services	Sweden	100%
Thin Film Electronics KK	Marketing services	Japan	100%
Thin Film Electronics HK Ltd.	Supply chain services	Hong Kong	100%
Thin Film Holding	Owning shares in Thin Film Inc.	USA	100%
Thin Film Electronics UK Ltd.	Marketing services	England, Wales	100%
Thin Film Electronics Co. Ltd.	Supply chain and Marketing Services	China	100%
Thin Film Electronics Singapore Pte. Ltd.	Marketing services	Singapore	100%

29. Contractual committment

Thinfilm has contractual committments related primarily to equipment for the new roll-based production line at the San Jose site.

Net contractual committment as per 31 December 2018, amounted to USD 5.1 million.

Thin Film Electronics ASA
Annual financial statements 2018

Profit and loss statements

Amounts in NOK 1,000	Note	2018	2017
Sales revenue	11	8,826	24,808
Other revenue	12,13	594	4,271
Other income	14	971	1,068
Total revenue		**10,391**	**30,146**
Employee salaries and other benefits	15	(32,569)	(25,975)
Services (external)		(18,483)	(21,426)
Services (from subsidiaries)	18,19	(372,229)	(484,567)
Other operating expenses	19	(20,090)	(9,343)
Contribution from SkatteFUNN scheme	13	10,000	10,000
Amortization of intangible assets & negative goodwill	7	(11,752)	(11,650)
Operating profit (loss)		**(434,732)**	**(512,814)**
Impairment investment in subsidiary	6	(156,135)	(7,527)
Interest income		5,163	4,334
Other financial income		12	—
Other financial costs		10,961	(11,526)
Net financial items		**(140,000)**	**(14,719)**
Profit (loss) before income tax		**(574,732)**	**(527,533)**
Income tax expense	16	—	—
Profit (loss) for the year		**(574,732)**	**(527,533)**
Allocation/coverage of net result for the year			
Uncovered losses carried forward		(574,732)	(527,533)
Total allocated	**4**	**(574,732)**	**(527,533)**

The notes on pages 51 to 66 are an integral part of these annual financial statements.

Balance sheet

Amounts in NOK 1,000	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Intangible assets	7	19,494	18,314
Investment in subsidiaries	6	198,969	336,260
Total non-current assets		**218,463**	**354,573**
Current assets			
Trade and other receivables	8	104,124	75,026
Cash and bank deposits	9	242,819	760,635
Total current assets		**346,943**	**835,661**
Total assets		**565,406**	**1,190,234**
EQUITY			
Ordinary shares	10,21	128,906	128,906
Other paid-in capital		2,425,538	2,410,944
Total paid-in equity		**2,554,444**	**2,539,850**
Retained profit/uncovered losses		(2,070,966)	(1,496,234)
Total equity	**4**	**483,478**	**1,043,616**
LIABILITIES			
Current liabilities			
Deferred revenue		222	–
Accounts payable		1,736	3,262
Withheld tax and public duties payable		1,549	1,517
Debt to group companies	6,18	72,380	133,025
Other payables and accruals		6,041	8,814
Total liabilities	**20**	**81,928**	**146,618**
Total equity and liabilities		**565,406**	**1,190,234**

The notes on pages 51 to 66 are an integral part of these annual financial statements.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad
Chairman

Tor Mesøy
Board Member

Preeti Mardia
Board Member

Laura Oliphant
Board Member

Kevin Barber
Managing Director (CEO)

Cash flow statements

Amounts in NOK 1,000	Note	2018	2017
Cash flows from operating activities			
Profit (loss) before income tax		(574,732)	(527,533)
Share-based compensation (equity part)	21	6,459	5,547
Amortization and impairment (reversal)	7	11,752	11,650
Impairment investment in subsidiary	6	156,135	7,527
Change in working capital and other items		(94,631)	(150,065)
Net cash from operating activities		**(495,017)**	**(652,874)**
Cash flows from investing activities			
Purchased intangible assets	7	—	(522)
Capitalized development expenses	7	(12,932)	(5,765)
Investment in subsidiaries	6	(9,867)	(11,785)
Net cash from investing activities		**(22,799)**	**(18,071)**
Cash flows from financing activities			
Proceeds from issuance of shares	10	—	838,065
Net cash from financing activities		**—**	**838,065**
Net change in cash and bank deposits		**(517,816)**	**167,120**
Cash and bank deposits at the beginning of the year		760,635	593,516
Cash and bank deposits at the end of the year	**9**	**242,819**	**760,635**

The company had no bank draft facilities at the end of 2018 or 2017.

The notes on pages 51 to 66 are an integral part of these annual financial statements.

Notes to the Annual Financial Statements Thinfilm ASA

1. Information about the company

Thin Film Electronics ASA ("Thinfilm ASA") is the parent company in the Thin Film Electronics group ("Thinfilm"). The group consists of the parent company Thinfilm ASA and the subsidiaries Thin Film Electronics AB ("Thinfilm AB"), Thin Film Electronics Inc. ("Thinfilm Inc."), Thin Film Holding ("Thinfilm Ho"), Thin Film Electronics KK ("Thinfilm KK"), Thin Film Electronics HK ("Thinfilm HK"), Thin Film Electronics Co. ("Thinfilm CN"), Thin Film Electronics UK ("Thinfilm UK") and Thin Film Electronics Singapore pte. ("Thinfilm SIN"). The group was formed on 15 February 2006 when Thinfilm ASA purchased the business and assets, including the subsidiary Thinfilm AB, from Thin Film OldCo AS ("OldCo").

The objectives of the Company shall be to enable Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These annual financial statements for the parent company were resolved by the company's board of directors on 30 April 2019.

Going concern

The board confirms that the financial statements of the group as well as the parent company have been prepared under the going concern assumption. The slower customer adoption of NFC tags on-package than anticipated has delayed cash break-even, and as per the date of this report, the group and the parent company do not have sufficient funds for operations throughout the financial year 2019. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. The company plans to raise funds by end of May 2019, as already communicated in the Q4 2018 report as of 28 February this year. In addition to a cost savings plan implemented in October 2018, the board has also resolved and implemented by March 2019 a substantial restructuring of the business with a yearly run rate saving of USD 21 mill. Per end of Q1 2019, the Company had a cash balance of USD 20.0 million, which is sufficient to fund the company into Q3 2019.

To address the funding requirements of the consolidated entity the Board of Directors have, since early Q1 2019, undertaken the following initiatives:

- Entered into discussions to secure additional equity funding from current and new shareholders;
- Engaged Carnegie AS and DNB Markets, a part of DNB Bank ASA, to act as its financial advisors;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued their focus on maintaining an appropriate level of corporate overheads in line with the consolidated entity's available cash resources.

The directors are confident that they will be able to complete a capital raising that will provide the consolidated entity with required funding to support its planned level of activity under the new strategy after the reorganization. Based on this it is appropriate to prepare the financial statements on the going concern basis. However, in the event that the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the company and consolidated entity will continue as going concerns.

The financial statements do not include adjustments relating to the recoverability and classification of recorded asset amounts, nor to the amounts of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

2. Accounting policies

These annual financial statements have been prepared in accordance with the Norwegian accounting act 1998 and generally accepted accounting principles in Norway. The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been applied consistently. The currency of Thin Film Electronics ASA is NOK. The financial statements have been prepared using the historical cost convention.

Principal criteria for valuation and classification of assets and liabilities

Assets for lasting ownership or use have been classified as fixed assets. Other assets have been classified as current assets. Receivables which are due within twelve months have been classified as current assets. Corresponding criteria have been applied when classifying short-term and long-term debt.

Current assets have been valued at the lower of cost and fair value. Other long-term debt and short-term debt have been valued at face value.

Assets and liabilities denominated in foreign currency

Monetary items in foreign currency have been converted at the exchange rate on the balance sheet date.

Shares in subsidiaries

Investment in subsidiaries has been valued at cost in the parent company. In case of impairment which is not temporary, the investment has been written down to fair value if mandated according to GAAP.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Thinfilm ASA recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods

The Group manufactures and sells NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. Sales of goods are recognized when the risks and rewards of ownership are transferred to the customer, the costs incurred or to be incurred in respect of the transaction can be measured reliably and Thinfilm retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Group provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted. However, revenue from technology access agreements that involve an upfront lump-sum payment that is not tied to any future deliveries from Thinfilm is recognized at the time the agreement is entered into.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants which are related to specific development programs with commercial end-objectives are recognised as other operating revenue over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Grants or other contributions in the form of tax credit are credited against costs.

Intangible assets

Reference is made to Note 2.6 in the Consolidated Financial Statements.

Receivables

Accounts receivable and other receivables have been recorded at face value after accruals for expected losses have been deducted. Accruals for losses have been made based on an individual assessment of each receivable.

Cash and bank deposits

Cash and bank deposits include cash, bank deposits and cash equivalents with a due date less than three months from acquisition.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

Costs

In principle, cost of sales and other expenses are recognized in the same period as the revenue to which they relate. In instances where there is no clear connection between the expense and revenue, the apportionment is estimated.

Share based remuneration

The company may issue independent subscription rights to employees and individual consultants performing similar work and accounts for these transactions under the provisions of NRS 15A and generally accepted accounting principles in Norway. Two types of expenses are recognized related to grant of subscription rights: (i) Notional cost of subscription rights is recognized at time of grant and calculated based on the Black-Scholes model (share price at time of grant, exercise price, expected volatility, duration and risk-free interest rate). The subscription rights vest in four tranches of 25 percent on each anniversary of the grant, i.e., each tranche has different duration. The notional cost of subscription rights as share based remuneration is expensed but the equity effect is nil because the contra item is a notional equity injection of equal amount. (ii) Employer's tax expense is accrued based on the net present value of the subscription right as an option on the balance sheet date. The value varies with the share price and may entail a net reversal of costs.

When the parent has an obligation to settle the share-based payment transaction with the subsidiaries' employees by providing the parent's own equity instruments, this is accounted for as an increase in equity and a corresponding increase in investment in subsidiaries.

Tax on profit

Tax cost has been matched to the reported result before tax. Tax related to equity transactions has been charged to equity. The tax cost consists of payable tax (tax on the directly taxable income for the year) and change in net deferred tax. The tax cost is split into tax on ordinary result and result from extraordinary items according to the tax base. Net deferred tax benefit is held in the balance sheet only if future benefit can be justified.

Consolidated items

Insignificant items have been combined or included in similar items in order to simplify the statements. Lines which are zero or about zero have been omitted except where it has been deemed necessary to emphasize that the item is zero.

Estimates and judgmental assessments

The preparation of the annual accounts in accordance with the generally accepted accounting principles requires that the management make estimates and assumptions that affect the income statement and the valuation of assets and liabilities. Estimates and related assumptions have been based on the management's best knowledge of past and recent events, experience and other factors which are considered reasonable under the circumstances. Estimates and underlying assumptions are subject to continuous evaluation.

3. Significant events last two years, going concern, events after the balance sheet date, financial risk

2018

On 15 March 2019, Thinfilm announced a corporate restructuring in order to align the business with the current market adoption of NFC.

The company has paused development of printed dopant polysilicon (PDPS) technology. The slower customer adoption of NFC tags on-package than anticipated triggered an impairment test relating to the production related assets in San Jose. Please refer to Note 6 in the Consolidated Financial Statements for further details.

As a result of pausing the printed electronics line, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory.

Development costs relating to the EAS product which were previously capitalized have been written off. Please refer to Note 7 for further details.

2017

On 20 October 2017, it was announced that the Company raised NOK 881 million (approx. USD 110 million) in gross proceeds through a private placement consisting of 352,500,000 new shares (the "Private Placement"). The subscription price in the Private Placement was NOK 2.50 per share, equivalent to a 7.8% premium to the closing price on the Oslo Stock Exchange 19 October 2017. The Private Placement was divided into two tranches; Tranche 1 consisting of 81,500,000 shares and a Tranche 2 consisting of 271,000,000 shares. The Tranche 1 shares were issued based on an authorization to the Board of Directors granted by the Company's Annual General Meeting on 5 May 2017. The completion of the Tranche 2 of the Private Placement was approved by an Extraordinary General Meeting held on 13 November 2017. Tranche 1 shares were subscribed for by several investors. Tranche 2 shares were subscribed for by Woodford Investment Management, Invesco Asset Management and several other investors.

Events after balance sheet date

Since 31 December 2018 and until the date of these financial statements, the board has granted a total of 490,000 subscription rights under the subscription rights-based incentive program resolved by the annual general meeting 2018. The weighted average exercise price of the granted subscription rights is NOK 0.56 per share.

The slower customer adoption of NFC tags on-package than anticipated has impacted the value of Thinfilm's assets and liabilities, as described in Note 27 of the Consolidated Financial Statements. No further events have impacted the value of Thinfilm's assets and liabilities between 31 December 2018 and the presentation of this report.

Financial risk factors

Reference is made to Note 4.2 in the Consolidated Financial Statements.

4. Equity

Amounts in NOK 1,000	Share capital	Other paid in equity	Uncovered loss	Total
Balance at 1 January 2018	**128,906**	**2,410,944**	**(1,496,234)**	**1,043,616**
Share issue employees				—
Share based compensation		14,594		14,594
Private placement Tranche 1 & 2, October 19 & November 13				—
Net profit (loss) for the year			(574,732)	(574,732)
Balance at 31 December 2018	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**
Balance at 1 January 2017	**89,843**	**1,588,440**	**(968,701)**	**709,582**
Share issue employees	287	4,863		5,150
Share based compensation		18,351		18,351
Private placement Tranche 1 & 2, October 19 & November 13	38,775	799,290		838,065
Net profit (loss) for the year			(527,533)	(527,533)
Balance at 31 December 2017	**128,906**	**2,410,944**	**(1,496,234)**	**1,043,616**

5. Property, plant and equipment

Current facilities are rented with furniture included. Minor computing and communications equipment has been expensed.

6. Investment in subsidiaries

The shares are held at the lower of cost and fair value in the balance sheet.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics AB — Linköping, Sweden			
At 31 December 2018	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,944)
Net book value at 31 December 2018			**36,619**
At 31 December 2017	100%	100%	
Accumulated cost			58,489
Accumulated impairment charge			(21,944)
Net book value at 31 December 2017			**36,545**

The local currency of Thin Film Electronics AB is SEK. The net income in SEK in 2018 was SEK 911 thousand (SEK 1,458 thousand in 2017), while the total equity 31 December 2018 was SEK 39,682 thousand (2017; SEK 38,225 thousand).

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Inc. — CA, USA			
At 31 December 2018	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(147,773)
Net book value at 31 December 2018			**155,744**
At 31 December 2017	100%	100%	
Accumulated cost			296,178
Accumulated impairment charge			(1,203)
Net book value at 31 December 2017			**294,975**

The local currency of Thin Film Electronics Inc. is USD. The net income in USD in 2018 was a loss of USD 16,203 thousand compared to a profit of USD 2,332 thousand in 2017. The total equity 31 December 2018 was USD 23,374 thousand (USD 38,675 thousand in 2017). An impairment of NOK 146,579 thousand has been performed in 2018 relating to the investment in TFE INC. This is mainly triggered by the impairment of production related assets in San Jose as a result of the slower customer adoption of NFC tags on-package than anticipated.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Holding — NV, USA			
At 31 December 2018	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2018			**—**
At 31 December 2017	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2017			**—**

The local currency of Thin Film Holding is USD. Thin Film Holdings only activity is holding shares in Thin Film Electronics Inc.

For further information, see Thin Film Electronics Inc.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics KK — Tokyo, Japan			
At 31 December 2018	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2018			**—**
At 31 December 2017	100%	100%	
Accumulated cost			—
Accumulated impairment charge			—
Net book value at 31 December 2017			**—**

The investment was fully written down in 2016, as all activity in the Japanese legal entity had ceased.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics HK Ltd. — Hong Kong			
At 31 December 2018	100%	100%	
Accumulated cost			11
Accumulated impairment charge			(11)
Net book value at 31 December 2018			**—**
At 31 December 2017	100%	100%	
Accumulated cost			36
Accumulated impairment charge			—
Net book value at 31 December 2017			**36**

The local currency of Thin Film Electronics HK is HKD. The net income in HKD in 2018 was HKD 57 thousand (HKD 115 thousand in 2017), while the total equity 31 December 2018 was HKD 533 thousand (2017; HKD 476 thousand).

An impairment of NOK 11 thousand has been performed in 2018 relating to the investment in TFE Hong Kong.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Co. Ltd. — Shanghai, China			
At 31 December 2018	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(16,106)
Net book value at 31 December 2018			**5,647**
At 31 December 2017	100%	100%	
Accumulated cost			11,795
Accumulated impairment charge			(7,527)
Net book value at 31 December 2017			**4,268**

The local currency of Thin Film Electronics Co. Ltd. is CNY. The entity was established in February 2017. The net income in CNY in 2018 was a loss of CNY 7,230 thousand (2017; loss of CNY 5,838 thousand) while the total equity 31 December 2018 was CNY 4,467 thousand (2017; CNY 3,600 thousand).

An impairment of NOK 8,584 thousand has been performed in 2018 relating to the investment in TFE China.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics UK Ltd. — London, England			
At 31 December 2018	100%	100%	
Accumulated cost			564
Accumulated impairment charge			—
Net book value at 31 December 2018			**564**
At 31 December 2017	100%	100%	
Accumulated cost			375
Accumulated impairment charge			—
Net book value at 31 December 2017			**375**

The local currency of Thin Film Electronics UK Ltd. is GBP. The entity was established in March 2017. The net income in GBP in 2018 was GBP 32 thousand (2017; GBP 3 thousand) while the total equity 31 December 2018 was GBP 72 thousand (2017; GBP 40 thousand).

Thin Film Electronics UK Ltd. has taken advantage of section 479a of the UK Companies Act 2006 to be exempt from audit of its financial statements for the year 2018.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Singapore Pte Ltd. — Singapore			
At 31 December 2018	100%	100%	
Accumulated cost			395
Accumulated impairment charge			
Net book value at 31 December 2018			**395**
At 31 December 2017	100%	100%	
Accumulated cost			61
Accumulated impairment charge			—
Net book value at 31 December 2017			**61**

The local currency of Thin Film Electronics Singapore Pte Ltd. is SGD. The entity was established in November 2017.

The net income in SGD in 2018 was a loss of SGD 983 thousand (2017; SGD 0) while the total equity 31 December 2018 was SGD –973 thousand (SGD 10 thousand in 2017) . The entity was dormant as per 31 December 2017.

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued to the new landlord. The Company has in addition entered into a Tenancy Guarantee with the new landlord. The guarantee is given to secure payment of the lease rent. The initial guarantee liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2018, the guarantee liability amounted to USD 4,500 thousand.

7. Intangible assets

Amounts in NOK 1,000	Purchased intellectual property	Negative goodwill	Capitalized development costs	Total
Amortization period, years (linear)	13–16	5		
Acquisition cost				
Accumulated cost on 1 January 2018	17,198	(2,925)	7,067	21,341
Additions			12,932	12,932
Impairment	(1,326)		(10,226)	(11,552)
Accumulated costs 31 December 2018	**15,872**	**(2,925)**	**9,773**	**22,721**
Accumulated amortization on 1 January 2018	(5,367)	2,340		(3,027)
Amortization	(1,330)	585		(745)
Impairment	545			545
Amortization at 31 December 2018	**(6,151)**	**2,925**	**—**	**(3,226)**
Net book value 31 December 2018	**9,721**	**0**	**9,773**	**19,494**
Acquisition cost				
Accumulated cost on 1 January 2017	28,260	(2,925)	3,781	29,115
Additions	522		5,765	6,286
Impairment (at costs)	(11,583)			(11,583)
Disposals (at cost)			(2,478)	(2,478)
Accumulated costs 31 December 2017	**17,198**	**(2,925)**	**7,067**	**21,341**
Accumulated amortization on 1 January 2017	(4,715)	1,755		(2,960)
Amortization	(1,742)	585		(1,157)
Accumulated amortization impaired assets	1,090			1,090
Amortization at 31 December 2017	**(5,367)**	**2,340**	**—**	**(3,027)**
Net book value 31 December 2017	**11,831**	**(585)**	**7,067**	**18,314**

The purchased intellectual property relate to licensing of certain patents. The portfolio is reviewed for impairment annually by comparing the book value to the fair market value at the patent level. 2018 impairments related to patents with a fair market value lower than the recorded book value. 2017 impairments also comprised patents related to the Memory™ and sensor programmes that were discontinued during that year.

Capitalized development expenses relate to EAS (Electronic article surveillance) and Speedtap™. As a result of the slower than expected market development, Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the EAS product will not at this time be commercialized, and the NOK 10,226 thousand capitalized development work on EAS has been impaired in full.

Capitalized costs regarding Memory™ were disposed of in 2017 as part of an asset transfer agreement with Xerox.

Thin Film Electronics ASA estimates that the present value of future cash flows will exceed the amount of capitalized development expenses.

On 21 January 2014, Thinfilm acquired certain assets, contracts and processes from Kovio Inc., a company active in the field of radio frequency enabled products based on printed silicon technology. The difference between total consideration transferred and estimated fair value of assets amounted to NOK 2,925 thousand. This constituted a bargain purchase and the negative goodwill of NOK 2,925 is amortized on a systematic basis over five years as a credit against cost. Reference is made to Note 25 in Consolidated Financial Statements in the 2014 Annual Report for further description.During the year 2018, the remaining NOK 585 thousand was amortized and there was no remaining Negative Goodwill in the balance sheet as at 31 December 2018.

8. Trade and other receivables

Amounts in NOK 1,000	31 December 2018	31 December 2017
Customer receivables	5,411	9,840
Accrued revenue not yet invoiced	650	11,211
Other receivables, prepayments	98,063	53,975
Less: provision for impairment of receivables	—	—
Receivables – net	**104,124**	**75,026**
Of this, receivables from Thinfilm AB	943	834
Of this, receivables from Thinfilm Inc.	77,448	46,127
Of this, receivables from Thinfilm HK	7,018	1,563
Of this, receivables from Thinfilm UK Ltd.	1,106	1,785
Of this, receivables from Thinfilm SG	–24	—

All receivables are due within one year and book value approximates fair value. The total amount denominated in NOK is 10,446 thousand (2017: NOK 13,368 thousand), NOK 1,214 thousand is denominated in GBP (2017: NOK 1,785 thousand), NOK 84,366 thousand is denominated in USD (2017: 57,351 thousand), NOK 1,650 thousand is denominated in HKD (2017: NOK 1,563 thousand), NOK 943 thousand is denominated in SEK (2017: NOK 834 thousand), NOK 6,319 thousand is denominated in SGD (2017: 0), while NOK 160 thousand is denominated in other currencies (2017: NOK 47 thousand).

Of net receivables NOK 103 772 thousand were not past due as per 31 December. NOK 97 thousand were past due by less than 30 days.

NOK 181 thousand were past due between 31 and 90 days, and NOK 1 048 thousand were past due by more than 90 days.

The company assesses impairment risk on an individual basis.

9. Cash and bank deposits

Amounts in NOK 1,000	31 December 2018	31 December 2017
Bank deposits excluding restricted cash	227,659	746,797
Deposit for Letter of Credit	14,262	13,164
Deposit for withheld tax	897	673
Total	**242,819**	**760,635**

As a part of the relocation of Thinfilm INC.'s US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit was issued to the new landlord.

Payable withheld tax amounts at 31 December 2018 was NOK 897 thousand.

10. Share capital

Reference is made to Note 12 in the Consolidated Financial Statements.

11. Sales revenue

Amounts in NOK 1,000	2018	2017
Sales of goods	8,729	13,836
Rendering of services, delivery of samples, technology access revenue	97	10,972
Total	**8,826**	**24,808**

No warranty costs, penalties or other losses were related to sales revenue in 2018 or 2017.

12. Other revenue

Amounts in NOK 1,000	2018	2017
Government grants, funded development projects	594	4,271
Total	**594**	**4,271**

13. Government grants

In February 2014, Thinfilm ASA received a government grant of NOK 5.9 million from The Research Council of Norway relating to development of production methods for printed electronics. The project ran until 1 February 2017.

In February 2015 Thinfilm ASA received an additional grant from The Research Council of Norway of NOK 12 million relating to enhancing durability and liftetime of Thinfilm smart tags. The project ran until 1 April 2018.

In 2017 Thinfilm ASA had a project qualified for the SkatteFUNN scheme (tax credit scheme), which relates to the development of integration and assembly methods for printed smart labels. The project ran until December 2017.

In 2018 Thinfilm ASA had a new project qualified for the SkatteFUNN scheme for the three-year horizon 2018–2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million (2017: NOK 10 million).

The accounting policy adopted for these grants is to recognize other operating revenue over the periods in which the Company recognizes as expenses the related costs for which the grant is intended to compensate, apart from the SkatteFUNN grant which has been credited against cost on a systematic basis over 2017.

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway. Similar progress reports are required in all the grants.

Please refer to Note 16 in the Consolidated Financial Statements for a description of uncertainty relating to SkatteFUNN income.

14. Other Income

Amounts in NOK 1,000	2018	2017
Intercompany Sales of services to Thin Film Electronics AB	—	834
Sale of IP rights	971	234
Total	**971**	**1,068**

Sales of IP rights related to the Xerox transaction, amounting to NOK 971 thousand.

For 2017 total Other income amounted to NOK 1068, of which NOK 834 thousand relates to sale of services to ThinFilm Electronics AB, and the sale of IPR regarding Memory™ product. Capitalized development costs related to Xerox amounted to NOK 234 thousand.

15. Employee salaries and other benefits

Amounts in NOK 1,000	2018	2017
Salaries	22,009	16,182
Social security costs	2,753	2,955
Share-based compensation (subscription rights), notional salary cost	6,459	5,547
Share-based compensation (subscription rights), accrued employer´s tax*	–356	–509
Pension contribution	1,001	855
Other personnel related expenses, including recruiting costs	703	943
Total	**32,569**	**25,975**
Average number of employees for the year	9	9
Number of employees 31 December	10	10

At the end of 2018 there were 10 fulltime employees in the company (2017: 10 fulltime employees).

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

Compensation to senior management

	Salary	Pension contribution	Bonus	Share-based remuneration
2018				
Kevin Barber, CEO starting 26 November 2018	370	—	—	2,680
Davor Sutija, CEO (until 26 November 2018, full-year salary)	3,625	102	2,336	2,746
Ole Ronny Thorsnes, CFO	2,506	102	1,011	1,327
2017				
Davor Sutija, CEO	3,222	123	2,177	3,033
Ole Ronny Thorsnes, CFO	1,810	108	787	1,209

The salary amount is the salary declared for tax purposes. Bonus is the amount earned during the year and accrued at year-end.

This amount is adjusted for any difference between the bonus earned in 2017 and accrued for at year-end 2017 and the actual bonus paid in 2018.

The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights.

No subscription rights were exercised in 2018. Davor Sutija exercised 1,750,000 subscription rights in 2017. See also Note 21.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the board of directors

Reference is made to Note 18 in the Consolidated Financial Statements.

16. Income tax expense

The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in NOK 1,000	2018	2017
Profit (loss) before tax	(574,732)	(527,533)
Tax (tax income) calculated at corporate tax rate	(132,188)	(126,608)
Permanent differences	35,014	626
Effect of change in tax rates (23% to 22%) (24% to 23%)	21,296	17,071
Change in deferred tax asset not recognised on the balance sheet	75,879	108,911
Tax charge	—	—
Corporate tax rate	23%	24%

17. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Amounts in NOK 1,000	31 December 2018	31 December 2017
Deferred income tax asset Intangible asset	(4,071)	(2,109)
Tax loss carried forward	(464,436)	(390,519)
Calculated deferred tax asset	(468,507)	(392,628)
Impairment of deferred tax asset	468,507	392,628
Deferred tax asset in the balance sheet	**—**	**—**

The company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway with tax rate 22% (2017: 23%).

18. Related party transactions

a) Transactions with related parties:

Amounts in NOK 1,000	2018	2017
Sale of services to Thinfilm AB	—	(834)
Technical development services from Thinfilm AB	11,834	67,804
Sales, marketing, R&D and manufacturing services from Thinfilm Inc.	363,723	380,084
Sales and marketing services from Thinfilm HK	69	8,994
Sales and marketing services from Thinfilm CN	402	—
Sales and marketing services from Thinfilm UK	9,005	8,487
Internal purchase of goods for resale from Thinfilm Inc.	128	24,962
Intercompany interest income on loan to Thinfilm Inc.	(2,903)	(1,581)
Intercompany royalty income from Thinfilm Inc.	(83)	—
Purchases of services from law firm Ræder	2,739	3,925
Purchase of services from Robert N. Keith	2,000	1,920

Services provided by subsidiaries and capitalized in the balance sheet as development costs amount to NOK 12,932 thousand (2017: 5,765 thousand). Last year, the 2017 amount was credited against Other expenses.

Thinfilm's chairman, Morten Opstad, is a partner of Advokatfirma Ræder DA, who is also Thinfilm's legal counsel. The amounts do not include Mr. Opstad's service as chairman. Mr. Opstad and close associates hold shares in Thinfilm.

Robert N. Keith, a shareholder of Thinfilm, entered into a consulting service agreement with effect from 1 January 2013. Mr. Keith assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in NOK 1,000	2018	2017
Payable to Thinfilm Inc.	30,971	90,479
Payable to Thinfilm AB	39,670	38,910
Payable to Thinfilm HK	76	1,398
Payable to Thinfilm UK	1,260	2,239
Payable to Thinfilm CN	402	—
Receivable from Thinfilm AB	(943)	(834)
Receivable from Thinfilm INC	(77,448)	(46,127)
Receivable from Thinfilm HK	(7,018)	(1,563)
Receivable from Thinfilm UK	(1,106)	(1,785)
Receivable from Thinfilm SG	24	—
Payable to law firm Ræder	742	1,173
Payable to Robert Keith	2,000	—

Note 19 Other operating expenses

Amounts in NOK 1,000	2018	2017
Premises, supplies	4,105	3,180
Sales and marketing	1,333	1,319
Other expenses	14,652	4,845
Sum	**20,090**	**9,343**

Thinfilm has a lease agreement for premises in Oslo (Norway). The lease amount in Oslo is NOK 780 thousand per year, with a termination clause of 3 months. The agreement was terminated effective March 2019, and Thinfilm moved to a new office location in March 2019.

The new lease amounts to NOK 689 thousand per year, with a termination clause of 3 months.

Thinfilm ASA has not entered into any other lease agreements.

Remuneration to the auditor

Amounts in NOK 1,000	2018	2017
Audit	806	802
Other assurance services	15	58
Tax services	28	224
Other services	—	18
Total	**849**	**1,102**

20. Contingent liabilities

Reference is made to Note 24 in the Consolidated Financial Statements.

21. Shareholders, warrants and subscription rights

Reference is made to Note 25 in the Consolidated Financial Statements.

22. Statement on management remuneration policy

Reference is made to Note 26 in the onsolidated Financial Statements.

Corporate Social Responsibility (CSR) Statement

The Thin Film Electronics ASA Group recognizes that it has important obligations regarding 1) the treatment of its employees, 2) the conditions within its facilities, 3) its impact on the environment, and 4) the relationships it maintains with the communities in which it operates. As such, it adheres to policies related to these obligations and strives to achieve goals that engender safety, health, fairness, diversity, integrity, compliance, and sustainability.

Human rights and workplace practices

Policy

Thinfilm promotes equality and non-discrimination, fairness, and ethical behavior. The company aims to offer a pleasant, well-equipped, and risk-free work environment. It maintains fair and balanced employment practices and complies with all applicable labor laws applicable to the countries, regions, cities and towns in which it operates. Thinfilm encourages and expects similar commitments from its customers, partners, suppliers, and other vendors with whom the company works.

Objective

Maintain a secure, safe, and healthy work environment for all employees of the company. Continue to be a globally diverse company that strongly distances itself from any form of discrimination. Thinfilm makes every reasonable effort to secure a healthy, safe, and lawful work environment, and the company complies with all applicable laws, rules, and regulations concerning occupational health, safety, and environmental protection. The company's policies prohibit discrimination against employees, shareholders, directors, customers, partners, suppliers, and other vendors on account of gender, race, sexual orientation, religion, disability, nationality, political opinion, and social or ethnic origin. Employees are provided with an Employee Handbook outlining corporate policy. Workplace diversity at all levels is highly encouraged and monitored. All persons shall be treated with dignity and respect and are encouraged to assist in creating a work environment free from any form of discrimination. The necessary conditions for a safe and healthy work environment shall be provided for all employees of the company.

To ensure a safe and healthy work environment, Thin Film Electronics ASA (Norway) maintains an Injury and Illness Prevention Program. The company has also established a Work Environment Committee that periodically addresses work environment issues in a comprehensive way as a cooperative body. The group meets at least once every quarter. At Thinfilm Electronics, Inc., (US) all employees are required to complete a safety training course within their first month of employment. In compliance with Proposition 65, Thinfilm Electronics, Inc., also informs employees of the onsite presence of any known chemical known to cause cancer or reproductive toxicity.

Thinfilm is committed to fully complying with all applicable laws regarding equal employment opportunities. Employees who believe they have been subjected to any form of unlawful discrimination may submit a complaint to their manager, any member of the management team, and/or Human Resources. The company encourages all employees to immediately report incidents of harassment or other conduct prohibited by its anti-harassment policy so that complaints can be resolved in a fair and timely manner.

Ethics and anti-corruption

Policy

It is important that Thinfilm staff members do not place themselves in situations whereby their fidelity can be undermined or in which they may be vulnerable to external pressures contrary to Thinfilm's or their own integrity. It is communicated and expected that all employees do not accept, either for themselves or on behalf of others, gifts, fees, services or other benefits which could influence the way they discharge their duties, or are intended to exert such influence by the giver.

Objective

Systematize and further improve internal training and education as it relates to ethics and anti-corruption compliance. Thinfilm's Ethical Guidelines are based on respect and fairness in all aspects of our business dealings. We demand and expect that our employees – at every level of the organization – adhere to applicable laws and regulations in the countries where we do business. Thinfilm has a clear stance on corruption. Employees must always comply with applicable anti-bribery laws; and each manager and employee is responsible for compliance within his or her area of authority, and must report any suspected violations to HR, corporate management, and in certain case, the local authorities.

Environment

Policy

Thinfilm requires that all subsidiaries of the Thinfilm Group follow all current environmental laws and regulations for the jurisdictions in which they reside and operate. Thinfilm routinely evaluates the environmental impact of its production- and manufacturing-related activities, with particular emphasis on the potential risks regarding present and future operations. Thinfilm operates its NFC Innovation Center (with backend pilot production facility, laboratories, and a fab) in San Jose, CA.

Objective

Thinfilm strives to monitor waste production, such as chemicals and electronics materials, to evaluate where and how the company can improve – such as using fewer chemicals, leveraging alternative materials, and/or maximize the usage of current materials. Thinfilm recognizes the impact that hazardous waste can have on the environment and takes every reasonable precaution to discard and recycle waste according to federal, state, and regional laws and regulations.

In the Linköping, Sweden, production facility (which has scaled down significantly and no longer serves as a pilot production facility), paper, steel/iron, aluminum, copper, tree waste, glass, batteries, electronic waste, and various forms of packaging were sent to the appropriate recycling facilities. Chemicals (except silver, which is destroyed separately) were kept in containers and sent to Tekniska Verken in Sweden for proper handling and disposal. Other laboratory waste was sent to the recycling center, IL Recycling.

In the San Jose, CA facility, Thinfilm partners with a licensed Environmental Services provider and strict guidelines are followed for the storage and disposal of hazardous material. The state of California tracks any Thinfilm hazardous material shipments to the final disposal/incineration site to ensure overall compliance.

Responsibility Statement

The board and the CEO have today reviewed and approved this report of the board of directors as well as the annual financial statements for the Thin Film Electronics ASA Group and parent company as at 31 December 2018. The consolidated annual financial statements have been prepared in accordance with IFRS as adopted by the EU and the additional requirements in the Norwegian accounting act. The annual financial statements for the parent company have been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway. The notes are an integral part of the respective financial statements. The report of the board of directors has been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway.

We confirm that, to the best of our knowledge, the information presented in the financial statements gives a true and fair view of the group's and the parent company's assets, liabilities, financial position and result for the period viewed in their entirety, and that the report from the board of directors and Managing Director (CEO) gives a true and fair view of the development, performance and financial position of the group and the parent company, and includes a description of the principal risks and uncertainties which the group and the parent company are facing.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 30 April 2019

Morten Opstad
Chairman

Tor Mesøy
Board Member

Preeti Mardia
Board Member

Laura Oliphant
Board Member

Kevin Barber
Managing Director (CEO)

Auditor's Report

Deloitte.

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To the General Meeting of Thin Film Electronics ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Thin Film Electronics ASA, which comprise:

- The financial statements of the parent company Thin Film Electronics ASA (the Company), which comprise the balance sheet as at 31 December 2018, the profit and loss statements and cash flow statements for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Thin Film Electronics ASA and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at 31 December 2018 and consolidated statements of comprehensive income, consolidated statements of changes in equity, consolidated cash flow statements 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 accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2.1 in the consolidated financial statements, Note 1 in the parent financial statements, and the report from the Board of Directors, which indicates that the Group and the Company do not have sufficient funding to operate the next 12 months. The Group and the Company's ability to continue as a going concern is dependent on its ability to secure funding to support its working capital requirements as well as committed capital expenditures.

These events or conditions, along with other matters as set forth in Note 2.1 and Note 1 and the report from the Board of Directors, indicate that a material uncertainty exists that may cast significant doubt on the Group and the Company's ability to continue as a going concern and therefore, that the Group and the Company may be unable to realize its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

Deloitte.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment and onerous contracts

Key audit matter	How the matter was addressed in the audit
As described in the Board of Directors report and Note 6 and 7 in the consolidated financial statements, property plant and equipment and intangible assets were impaired by USD 14.9 million in 2018, due to a slower than anticipated market adaption of the NFC technology. The total carrying value of property, plant and equipment and intangible assets net of impairment amounted to USD 24.9 million at 31 December 2018. The total remaining contractual commitments to complete the ongoing development on property, plant and equipment amounts to USD 5.1 million. We focused on this area due to the significant management judgement involved in assessing the recoverability of these non-current assets.	The following procedures were performed, among others, to address the matter: - We obtained the Board and managements updated strategy. - We assessed the key assumptions used in assessing the fair value, including future expectation of commercialization of certain products, and we compared to underlying sources or historical information, if relevant. - For contractual commitments to complete the ongoing development of property, plant and equipment, we challenged the remaining contractual costs and tested that these agreed to underlying documentation. - We assessed the adequacy of the related disclosures in the financial statements.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

From the matters communicated with 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

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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed 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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 30 April 2019
Deloitte AS

Mette Herdlevær

Mette Herdlevær
State Authorised Public Accountant (Norway)

Corporate Governance

Resolved (updated) by the board of directors of Thin Film Electronics ASA (the "Company") on 30 April 2019.

The statement outlines the position of the Company in relation to the recommendations contained in the Norwegian Code of Practice for Corporate Governance dated 17 October 2018 ("the Code"). The Code is available at www.nues.no and from Oslo Børs. In the following, the board of directors will address each section of the Code and explain the areas, if any, where the Company does not fully comply with the recommendations and the underlying reasons.

1. Implementation and reporting on Corporate Governance

The Company seeks to create sustained shareholder value. The Company makes every reasonable effort to comply with the word and intent of the laws, rules and regulations in the countries and markets in which it operates. Thinfilm is not aware of being or having been in breach of any such statutory laws, rules or regulations. The Company pays due respect to the norms of the various stakeholders in the business. In addition to the shareholders, the Company considers its employees, Thinfilm's business partners, the society in general and the authorities as stakeholders. Thinfilm is committed to maintain a high standard of corporate governance, be a good corporate citizen and demonstrate integrity and high ethical standards in all its business dealings.

The board believes that in the present organization – the Thinfilm group presently has approximately 145 ordinary employees and a few consultants on site – the board of directors and the management have adequate monitoring and control systems in place to ensure insight into and control over the activities. (Note: In this review, the noun "the management" includes all persons conducting managerial functions, whether employed or otherwise contracted.)

The board has resolved ethical guidelines that apply to all employees, consultants and contractors as well as the elected board members. The ethical guidelines also incorporate the Company's guidelines on corporate social responsibility.

2. Thinfilm's business

The objectives of the Company shall be to enable Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company's business goals and principal strategies are defined in the business plans adopted by the board of directors. The plans are reviewed and revised periodically, and when needed.

Thinfilm satisfies the recommendations under this section of the Code by publishing the material at www.thinfilm.no instead of in the annual report.

3. Equity and dividends

The board is aware of and acknowledges the equity requirements and duty of action in connection with loss of equity, as set out in the Norwegian Public Limited Companies Act (the "PLCA"). In the past, the Company has been in need of raising equity on several occasions to fund its operations and working capital requirements. The board has proposed to the general meeting only reasonable authorizations for share issues and incentive schemes. Such board authorizations have explicitly stated the type and purposes of transactions in which the authorizations may be applied. As of the general meeting(s) to be held in 2019, any proposed authorizations to issue shares shall be considered and voted separately by each type and purpose of such share issues. The board authorizations to issue shares have been valid until the next annual general meeting, as recommended by the Code. The proposals have been approved by the shareholders.

The Company has in place an authorization to the board to acquire up to 10 per cent of the Company's own shares for a maximum price of NOK 1,000 per share. The board was authorized to decide upon the manner and terms of the acquisition, disposition, transfer and sale of own shares. The length of the authorization is limited to the earlier of (i) the next annual general meeting of shareholders (scheduled for 28 May 2019) or (ii) 30 June 2019.

Thinfilm has not as yet declared or paid any dividends on its shares. The Company does not anticipate paying any cash dividends on its shares in the next few years. Thinfilm intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay dividends will depend on the Company's financial condition, results of operation and capital requirements.

4. Equal treatment of shareholders and transactions with close associates

The Company places great emphasis on ensuring equal treatment of its shareholders. The Company has one class of shares. There are no trading restrictions or limitations relating only to non-residents of Norway under the Articles of Association of the Company. Each share carries one vote. There are no restrictions on voting rights of the shares.

In the authorizations to issue shares to raise additional capital for the Company, where the existing shareholders have resolved to waive the pre-emptive right to subscribe for shares, the rationale for doing so shall be presented as part of the decision material presented to the general meeting. If and when such transactions are conducted, the justification will also be included in the announcements to the market.

All related party transactions in effect are entered into on arm's length basis. Any material future related party transactions shall be subject to an independent third party valuation unless the transaction by law requires shareholder approval. The Company takes legal and financial advice on these matters when relevant. Members of the board and the management are obliged to notify the board if they have any material direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares

All shares are freely assignable. The Articles of Association do not contain any restrictions on negotiability on the shares.

6. General meetings

The annual general meeting of shareholders, the Company's highest decision-making body, provides a forum for shareholders to raise issues with the board as such and with the individual board members. To the maximum degree possible, all members of the board shall be present at the general meeting. The Company's auditors shall also be present at the general meeting. The shareholders elect a person to chair the general meeting. The board will arrange for an independent candidate if so requested by shareholders. Notice of a meeting of the shareholders shall be sent in a timely manner and the Company shall issue the notice and documents for a general meeting, including the proxy form, no later than 21 days before the date of the general meeting. Foreign residents will receive the notice and documents in English. When appropriate, the documents will be made available at the Company's web site and not sent to the shareholders.

The board of directors endeavors to provide comprehensive information in relation to each agenda item in order to facilitate productive discussions and informed resolutions at the meeting. The notice will also provide information on the procedures shareholders must observe in order to participate in and vote at the general meeting. Shareholders who are unable to attend in person will be provided the option to vote by proxy in favor or against each of the board's proposals. The notice shall contain a proxy form as well as information of the procedure for proxy representation. At the meeting, votes shall be cast separately on each subject and for each office/ candidate in the elections. Consequently, the proxy form shall to the extent possible, facilitate separate voting instructions on each subject and on each office/ candidate in the elections. The notice, as well as the Company's website, will set out that the shareholders have the right to propose resolutions in respect of matters to be dealt with at the general meeting.

The general meeting has included in Section 7 of the Company's Articles of Association that documents which have been made available in a timely manner

on the web site of the Company and which deal with matters that are to be handled at the general meeting, need not be sent to the Company's shareholders.

All reports will be issued on the Oslo Børs marketplace (www.oslobors.no and www.newsweb.no) within the Oslo Stock Exchange, and on the OTCQX International Marketplace (www.otcmarkets.com/marketplaces/otcqx). The reports and other pertinent information are also available at www.thinfilm.no.

7. Nomination committee

Under the Articles of Association, Thinfilm has a nomination committee that is elected by the annual general meeting for a term of two years. The nomination committee shall have three members, including a Chairman. The nomination committee shall prepare and present proposals to the annual general meeting in respect of the following matters:

- Propose candidates for election to the board of directors
- Propose the remuneration to be paid to the board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members The mandate of the nomination committee shall be resolved by the annual general meeting.

The Company provides information on its website about the composition of the nomination committee and any deadlines for submitting proposals to the committee.

8. Corporate assembly and board of directors; composition and independence

Thinfilm does not have a corporate assembly.

The board acknowledges the Code's recommendation that the majority of the members of the board of directors shall be independent of the Company's management and material business contacts. All board members are required to make decisions objectively in the best interest of the Company, and the presence of independent directors is intended to ensure that additional independent advice and judgement is brought to bear. The current board meets the independence criteria of the Code. The board meets the statutory gender requirements for the board. The board's attendance statistics are included in the presentation of the board members in the annual report.

Board members stand for election every two years. The board believes that it is beneficial for the Company and its shareholders that the board members also are shareholders in the Company and encourages the members of the board of directors to hold shares in the Company.

The board pays attention to ensure that ownership shall not in any way affect or interfere with proper performance of the fiduciary duties, which the board and the management owe the Company and all shareholders.

As and when appropriate, the board takes independent advice in respect of its procedures, corporate governance and other compliance matters.

9. The work of the board of directors

The division of duties and responsibility between the CEO and the board of directors is based on applicable laws and well-established practices, which have been formalized in writing through a board instruction in accordance with the Norwegian Public Limited Companies Act. The board instruction also sets out the number of scheduled board meetings per year and the various routines in connection with the board's work and meetings.

The board instructions state that in situations when the Chairman is not impartial or not operative, the most senior board member shall chair the board until a deputy Chairman has been elected by and among the board members present.

The board of directors shall evaluate its performance and expertise annually. Moreover, the board will produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.

With a compact board of only four members, there has not been any need for subcommittees to date. The future need for any sub-committees will be considered minimum annually in connection with the annual review of the Company's corporate governance.

Thinfilm is not obliged to have a separate audit committee and in view of the small number of board members, the Company's Audit Committee consists of all board members who are not also executives or have similar roles in the Company. The board instruction includes an instruction for the audit committee.

10. Risk management and internal control

The board of directors has adopted internal rules and guidelines regarding, amongst other things, risk management and internal control, which rules and guidelines take into account the extent and nature of the Company's activities as well as the Company's corporate values and ethical guidelines, including the corporate social responsibility. The board of directors shall carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

In view of the size of the Company and the number of board members, the board has chosen to elect the full board (except any board members who hold executive positions) to constitute the audit committee. The audit committee policies and activities are compliant with the Norwegian public limited companies act.

The board of directors has adopted an insider manual with ancillary documents intended to ensure that, among other things, trading in the Company's shares by board members, executives and/or employees, including close relations to the aforementioned, are conducted in accordance with applicable laws and regulations.

Internal control and risk management of financial reporting;

Thinfilm publishes four interim financial statements in addition to the ordinary annual financial statements. The financial statements shall satisfy legal and regulatory requirements and be prepared in accordance with the adopted accounting policies, and be published according to the schedule adopted by the board. Closing of accounts, financial reporting and key risks analysis are provided monthly to the board of directors.

Thinfilm has established a series of risk assessment and control measures in connection with the preparation of financial statements. Specific reporting instructions are drawn up on a regular basis and communicated to the subsidiaries. In connection with subsidiaries' closing of accounts, internal review meetings are held to ensure compliance with the governing reporting instructions.

In addition, separate meetings are held to identify risk factors and measures linked to important accounting items or other factors. The board also has separate meetings with the external auditor to review such risk factors and measures, and conducts preparatory reviews of interim financial statements and annual financial statements that particularly focus on reporting of operational costs and investments.

A financial manual, which sets out policies and procedures for financial management and reporting in the group, was prepared and resolved by the board of directors in connection with the listing of Thinfilm's shares at Oslo Axess. This manual provides detailed instructions for financial planning, treasury, accounting and reporting, and is reviewed and updated annually by the board.

11. Remuneration to the board of directors

A reasonable cash remuneration to the board members for their services from the annual general meeting in 2017 until the annual general meeting in 2018 was proposed to and resolved at the 2018 annual general meeting. To lessen the cash outflow, the annual general meeting granted an option to the board members to receive all or part of the remuneration in kind in the form of shares in the Company. No board members took up this option in 2018. The nomination committee will propose board remuneration for the period between the annual general meetings of 2018 and 2019.

Advokatfirma Ræder DA, in which the Chairman, Morten Opstad, is a partner, renders legal services to the Company. A board member performing work for the Company beyond the board duty shall ensure that such arrangements do not in any way affect or interfere with proper performance of the fiduciary duties as a board member. Moreover, the board (without the participation of the interested member) shall approve the terms and conditions of such arrangements. Adequate details shall be disclosed in Thinfilm's annual financial statements.

12. Remuneration of the management

Thinfilm offers market-based compensation packages for the executives and employees in order to attract and retain the competence that the Company needs. The exercise price for any subscription right is equal to, or higher than, the market share price at the time of the grant. The subscription rights vest in tranches over four years. No golden parachutes are in effect, and post-employment pay will only apply in case the Company invokes contractual non-competition clauses.

The board shall determine the compensation of the CEO. There is a maximum amount of incentive remuneration per calendar year. It follows from the nature of the incentive subscription rights program resolved by the annual general meeting that the limit does not apply to the possible gain on subscription rights. The board has adopted a policy for the CEO's remuneration of the employees.

At the annual general meeting, the board will present to the shareholders for their approval a statement of remuneration to the management. The resolution by the annual general meeting is binding to the extent it relates to share-based compensation and advisory in other aspects.

13. Information and communication

The board of directors places great emphasis on the relationship and communication with the shareholders. The primary channels for communication are the interim reports, the annual report and the associated financial statements. Thinfilm also issues other notices to the shareholders when appropriate. The general meeting of shareholders provides a forum for the shareholders to raise issues with the board as such and the individual board members. All reports are issued and distributed according to the rules and practices at the market place(s) where the Thinfilm shares are listed. The Company shall in due course publish an annual financial calendar for the following year; setting forth the dates for major events such as its annual general meeting, publication of interim reports, any scheduled public presentations, any dividend payment date, etc. The reports and other pertinent information are also available on the Company's website, www.thinfilmnfc.com.

The board of directors has adopted the following policies:

- Policy for reporting of financial and other information and investor relations;
- Policy for contact with shareholders outside general meetings; and
- Policy for information management in unusual situations attracting or likely to attract media or other external interest.

The financial reporting of Thinfilm is fully compliant with applicable laws and regulations. As of the interim financial information for third quarter 2007, Thinfilm has prepared its consolidated financial reports in accordance with IFRS. The current information practices are adequate under current rules.

14. Take-overs

There are no take-over defense mechanisms in place. The board will endeavor that shareholder value is maximized and that all shareholders are treated equally. The board shall otherwise ensure full compliance with Section 14 of the Code.

15. Auditors

The Company's auditor is fully independent of the Company. Thinfilm represents a minimal share of the auditor's business. Thinfilm does not obtain business or tax planning advice from its auditor. The auditor may provide certain technical and clerical services in connection with the preparation of the annual tax return and other secondary reports, for which Thinfilm assumes full responsibility.

The board of directors has established written guidelines to the CEO in respect of assignments to the auditor other than the statutory audit.

The board of directors shall otherwise ensure full compliance with Section 15 of the Code.

Articles of Association

§1 The name of the company

The name of the company is Thin Film Electronics ASA. The company is a public limited company.

§2 The company's business

The objectives of the company shall be the commercialization, research, development and production of technology and products related to printed electronics components and smart systems. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the company's ecosystem partners.

§3 Registered office

The registered office of the company is situated in Oslo.

§4 The company's share capital

The company's share capital is NOK 128,905,877.87 divided into 1,171,871,617 shares each having a par value of NOK 0.11.

§5 The company's governance

The company's board of directors shall consist of from three to nine members, as decided by the general meeting. The board may grant powers of procuration.

§6 The general meeting

The ordinary general meeting shall consider and decide:

1. Adoption of the annual financial statement and report of the board of directors, including the declaration of a dividend.
2. Election of chairman and members of the nomination committee, and determination of remuneration to the members of the nomination committee.
3. Any other business required by the laws or the articles of association to be transacted by the general meeting.

The general meetings of the company shall as a general rule be conducted in the Norwegian language. However, the board of directors may decide that the English language shall be used.

§7 Exemption from requirements to submit documents with notice of general Meeting

Documents which timely have been made available on the Internet site of the company, and which deal with matters that are to be handled at the general meeting, do not need to be sent to the company's shareholders.

§8 Registration for general meeting

A shareholder who wishes to attend the general meeting, in person or by proxy, shall notify its attendance to the company no later than two days prior to the general meeting. If the shareholder does not notify the company of its attendance in a timely manner, the company may deny the shareholder access to the general meeting.

§9 Nomination committee

a. Thin Film Electronics ASA shall have a nomination committee. The nomination committee shall have three members, including a chairman. Members of the nomination committee shall be elected by the Annual General Meeting for a term of two years.
b. The nomination committee shall:
   - Propose candidates for election to the board of directors
   - Propose the remuneration to be paid to the board members
   - Propose candidates for election to the nomination committee
   - Propose the remuneration to be paid to the nomination committee members
c. The mandate of the nomination committee shall be resolved by the Annual General Meeting.

§10 Relation to the Norwegian Public Limited Companies Act

Reference is also made to the legislation concerning public limited companies in force at the relevant time.

Board of Directors

Morten Opstad
Chairman

MORTEN OPSTAD has served as Chairman of the Board of the company since 2 October 2006. He is a partner of Advokatfirma Ræder DA in Oslo.

He has rendered legal assistance with respect to establishing and organizing several technology and innovation companies within this line of business. His directorships over the last five years include current board positions in Idex ASA (Chairman), Total Sports Online AS, Glommen Eiendom AS, Chaos AS, K-Konsult AS, and former directorships in Cxense ASA, Fileflow Technologies AS and A. Sundvall AS. Mr. Opstad was born in 1953 and is a Norwegian citizen.

Tor Mesøy
Board Member

TOR MESØY has served as a management consultant for more than 30 years and today heads his own consulting company. He was formerly a partner with McKinsey & Company and Accenture. He has extensive consulting and counseling experience from a range of industry sectors, including high-tech, telecommunications, healthcare, pharmaceuticals, public sector, energy, utilities, banking, insurance and oil & gas.

Mr. Mesøy is currently the CEO of Agnus Consulting, a company focusing on leadership development and management consulting. He is a guest lecturer at Carnegie Mellon University and the University of Hong Kong, where he lectures on topics related to leadership. Mr. Mesøy received a Bachelor's degree from the University of Oslo (Computer Science, Mathematics), a Master's degree from the University of Minnesota (Mathematics, Philosophy), and has attended the Advanced Business Management Program at Kellogg Graduate School of Business at Northwestern University. Mr. Mesøy was born in 1962 and is a Norwegian citizen.

Preeti Mardia
Board Member

PREETI MARDIA has diverse operational and commercial expertise across Electronics, Telecoms and FMCG sectors. She is a board director with GFinity plc and Maistro plc. Prior she held positions of Senior Vice President Operations at IDEX ÅSA and Operations Director at Access Wireless Ltd and Filtronic plc working with top tier OEMs and international semiconductor partners: She has FMCG experience in manufacturing and quality assurance with Cadbury Schweppes plc. She has a degree in Food Science & Technology and a Master's degree in Management from Ashridge UK. Ms. Mardia was born in 1967 and is a British citizen.

Dr. Laura Oliphant
Board Member

DR. LAURA OLIPHANT is a General Partner with Spirit Ventures, a new venture capital firm focusing on funding key enabling technologies. She is an experienced CEO, board member, and Investor who was an Investment Director in Intel Capital until 2016. At Intel, she was awarded the company's highest award, the Intel Achievement Award, for her contributions. Subsequently, she was the CEO of Translarity, an investor-backed, semiconductor test startup. She also holds board seats at Novelda AS, and Numascale AS, both based in Oslo.

Before Intel Capital, Dr. Oliphant was a Supply Chain Program Manager in Intel's Technology and Manufacturing Group. Dr. Oliphant was a key coordinator for Intel's transition to the 300 mm wafer size in their factories, a project that added to Intel's gross margin. She was also the co-chairperson of the SEMATECH Metrology and Yield Management Advisory Group, and part of the International Technology Roadmap for Semiconductors committee. She is currently on the board of advisors for the UC Berkeley Skydeck Accelerator and has served on the Lawrence Berkeley Lab Innovation Grant Committee.

Dr. Oliphant received her PhD in Chemical Engineering from the University of California, Berkeley.

Executive Management

Kevin Barber
Chief Executive Officer

KEVIN BARBER joined Thinfilm as Managing Director (CEO) in November 2018. He is responsible for driving worldwide strategic growth, scaling product innovation and manufacturing operations while increasing market penetration and identifying new business opportunities.

Mr. Barber was previously Senior Vice President and General Manager Mobile Division of Synaptics, where he drove the strategy, business development, M&A, growing revenue fourfold to more than $1 billion annually. Previously, he was CEO of ACCO Semiconductor, a venture capital funded startup. Prior to ACCO, Mr. Barber served as Senior Vice President, General Manager Mobile Business at Skyworks Solutions, where he led the strategy — achieving top RF power amplifier market share in the high-growth mobile market. Before joining Skyworks, Mr. Barber served as Senior Vice President, Operations at Conexant, where he led strategic efforts of global manufacturing scale, technology development and supply chain management, enabling Conexant to become a leader in diverse markets. He holds a Bachelor of Science degree in Electrical Engineering from San Diego State University and a Master's degree in Business Administration from Pepperdine University. Mr. Barber also currently serves as a Board Director at Intevac.

Ole Ronny Thorsnes
Chief Financial Officer

OLE RONNY THORSNES joined Thinfilm in August 2016 as Chief Financial Officer. In his role he oversees several functions within the company, including Finance, Accounting, Reporting, Investor Relations and Secretary of the board of directors. Prior to Thinfilm, Mr. Thorsnes was most recently Vice President, Mergers & Acquisitions, for Orkla ASA, a leading supplier of branded consumer goods and concept solutions operating primarily in the Nordic and Baltic regions. He previously served as a senior associate at McKinsey & Company, which he joined in 2008, working with a broad range of industries and focusing mainly on strategy, finance and operational initiatives. Mr. Thorsnes holds a Master of Science degree from the Norwegian University of Science and Technology's (NTNU) and the University of Edinburgh.

Christian Delay
Chief Commercial Officer

CHRISTIAN DELAY is the Chief Commercial Officer of Thinfilm. He is responsible for Sales, Business Development and Marketing. He joined Thinfilm in May 2016 as SVP, Strategic Marketing and GM, Software Platforms and was responsible for Thinfilm's software and IT strategy and solutions, the CNECT™ Cloud Platform, and the company's growing ecosystem of software partners.

Mr. Delay was previously with the Ask Partner Network (an IAC company) where he was responsible for the strategy and growth of APN's Mobile business. His efforts focused on building search and advertising solutions that were integrated with, and distributed to, application developers and OEMs, which led to significant user, query and revenue growth. Prior to joining APN, Mr. Delay held senior positions at Opera Software, Obopay, Yahoo and Infospace. He earned his MBA from Duke University after working for Arthur Andersen and JPMorgan in Switzerland.

Shannon Fogle
VP of Global Human Resources

SHANNON FOGLE is Thinfilm's VP of Global Human Resources. In this role she leads the Human Resources functions for Thinfilm at all locations across the world.

Ms. Fogle joined Thinfilm in 2014 as part of Thinfilm's acquisition of Kovio's Technology and the opening of Thinfilm's NFC Innovation Center in San Jose. Ms. Fogle lead the Human Resources functions at Kovio from 2007 until 2014. Prior to Kovio, Ms. Fogle worked in various Operations roles at Spansion and Advanced Micro Devices. Shannon holds a Bachelor of Science degree in Business Management from San Jose State University and is Certified by the Society of Human Resource Management.

Dr. Arvind Kamath
Executive VP, Technology Development

DR. ARVIND KAMATH is Executive Vice President, Technology Development. He joined Thinfilm in January 2014 from Kovio Inc. in San Jose where he served as Sr. Director, Technology Development. At Thinfilm he has built and led several teams in the areas of Technology Development, Engineering and Operations. Most recently he was responsible for the flexible substrate roll to roll PDPS (Printed Dopant Polysilicon) manufacturing scale up and led the teams that built a global ecosystem to enable this. At Kovio his primary responsibility was in leading materials, process and integration of a revolutionary silicon ink based printed electronics platform from initial feasibility to qualified product and yield.

Prior to Kovio he worked at LSI Logic R&D, Santa Clara in various managerial and individual contributor roles. This spanned process engineering, group management, R&D operations and SRAM integration and yield enhancement. Dr. Kamath earned a B.Tech degree in Metallurgical Engineering from the Indian Institute of Technology, Chennai and a Ph.D in Materials Science and Engineering from the microelectronics program at The University of Texas at Austin.

Dr. Matt Kaufmann
VP, Backend Manufacturing and Engineering

DR. MATT KAUFMANN joined Thinfilm in April 2016 as VP, Backend Manufacturing and Engineering. He was named EVP, Operations in February 2019 and oversees internal and external manufacturing, supply chain, and facilities for the company.

Prior to Thinfilm, he was VP, Strategic Accounts at Amkor Technology, a leading semiconductor assembly and test manufacturer, where he was responsible for all commercial, technical, and operational activities in support of the leading consumer mobile products customer. Earlier in his career he served as Managing Director, Worldwide Assembly Operations at Maxim Integrated, and Director, IC Assembly and Packaging Development at Broadcom. Throughout his career, Dr. Kaufmann has brought numerous advanced manufacturing technologies into high-volume production, including wafer-level packaging, optical sensors, and high-performance network processors. He holds multiple patents in electronics assembly technology and has a Ph.D. and M.S. in Mechanical Engineering from the University of Arizona, Tucson.

Giampaolo Marino
EVP Hardware Solutions

GIAMPAOLO MARINO joined Thinfilm in July 2018 as EVP Hardware Solutions. In this role he leads the Product Management and Engineering functions for Thinfilm, as well as the company's Quality Management program and hardware strategic partnerships.

Mr. Marino joined Thinfilm from NXP Semiconductors where he served as GM and Head of Product Line, Audio & Voice Solution Products, IoT, managing a global team responsible for R&D, marketing, business development, system architecture, product definition, and customer application support. Prior to NXP, Mr. Marino held senior product-related positions with Monolithic Power Systems, Texas Instruments, Intersil, and Analog Devices. He earned an MBA in Corporate Entrepreneurship, Marketing and General Management from the Franklin W. Olin School of Business at Babson College. He also holds a Bachelor of Science degree in Electrical Engineering and Computer Science from San Jose State University.

Annual Report 2018

Thin Film Electronics ASA

Thinfilm Electronics ASA

Annual Report 2019

thinfilm

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2019 Year in Review

2019 represented a pivotal year of strategic transition for Thinfilm. The Company experienced significant changes throughout 2019, as it navigated the process of rightsizing and repositioning the Company for future growth. Management remained focused on reducing Thinfilm's cost structure and the advancement of strategic initiatives.

During the first quarter of 2019, following the hiring of a new CEO, Kevin Barber, at the end of 2018, Thinfilm announced a strategic update and corporate restructuring intended to align the business with the then current market adoption of NFC, with plans to focus resources on developing and building market adoption of its brand protection and consumer engagement solutions. Thinfilm paused development of PDPS technology, as PDPS technology was not required nor deemed to be a critical part of building initial market volume. As a result of pausing the printed electronics line, Thinfilm also announced, after exhausting existing inventory with its leading customer, that the Electronic Article Surveillance (EAS) business would be discontinued. Consequently, the Company reduced its global footprint and shifted weight toward San Jose, California. These actions were designed to yield nearly USD 20 million in annualized savings at the operating level and resulted in an approximate 40 percent reduction in the work force.

The Company began the second quarter of 2019 with an investor presentation, released on April 24, 2019. The presentation announced pursuing two unrelated businesses. While the R2R factory has many potential applications, it had become clear that it was not a viable economic or technology fit for NFC and that there was a need to engage beyond NFC to leverage the R2R line technology and maximize the independent potential of the factory. The presentation further provided details related to the Product Solutions Business, highlighting the objectives to secure a go-to-market scale with strategic channel partner and deliver differentiated NFC silicon. On June 17, 2019, Thinfilm announced a contemplated private placement; however, subsequently announced, on June 21, 2019, the cancellation of the aforementioned private placement.

The third quarter of 2019 revealed more significant changes to Thinfilm's operations. On July 1, 2019, the company announced the hiring of a new CFO, Mallorie Burak. Later that month, a second corporate restructuring announcement was made on July 19, 2019, whereby the Company announced the need to narrow its strategic focus as a consequence of its failed fundraise attempt in June 2019. As a result, the Company further reduced its workforce, representing approximately USD 15 million in annualized savings. The Company released its First Half Report on August 30, 2019, providing further business updates, including that management was actively evaluating strategic alternatives to find new and interesting applications for the San Jose, California-based R2R line and continued to pursue paths to maximize the value of the assets and technology. In September 2019, Thinfilm closed an equipment term loan facility for USD 13.2 million. The proceeds were used for working capital to fund ongoing operations and to support its execution of strategic initiatives.

By the end of 2019, Thinfilm had reduced its headcount from 155 employees, as of December 31, 2018, to 23 employees. In addition, the Company continued the process of reducing its global footprint and focusing solely on its presence in Oslo, Norway and operations in San Jose, California. The significant cost savings resulting from operational decisions made in 2019 began to materialize in the fourth quarter, enabling the Company to preserve cash while finalizing its new business strategy for 2020. In January 2020, Thinfilm formalized its strategic shift to focus on the R2R factory and intent to monetize the NFC assets, announcing its updated corporate strategy focused on the design, development, and production of innovative battery solutions targeting existing market demand with differentiated solutions to power wearable devices and connected sensors.

About Thinfilm

Thinfilm is Energizing Innovation™ with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond. Thinfilm's innovative solid-state lithium battery (SSLB) technology is uniquely positioned to enable the production of powerful, lightweight, and cost-effective rechargeable batteries for diverse applications.

The Company's state-of-the-art flexible electronics manufacturing facility, located in the heart of Silicon Valley, combines patented process technology and materials innovation with the scale of roll-to-roll production methods to bring the advantages of SSLB technology to established and expanding markets.

Thin Film Electronics ASA is a publicly listed company in Norway with corporate headquarters in Oslo and global headquarters in San Jose, California.

Report from the Board of Directors

Introduction

Fiscal year 2019 revealed a continuation of the challenges faced during 2018 with respect to developing traction with NFC markets. Management concluded its strategic review of the Company structure, its technical competitive advantages, and the assessment of existing commercial markets the Company can most effectively serve. Thinfilm's change in leadership, with a new CEO, Kevin Barber, joining the Company in November 2018 and a new CFO, Mallorie Burak, joining the Company in July 2019, provided new perspective to this analysis.

The slower-than-expected growth rate of NFC tags on-package deployment, coupled with the inability to secure sufficient financing or monetization of the factory, required the Company to analyze the degree to which the Company could continue to invest in the development of this emerging market. As a result, the decision was made to transition away from the investment required to build the NFC market and proprietary CNECT software platform.

Consequently, Thinfilm began a process to pursue monetizing its CNECT software platform and related NFC assets through potential licensing or sale of its related intellectual property. Preliminary discussions have been initiated with potential multiple partners who are interested in offering NFC enabled solutions supported by a robust data analytics software platform. This can be accomplished by directly empowering the supply chain with cost-effective solutions, while allowing brands to engage consumers using Thinfilm's underlying technology. This decision allows management to focus on establishing a new path for the Company, leveraging its years of significant investment in its roll-to-roll ("R2R") manufacturing and process technology capabilities. The Company's focus on its R2R factory continued throughout 2019. Whereas in 2018 the Company reported several challenges relating to the timeline of the installation and acceptance testing of critical path tools, Thinfilm resolved these issues during 2019.

The Company experienced significant changes throughout 2019, as it navigated the process of rightsizing and repositioning the Company for future growth. Management remained focused on reducing Thinfilm's cost structure and closed a $13.2 million debt financing in the third quarter, enabling advancement of the new strategic initiatives.

Evaluation of new and compelling applications for the San Jose, California based R2R manufacturing plant continued throughout 2019, with the objective of leveraging the Company's years of significant investment in its R2R manufacturing and process technology capabilities. Based on the Company's decision to leverage existing intellectual property and manufacturing assets in the execution of its revised strategy, Thinfilm does not currently expect to issue warrants authorized in the October 23, 2019 Extraordinary General Meeting. The Company also focused on monetizing its remaining EAS inventory and was successful in selling a portion of its on-hand inventory in December 2019.

By the end of 2019, Thinfilm had materially reduced its headcount and cost structure by 42%. In addition, the Company continued the process of reducing its global footprint and focusing solely on its presence in Oslo, Norway and operations in San Jose, California. The significant cost savings resulting from operational decisions made in 2019 began to materialize in the fourth quarter, with further cost saving measures implemented during the first quarter of 2020, enabling the Company to preserve cash while finalizing its new business strategy for 2020.

A going concern assumption has been applied in preparing this 2019 financial report. As stated in the Business Review, slower than anticipated market adoption of on-package NFC tags underscored management's ultimate decision to pivot Thinfilm's strategic focus to existing markets that would enable the Company to leverage its state-of-the-art R2R production facility in San Jose, California.

The planned fundraising objective in March 2020 was impacted by the onset of the COVID-19 global pandemic, resulting in delays in securing commitments from potential investors. On 15 April 2020, an extraordinary general ("April EGM")

meeting was held, whereby the Board expressed its obligation to act on the loss of equity in the Company and proposed to the general meeting measures to restore the equity, also providing a statement on the Company's financial position to the shareholders. In connection with the Company's financial position, a share capital reduction was approved, reducing the par value of Thinfilm's stock from NOK 2.20 to NOK 0.11. Shareholders were advised that the Board was pursuing a Private Placement and should the Private Placement proposed not be approved and/or the Company fails to raise sufficient capital to restore the Company's equity, the Board would consider proposing a dissolution of the Company.

Following the April EGM, on 28 April 2020, the Company announced that the Board had received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants. As part of the total fundraise, and in order to secure the foregoing commitment by the consortium of investors, it is also contemplated that the Board will use its current authorization to issue shares (as provided by the 23 October 2019 extraordinary general meeting) and issue shares to such investors for the full 10% scope of the authorization at a subscription price per share of NOK 0.11, equaling the proposed subscription price in the private placement. The Company has received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and management, at a subscription price per share equal to the subscription price in the private placement. The offer is conditional upon the issuance of two warrants for each share subscribed for in the private placement. The first warrant ("Warrant A") would have an exercise price of NOK 0.11 per share and be exercisable at any time from the date of grant until 31 December 2020. The second warrant ("Warrant B") would have an exercise price of NOK 0.25 per share and be exercisable at any time from the date of grant up to fifteen months from approval by an Extraordinary General Meeting to be held on or about 20 May 2020 ("May EGM"). The Board will also propose to the upcoming May EGM that a subsequent (repair) offering is carried out at a subscription price per share equal to the subscription price in the private placement. The maximum amount of the subsequent offering would be NOK 7 million. In aggregate, we expect to receive NOK 32 million, including the repair issue, and possibly also an additional NOK 32 million in 2020 through the exercise of the first set of warrants (Warrant A), as further described in the Going Concern portion of this Report from the Board of Directors.

Risk exists that approval of the proposed equity investment programs may not be obtained during the May EGM. As of the end of April 2020, Thinfilm's cash was approximately USD 3.3 million. Total cash includes restricted cash of USD 1.6 million representing the security deposit for the San Jose, California building, as shown in Note 11 in the accompanying Notes to the Consolidated Financial Statements. The approximately USD 1.7 million of available cash at the end of April 2020 is more than offset by Thinfilm's approximately USD 3.0 million of current financial obligations to Thinfilm employees, tax authorities in various jurisdictions, and secured and unsecured creditors. In connection with the equity financing proposed for approval at the May EGM, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of Common stock in TFE Holding, owned by Thin Film Electronics ASA, in early May 2020 to ensure adequate cash remains available to operate until the equity financing closes. After closing the private placement, the Company will use the funds to further the development of the SSLB technology, continue pursuing patent filings, and work toward the integration of the SSLB technology for production on its proprietary R2R production line. With funding received through the equity programs to be approved at the May EGM, the Company anticipates having sufficient cash to operate through July 2020, providing the anticipated time required to achieve performance milestones, key among the development of product samples, remains on track and is not significantly impacted by potential supply chain, credit, and market risk resulting from the COVID-19 pandemic.

Should the equity investment programs not be approved at the May EGM, the Board will consider proposing a dissolution of the Company.

Management continues to make significant efforts to reduce its ongoing operating expense as it continues to execute its new Solid-State lithium battery (SSLB) technology as described in the outlook section in the Report from the Board of Directors. These cost cutting measures included a further reduction of headcount during the first quarter of 2020, settlement of long-term contractual obligations for services no longer required under the new strategy, and initiating processes to renegotiate payment terms tied to material agreements.

Upon approval of the private placement and subsequent offering at the May EGM, the Board plans to source additional investment from U.S. sources in order to fully fund the continued working capital requirements to execute upon the SSLB strategy. Due to the uncertain economic environment resulting from the COVID-19 pandemic and the potential supply chain and development delays that could impact Thinfilm's ability to meet its second quarter milestone of producing viable SSLB samples, successfully attracting and raising additional capital in the U.S. or abroad is not guaranteed.

There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern. If the Company fails to obtain additional investment commitments by the end of the second quarter 2020, the Board will consider proposing a dissolution of the Company. Should Thinfilm enter into liquidation, the costs to close as of the end of April 2020 are estimated to be approximately USD 3 million, excluding obligations related to its debt facility and building lease obligations. The USD 1.6 million cash secured letter of credit issued by Thin Film Electronics ASA ("Thinfilm ASA") would be surrendered to the landlord of the Junction Avenue building in San Jose, California. In addition, and as described in Note 6 – Investment in Subsidiaries included in the accompanying footnotes to the Thin Film Electronics ASA Annual Financial Statements 2019, in 2016 Thinfilm ASA executed a Tenancy Guaranty agreement with the San Jose, California landlord. The guaranty was given to secure payment of the lease rent. As of 31 December 2019, the guaranty liability was USD 4 million.

Intellectual property

As of year-end 2019, Thinfilm held 183 registered patents and had 95 patent applications pending. Many patents and submitted applications relate to PDPS technology, materials used, and processes related to the sheet and roll based manufacturing, located in San Jose, California, that will be instrumental to defining Thinfilm's differentiation in the SSLB battery space. In addition, Thinfilm holds trademarks and trade secrets relevant to its business and technology operations.

The group financial statements

Thinfilm's revenue and other income amounted to USD 1,181 thousand in 2019, a decrease of 65.24% from the preceding year (2018: USD 3,397 thousand). The Company continued to reduce its operating cost base, primarily driven by a reduction in headcount, cost control and lower manufacturing activity as the Company prepared for a strategy shift focusing on energy storage solutions to leverage its prior investment in its R2R production line and intellectual property fundamental to solid-state lithium battery technology development

Sales revenue amounted to USD 701 thousand in 2019 (2018: USD 1,288 thousand). A total of 5.8 million EAS tags were shipped during 2019, compared to 13.8 million in 2018. While shipments of NFC SpeedTap tags increased slightly in 2019 compared to the previous year, the sales relate to inventory manufactured in previous years.

Other income in 2019 of USD 472 thousand primarily related to gains on disposal of fixed assets. The company received sublease income from the second floor of its San Jose,California facility amounting to USD 182 thousand.

Salaries and other payroll costs amounted to USD 17,828 thousand in 2019, compared to USD 33,244 thousand in 2018. The decrease is primarily driven by a reduction in headcount, cost control, and lower manufacturing activity. Operating costs (excluding depreciation, amortization and impairment charges) amounted to USD 31,942 thousand during 2019. The corresponding figures for 2018 were USD 54,942 thousand. The decrease in operating costs during 2019, compared to 2018, was USD 22,531 thousand, and was primarily attributable to:

1 USD 14,237 thousand lower payroll due to the reduction in headcount for the year ended December 31, 2019, compared to the same period of 2018.

2 USD 4,953 thousand lower costs for premises and supplies. The worldwide downsizing of operations in 2019 led to a decrease in premises and supply costs. During 2018, Thinfilm's San Jose, California site was operating 24 hours per day, 7 days per week. In addition, with the implementation of IFRS 16 from 1 January 2019, the land component of the San Jose premises is treated as a financial lease, and therefore, no longer recognized as a rental expense, resulting in USD 360 thousand lower rent expense on an annual basis.

3 USD 1,830 thousand lower sales and marketing expenses. Cost savings initiatives resulted in reduced travel expenses and other sales and marketing-related costs in 2019, compared to the same period of 2018.

4 USD 1,179 thousand lower employee share based remuneration costs. The fair value of granted employee subscription rights are valued based on the Black-Scholes formula and expensed over the vesting period. This expense is lower in 2019, compared to the same period of 2018.

During 2019, Thinfilm narrowed its R&D activity to a single location, San Jose, California. During 2019, USD 811 thousand was spent developing manufacturing processes and operating procedures for roll-to-roll ("R2R") manufacturing located in San Jose, California. The corresponding amount for the same period of 2018 was USD 9,907 thousand.

Investments in fixed and intangible assets amounted to USD 6,540 thousand in 2019, compared to USD 20,606 thousand during the same period of 2018. The significant investments made in 2018 were

primarily related to equipment for the new R2R production line at the San Jose site. In 2019, Thinfilm had also made prepayments amounting to USD 3,287 thousand relating to investments in equipment and machinery and USD 4,846 in 2018. These pre-payments are recognized as other receivables, since the equipment and machinery had not been received from suppliers as of 31 December 2019. However, since these prepayments relates to R2R production line and as the Company has impaired all machinery related to the production line, this prepaid amount was also impaired, recorded as a contra asset, "Impairment of Fixed Assets", resulting in a zero balance in the other receivables. Thinfilm's R2R capital expenditure program was determined to cost USD 33,500 thousand versus USD 32,000 thousand initially budgeted in November 2016. Depreciation and amortization charges in 2019 amounted to USD 3,949 thousand, compared to USD 5,214 thousand during the same period in 2018. As of December 31, 2019, Thinfilm recognized an impairment charge of USD 42,379 thousand related to Intangibles and fixed assets located in San Jose, California. The impairment charges for 2018 was 14,332 thousand.

In accordance with IAS 36, the Company has analyzed the recoverability of the carrying amounts of production-related assets and financial leases as of December 31, 2019 versus their respective fair market values. Due to uncertainty related to the timing of the implementation of Thinfilm's energy storage strategy, management concluded that a full impairment was required as of December 31, 2019. In the event Thinfilm sells equipment in the future (to the extent that the equipment has not been pledged as collateral under financing agreements), income from gains on equipment sales may be higher than the impaired book value. Furthermore, in the event of a future change in circumstances, e.g. a change in strategy or market prospects, impairments may be reversed in part or in full, if a higher asset value can be defended.

Net financial items in 2019 amounted to a loss of USD (1,367) thousand compared to a loss of USD (1,089) thousand recognized in 2018. The loss in 2019 reflected realized gains of USD 497 thousand offset by interest expense of USD (1,524) thousand, of which USD (552) thousand relates to Utica lease, as compared to 2018, whereby unrealized foreign currency gains were the largest component.

The loss in 2019 was USD (78,446) thousand, corresponding to a basic loss per share of USD (1.34). In 2018, the loss amounted to USD (71,722) thousand, corresponding to a basic loss per share of USD (1.22).

Non-current assets amounted to USD 558 thousand (2018: USD 35,276 thousand). The decrease in non-current assets from 2018 to 2019 was mainly due to full impairment of the R2R production line in San Jose, California, intangible assets and the financial lease representing the building lease in San Jose, California. Trade and other receivables amounted to USD 2,806 thousand at the end of 2019 (2018: USD 8,862 thousand). The reduction relates mainly to impairment of prepayments to suppliers and equipment vendors for R2R production line equipment not yet received. Non-current liabilities amounted to USD 25,056 thousand (2018: 11,525 thousand) and is relating to future lease payments for the Junction Avenue premises and long-term debt relating to an equipment term loan facility with Utica. The equity ratio was negative (161) percent at the end of 2019, versus 75 percent at the end of 2018.

The group's cash balance decreased by USD 23,716 thousand in 2019 (2018: decreased by USD 65,532 thousand). The net decrease in cash balance is explained by the following principal elements:

1 USD (29,054) thousand outflow from operating activities,

2 USD (4,919) thousand outflow from investing activities,

3 USD 10,257 thousand inflow from financing activities, and

The USD 29,054 thousand outflow from operating activities is primarily explained by an operating loss, excluding depreciation, amortization and impairment charges, of USD 46,328 thousand. The cash outflow from operations and investing activities in 2019 was offset by the inflow from financing activities, primarily attributable to the USD 13,200 thousand Utica debt that closed in September 2019. The cash balance on 31 December 2019 was USD 8,872 thousand, as compared to the cash balance on 31 December 2018 of USD 32,588 thousand.

Parent company financial statements

Revenue and other income in the Parent Company amounted to NOK 5,182 thousand in 2019 (2018: NOK 10,391 thousand).

Personnel and payroll costs were NOK 16,126 thousand in 2019, versus NOK 32,569 thousand in the preceding year. As of 31 December 2019, only the CEO was employed by the Parent Company, as compared to 10 employees as of December 31, 2018. The Parent Company employed, on average, four full-time employees during 2019, compared to an average of nine full-time employees during 2018.

External purchases of services amounted to NOK 18,088 thousand in 2019, a decrease from NOK 18,483 thousand in the preceding year. Of the total amount for 2019, (i) NOK 11,868 (2018: 10,587) thousand related to legal, audit and accounting services, (ii) NOK 4,822 (2018: 5,490) thousand was tied to advisory services, technology support services and recruitment services,

(iii) NOK 1,398 (2018: 1,468) thousand related to remuneration of the Board of Directors and (iv) NOK 0 (2018: 938) thousand related to the purchase of development consulting services.

Purchase of services from subsidiaries decreased to NOK 260,241 thousand in 2019 from NOK 372,229 thousand in 2018, largely as a result of the strategic shift away from the NFC business. Other operating expenses decreased from NOK 20,090 thousand in 2018 to NOK 13,079 thousand in 2019. Capitalized development costs amounted to NOK 2,971 thousand in 2019, compared to NOK 12,932 thousand in 2018. The capitalization is booked as a reduction of other operating expenses.

Amortization and impairment of intangible assets amounted to NOK 22,466 thousand in 2019 compared to NOK 11,752 thousand in 2018. Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the EAS product will not, at this time, be commercialized, and the NOK 10,226 thousand capitalized development work on EAS has been fully impaired.

Net financial items amounted to an expense of NOK 160,151 thousand in 2019, compared to an expense of NOK 140,000, thousand in 2018. The net financial expense mainly consists of impairments of intercompany investments, particularly in Thin Film Electronics Inc., as a result of the property, plant and equipment impairment described in Note 6 of the Consolidated Financial Statements. The net financial items are partly netted by NOK foreign currency gains on USD-denominated assets.

The net result for 2019 for Thinfilm ASA was a loss of NOK (486,323) thousand (2018: Loss of NOK 574,732). The Board does not propose a dividend for 2019.

Share capital

Thinfilm shares were listed on Oslo Axess from 30 January 2008 until 26 February 2015. On 27 February 2015, Thinfilm shares were transferred to Oslo Børs (OSE Main List). On 24 March 2015, Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

At the end of 2019, there were 58,593,581 (2018: 58,593,581 as adjusted for the 20:1 reverse stock split in November 2019) shares in the Company which were held by 6,964 shareholders (2018: 6,045 shareholders). Par value is NOK 2.20 per share.

The closing price of Thinfilm shares on 30 December 2019 was NOK 2.33, reflecting the 20:1 reverse share split recorded in November 2019. On the last trading day in 2018, the closing price was NOK 14.96, as adjusted for the 20:1 reverse share split. The total share turnover during 2019 amounted to NOK 3,107 million compared to NOK 1,550 million in 2018, an increase of approximately one hundred percent.

On 23 October 2019, an Extraordinary General Meeting in Thin Film Electronics ASA was held, in which it was resolved to, inter alia, carry out a 20:1 reverse share split of Thinfilm's shares. Following completion of the reverse share split, the composition of Thinfilm's share capital was changed from 1,171,871,617 shares, each having a par value of NOK 0.11, to 58,593,581 shares, each having a par value of NOK 2.20. The record date of the reverse share split was 4 November 2019.

There were no exercises of vested incentive subscription rights during 2019 nor during 2018. The Annual General Meeting of Thin Film Electronics ASA resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") would be entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans notified the Company that they wished to participate in the exchange program, whereupon such Eligible Holders explicitly waived any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders.
The grants were made under the Company's 2019 Subscription Rights Incentive Plan as resolved at the Annual General Meeting on 28 May 2019. The exercise price of the subscription rights is NOK 4.67 per share, as adjusted for the 20:1 reverse share split. The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each

October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The annual general meeting in 2018 resolved an authorization to the Board to grant up to 5,859,358, as adjusted for the 20:1 reverse share split, independent subscription rights to employees and to individual consultants performing similar work in Thinfilm but limited so that the total number of outstanding subscription rights under all subscription rights programs shall not exceed 10 percent of the share capital. By the end of 2018, the Board had granted 2,603,372 subscription rights under this authorization and the total number of outstanding subscription rights was 4,412,622.

The annual general meeting in 2018 authorized the Board to complete one or more placements by issuing up to 5,859,358 shares, equivalent to NOK 12,890 thousand, which at the time corresponded to 10 percent of the Company's registered share capital.

Further 132,000 subscription rights have been granted, none exercised, and 527,891 forfeited and expired to date in 2020. Consequently, the total number of subscription rights on 23 April 2020 is 4,977,339, hence well within the 10 percent limitation. The authorization expires at the annual general meeting 2020.

Principal risks

Thinfilm is exposed to various risks of a financial and operational nature. The extraordinary current risks of the pandemic and its effect on the world economy are affecting everyone.

The Company's predominant risks are market and business risks, summarized in the following points:

I The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. In connection with the proposed NOK 32 million equity investment that the board is recommending shareholders approve at the upcoming 20 May 2020 Extraordinary General Meeting, lead participants in the investor consortium agreed to and have provided the Company with a NOK 20 million commitment as well as a USD 500 thousand bridge loan to ensure that the Company has sufficient levels of cash to continue its operations until such time that the equity financing closes. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and Management, at a subscription price per share equal to the subscription price in the private placement. In addition, the Company also expects to issue a subsequent offering of NOK 7 million. In aggregate the proposed equity offerings total NOK 32 million.

II Technology development and engineering sample availability on Thinfilm's sheet line can be adversely affected by several factors including but not limited to:

- Quality, composition and consistency of lithium-based materials, chemicals and unanticipated interactions of the various layers and processes resulting in longer than planned learning cycles and corrective actions, delaying customer sample engagements.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- Equipment reliability, modifications needed, and process optimization learning cycle efficiency that may limit the uptime, throughput and quality of the devices produced.
- Issues encountered during handling, processing and assembly of ultrathin substrates and battery stacks.
- Need for new materials or processes and/or equipment to achieve full manufacturing qualification and product reliability.

The startup and product manufacturing yield ramp on the roll-to-roll line can also be negatively influenced by several of the conditions or events noted below (but not limited to):

- Achievement of return to manufacturing readiness and qualification of the tool set.
- On site availability of vendor personnel to assist in requalification of the machines with battery materials set.
- Electro-Static Discharge (ESD) or other phenomena that may cause the need for process or mechanical handling changes in the manufacturing line.
- Lower than anticipated throughputs and uptime of the equipment with the battery material set resulting in a lower capacity than planned.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- New and unknown modes of yield loss necessitating process, practice or equipment modifications that can result in a slower than planned yield ramp.

- Issues encountered during roll handling, processing and assembly of ultrathin substrates and battery stacks.
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

III Many of the markets that Thinfilm targets in connection with its new energy storage strategy, will require time in order to gain traction, and there is a potential risk of delays in the timing of sales. Risks and delays may include, but are not limited to:

- Uncertain global economic conditions may adversely impact demand for our products or cause our customers and other business partners to suffer financial hardship, which could cause delays in market traction and adversely impact our business.
- Our ability to meet our growth targets depends on successful product, Marketing, and operations innovation and successful responses to competitive innovation and changing consumer habits that may result in changes in our customers' specifications.

The Company cannot assure that the business will be successful or that we will be able to generate significant revenue. If we fail to establish and build relationships with our customers, or our customers' products which utilize our solutions do not gain widespread market acceptance, we may not be able to generate significant revenue. We do not sell any products to end users, and we do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our solutions. Instead, we design various devices and products that our OEM customers incorporate into their products, and we depend on such OEM customers to successfully manufacture and distribute products incorporating our solutions and to generate consumer demand through marketing and promotional activities. As a result of this, our success depends almost entirely upon the widespread market acceptance of our OEM customers' products that incorporate our devices. Even if our technologies successfully meet our customers' price and performance goals, our sales could fail to develop if our customers do not achieve commercial success in selling their products that incorporate our devices.

Our ability to generate significant revenue from new markets will depend on various factors, including the following:

- The development and growth of these markets;
- The ability of our technologies and product solutions to address the needs of these markets, the price and performance requirements of OEMs, and the preferences of end users; and
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

IV To a certain extent, Thinfilm is dependent on continued collaboration with technology, material, and manufacturing partners.

There may be process and product-development risks that arise related to time to development and cost competitiveness of the energy storage products Thinfilm is developing.

Many manufacturers of these products have well established relationships with competitive suppliers. Our ongoing success in these markets will require us to offer better performance alternatives to other solutions at competitive costs. The failure of any of these target markets to develop as we expect, or our failure to serve these markets to a significant extent, will impede our sales growth and could result in substantially reduced earnings and a restructuring of our operations. We cannot predict the size or growth rate of these markets or the market share we will achieve or maintain in these markets in the future. Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our operating results. The inability to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Many of the materials used in the production of our products are available only from a limited number of foreign suppliers, particularly suppliers located in Asia.

V Our business results depend on our ability to successfully manage ongoing organizational changes. Our financial projections assume successfully executing certain of these organizational changes, including the motivation and retention of key employees and recruitment of qualified personnel, which is critical to our business success.

Factors that may affect our ability to attract and retain talented leadership, key individual contributors, and sufficient numbers of qualified employees include:

- Employee morale,
- Our reputation,
- Competition from other employers, and
- Availability of qualified personnel.

Our success is dependent on identifying, developing and retaining key employees to provide uninterrupted leadership and direction for our business. This includes developing and retaining organizational capabilities in key technology areas, where the depth

of skilled or experienced employees may be limited and competition for these resources is intense.

VI Thinfilm is exposed to certain financial risks related to fluctuation of exchange rates and interest level.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019 and into the first and second quarters of 2020, in order to reduce the Company's cost structure.

Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Securing commitments for equity funding from current and new shareholders, subject to approval at the May EGM;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy. However, the financial statements do not include adjustments related to the amounts of liabilities that might be necessary, should the Company and the consolidated entity not continue as going concerns.

In April 2020, the Board received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants subject to approval by extraordinary general meeting in May 2020.

The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors. Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

Corporate governance

The board considers that attention to corporate governance is beneficial for companies and investors. Thinfilm seeks to comply with the Norwegian code of practice for corporate governance to the degree possible. The board's review of corporate governance has been included in the annual report.

Outlook

As Thinfilm transitioned its operational and strategic focus away from NFC in 2019, management concurrently concluded its extensive evaluation of multiple markets, in order to determine the most commercially compelling use of the Company's patented process technology innovations and state-of-the-art, production-scale roll-to-roll ("R2R") flexible electronics factory located in San Jose, California.

On 30 January, 2020, the Company announced its updated corporate strategy, focused on the design, development, and production of innovative battery solutions targeting existing market demand with differentiated solutions to power wearable devices and connected sensors.

To address the sizeable existing and expanding applications for wearable devices and connected sensors, the Company will develop a family of rechargeable solid-state lithium battery ("SSLB") products that are ultrathin, flexible, reliable, safe, and cost effective. Thinfilm's facility, located in the heart of Silicon Valley, is ideally positioned to spark rapid development of differentiated products that will offer the wearable market, estimated by IDTechEx to reach $64 billion in 2020 and growing at a 9.5% CAGR through 2024, a superior alternative to today's pouch and coin cell batteries. Thinfilm's distinct value proposition will enable technology innovation by unleashing designers' creativity, previously limited by the lack of flexibility inherent in existing battery technology.

Thinfilm's battery solutions would incorporate an innovative solid electrolyte material that enables thinner, stackable cells that can endure more charging cycles and deliver more power at sub-freezing temperatures, compared to commonly used battery technologies. Because the solid electrolyte cannot catch fire or explode, Thinfilm SSLBs would also improve the safety profile for wearable and medical applications.

Initially pioneered by Oak Ridge National Laboratory in the 1990s, SSLB technology is primarily used in embedded electronics applications including real-time clock and static random-access memory, or SRAM, backup. However, the technology's deployment has been limited by dependencies on rigid substrates, fragile materials, and small-scale manufacturing methods. In contrast, Thinfilm is well positioned to bring the advantages of SSLB technology to a broader market due to the Company's unique combination of existing capabilities, including roll-based production, robust metal foil substrate handling, materials expertise, and manufacturing process knowhow.

By leveraging its core capabilities in materials and manufacturing innovation, the Company believes it can produce compelling energy storage products that provide greater battery life and improved reliability, with the form-factor flexibility to create unique battery shapes enabling sleek, comfortable end products. The Company will initially focus on key portions of the wearables and sensor markets, particularly the rapidly growing connected and wearable medical sensing market, in which continuous glucose monitoring alone is forecasted to double in volume to over 100 million units by 2023, according to IDTechEx. Beyond wearable medical sensing, Thinfilm has identified a number of additional growing applications in existing markets that are expected to provide meaningful opportunities for additional growth. To accelerate the development of ultrathin battery technology in the San Jose factory, Thinfilm has entered into a partnership with a leading process technology development company.

In addition, the Company continues to file provisional patent applications, strengthening Thinfilm's strategy to develop and produce a new and innovative class of of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond.

As Thinfilm completes the transition to its new energy storage strategy, Management foresees five potential revenue and income sources:

1 Sales of its own designed products,

2 Non-recurring engineering fees earned through joint development agreements and/or government grant programs,

3 Monetization of its existing inventory of NFC labels and EAS devices,

4 Monetization of Thinfilm's CNECT software platform and other related NFC assets; and

5 Licensing/royalty revenue, where partners and customers pay for using the Company's intellectual property rights (IPR).

Organization, personnel and the environment

The board of directors would like to thank the Thinfilm management team members, staff, contractors, and ecosystem partners for their dedicated efforts throughout 2019 and early 2020.

Organization

As a result of significant restructuring during 2019, Thinfilm consolidated global organizational functions to the San Jose, California facility to ensure efficient and cost-effective management of the Company's resources and assets. In parallel, Thinfilm began the

process of closing its offices in Hong Kong, Shanghai, Singapore, Sweden, and the United Kingdom.
As part of this consolidation, Thinfilm optimized and streamlined its processes and systems. The centralization of global operations facilitated a review of the effectiveness of Thinfilm's systems of internal controls and highlighted opportunities to strengthen and improve its processes and procedures relating to supply chain, accounting, purchasing, order fulfillment, and inventory control. The Company will continue to further optimize and develop its operational workflows.

Personnel

At the date of the report, Thinfilm had 18 full-time employees. Because of the Company's decision to navigate away from the NFC business and subsequent restructurings throughout 2019, Thinfilm reduced its global headcount from 155 at the end of 2018 to 23 full-time employees at the end of 2019, further reducing its workforce to 18 full-time employees in March 2020. With the strategic shift to energy storage having commenced in 2020, driving successful recruitment practices and appropriate staff development is fundamental to Thinfilm's success.

Environment

The board believes that the working environment at Thinfilm is safe, stimulating, challenging, and collaborative for all employees, and complies fully with relevant laws and regulations in regions within which Thinfilm operates.

Thinfilm employees are covered by benefits programs that are in line with practices in their respective countries. Throughout 2019, there were no minor workplace injuries or significant incidents or accidents involving equipment or other assets. Instances of sick leave during 2019 were relatively low and were consistent with previous years.

In addition to the employees of the Thinfilm group, Thinfilm has contracted specialists in business development, technology, design, accounting, and other services. During 2019, patenting and other intellectual property rights (IPR) services were transitioned from AWA Patent to Central California IP Group. In addition, the Company worked with an IPR consultant and received advice from external legal counsel, as needed.

Thinfilm creates and supports equal opportunity for all employees, in all aspects of the workplace. As of 31 December 2019, female employees in the company represented approximately 40%. As of the date of this report, the current management team consists of two men and two women.

Equality is one important aspect considered when recruiting new employees. The board considers the firm's equality standards and measures to be adequate and has not found reason to initiate any corrective measures.

Thinfilm appreciates its corporate responsibility to protect the environment. The Company operates its business to comply with the environmental, health, and safety regulations required for the materials and processes needed to manufacture its products. Thinfilm follows all relevant environmental rules and regulations, as discussed in the Corporate Responsibility Statement in this report.

Board of directors

Thinfilm's board of directors consists of two women and two men, the composition of which satisfies the gender requirements of the Norwegian Public Limited Companies Act. The board includes Mr. Morten Opstad (Chairman), Ms. Preeti Mardia, Mr. Jon Castor, and Ms. Kelly Doss.

At the Company's Annual General Meeting on May 28, 2019, Morten Opstad was re-elected as Chairman for another two-year term. Preeti Mardia was re-elected to continue as a board member. Mr. Castor and Ms. Doss were elected as board members, each for a period of two years.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	Preeti Mardia Board Member	Jon Castor Board Member	Kelly Doss Board Member

Kevin Barber
Managing Director (CEO)

Thin Film Electronics ASA Group
Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Amounts in USD 1,000	Note	2019	2018
Sales revenue	14	701	1,288
Other income	16,17	480	2,110
Total revenue and other income		**1,181**	**3,397**
Salaries and other payroll costs	18	(17,828)	(33,244)
Other operating expenses	19.23	(14,114)	(21,229)
Depreciation, amortization and impairment loss	6,7,8	(46,328)	(19,546)
Operating profit (loss)		**(77,089)**	**(70,622)**
Interest income		152	292
Other financial income		8	66
Interest expense		(1,524)	(1,042)
Other financial costs		(3)	(404)
Net financial items		**(1,367)**	**(1,089)**
Profit (loss) before income tax		**(78,456)**	**(71,711)**
Income tax expense	20	10	(11)
Profit (loss) for the year		**(78,446)**	**(71,722)**
Profit (loss) per share for profit attributable to the equity holders of the Company during the year			
Basic and diluted, USD per share	22	(USD1,34)	(USD1,22)
Profit (loss) for the year		**(78,446)**	**(71,722)**
Other Comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation		(637)	(198)
Total comprehensive income for the year		**(79,083)**	**(71,921)**

Consolidated Statements of Financial Position

Amounts in USD 1,000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	—	22,548
Building – financial lease	8	—	10,375
Intangible assets	7	—	2,353
Other financial receivables	10	559	—
Total non-current assets		**559**	**35,276**
Current assets			
Inventory	9	1	2,640
Trade and other receivables	10	2,806	8,862
Cash and bank deposits	11	8,872	32,588
Total current assets		**11,679**	**44,090**
Total assets		**12,238**	**79,366**
EQUITY	12		
Ordinary shares		18,660	18,660
Other paid-in capital		—	321,575
Currency translation		(14,356)	(13,719)
Retained earnings		(23,964)	(266,806)
Total equity	**25**	**(19,660)**	**59,709**
LIABILITIES			
Non-current liabilities			
Long-term debt	15	11,812	—
Lease liabilities	8	13,244	11,525
Total non-current liabilities		**25,056**	**11,525**
Current liabilities			
Trade and other payables	13,8	5,454	8,132
Current portion of long-term debt	15	1,388	—
Total current liabilities	**24**	**6,842**	**8,132**
Total equity and liabilities		**12,238**	**79,366**

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad
Chairman

John Castor
Board Member

Preeti Mardia
Board Member

Kelly Doss
Board Member

Kevin Barber
CEO

Consolidated Statements of Changes in Equity

Amounts in USD 1,000	Note	Share capital	Other paid-in equity	Currency translation	Retained earnings	Total
Balance at 1 January 2019		**18,660**	**321,575**	**(13,719)**	**(266,806)**	**59,709**
Share based compensation		—	190	—	—	190
Impact of change in accounting policy*	8	—	—	—	(477)	(477)
Comprehensive income		—	—	(637)	(78,446)	(79,083)
Transfer for coverage of losses		—	(321,765)	—	321,765	—
Balance at 31 December 2019	**12**	**18,660**	**—**	**(14,356)**	**(23,964)**	**(19,660)**
Balance at 1 January 2018		**18,660**	**319,819**	**(13,520)**	**(195,084)**	**129,874**
Share based compensation		—	1,771	—	—	1,771
Private placement (2017 residual cost)		—	(15)	—	—	(15)
Comprehensive income		—	—	(198)	(71,722)	(71,921)
Balance at 31 December 2018	**12**	**18,660**	**321,575**	**(13,719)**	**(266,806)**	**59,709**

* IFRS16 implementation. See Note 8.

Consolidated Cash Flow Statements

Amounts in USD 1,000	Note	2019	2018
Cash flows from operating activities			
Profit (loss) before income tax		(78,456)	(71,711)
– Share-based remuneration	18	190	1,771
– Depreciation and amortization	6	3,949	3,947
– Write down inventory, machinery and intangible assets	6	42,379	14,832
– Loss / (gain) on sale of fixed assets	6	(241)	(479)
– Taxes paid for the period		10	(91)
– Changes in working capital and non-cash items		1,748	(686)
Net financial items		1,367	—
Net cash from operating activities		**(29,054)**	**(52,418)**
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(3,177)	(6,004)
Prepayments relating to purchase of property, plant and equipment	10	(1,653)	(5,005)
Capitalized development expenses	7	(353)	(1,580)
Proceeds from sale of fixed assets	6	112	1,389
Interest received		152	291
Net cash from investing activities		**(4,919)**	**(10,908)**
Cash flows from financing activities			
Proceeds from issuance of shares	12	—	(15)
Proceeds from debt financing	15	13,200	—
Deposits		(558)	—
Interest paid		(1,525)	—
Lease payments	8	(860)	(600)
Net cash from financing activities		**10,257**	**(615)**
Currency translation effects on cash and bank deposits		—	(1,590)
Net increase (decrease) in cash and bank deposits		**(23,716)**	**(65,532)**
Cash and bank deposits at the beginning of the year		32,588	98,120
Cash and bank deposits at the end of the year*		**8,872**	**32,588**

* Including restricted cash. See Note 11.

Notes to the Consolidated Financial Statements

1. Information about the group

"Thin Film Electronics ASA ("Thinfilm ASA" or "the company") was founded on 22 December 2005. Reference is made to Note 28 for a description of the subsidiaries consolidated into the parent company Thin Film Electronics ASA.

The objectives of the Company shall be the commercialization, research, development and production of technology and products related to solid-state lithium batteries These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem partners.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These group consolidated financial statements were resolved by the board of directors on 11 May 2020.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied. For the purpose of ease of reading, the terms "balance sheet" and "accounting" and variations of these have been used interchangeably with the IFRS terms "statement of financial position" and "recognition".

2.1 Basis of preparation

The annual financial statements have been prepared on a historical cost basis. The financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies adopted are consistent with those of the previous financial year, except for the below descriptions. IFRS is continuously developed and recently published standards, amendments and interpretations have been reviewed and considered. Except from the impact on the implementation of IFRS 16 Leases, as described in Note 2.20 and Note 8, none of the other new standards, amendments and interpretations that apply as of 1 January 2019 had any impact on net result or equity of Thinfilm in 2019. Reference is made to Note 2.20 for a description of changes in IFRS.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019, in order to reduce the Company's cost structure. Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow.

The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors. Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Initiated the process to close a Private Placement and secure a bridge loan from current and new shareholders by May 2020;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy.

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. 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 give it 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 in 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

2.3 Foreign currency translation

a) Functional and presentation currency

The consolidated financial statements are presented in US dollar (USD).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

c) Group companies

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are included in other comprehensive income. When a foreign operation is partially disposed

of or sold, such exchange differences are reversed and recognized in the income statement as part of the gain or loss on the sale.

2.4 Property, plant and equipment

Property, plant and equipment is mainly comprised of construction in progress on the roll-to-roll line, laboratory test equipment, and office equipment. Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method as follows:

- Laboratory equipment — 5 years
- Office equipment — 3–5 years
- Office furnishings and fittings- up to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.5 Inventory

The Company has changed their strategy and hence prior years inventory are fully impaired. Historically, inventory, components and components under production are valued at the lower of cost and net realizable value after deduction of obsolescence. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined using the standard cost method. The FIFO principle is applied. Work in progress includes variable cost and non-variable cost which can be allocated to items based on normal capacity. Obsolete inventory is written down completely.

2.6 Intangible assets

a) Patents and licenses

Acquired patents and licenses are stated at historical cost. Patents and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents and licenses over their estimated useful lives. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In January 2014, Thinfilm acquired an IP portfolio consisting of patents. These assets are initially recognized at fair value and subsequently measured at cost, less accumulated amortisation and impairment losses.

b) Research and development

Research costs are expensed as they are incurred. An intangible asset arising from development expenditure on an individual project is capitalized only when the Group reliably can measure the expenditure and can demonstrate;

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- How the asset will generate future economic benefits
- The group's ability to obtain resources to complete the project

Development costs are amortized over the period of expected use of the asset. Capitalized development expenses relate to Speedtap™. In 2019 it was decided that the capitalized development costs relating to NFC SpeedTap™ would not be further commercialized and the remaining costs of NOK 12,744 were impaired. EAS (Electronic article surveillance) costs were previoualy capitalized, but as a result of the corporate restructuring announced 15 March 2019, these have been impaired as of year-end 2018. Please ref. Note 7 for further details.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill are reviewed for possible reversal of any previous impairment at each reporting date.

2.8 Trade receivables and other receivables

Trade receivables and other short-term receivables are measured at initial recognition at fair value and subsequently measured at amortized cost. Short-term

receivables, which are due within three months, are normally not discounted. Impairment of receivables is evaluated on a case-by-case basis. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

2.9 Cash and bank deposits

Cash and bank deposits include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and any bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to raising new equity are shown as a deduction to the equity, net of tax.

2.11 Trade payables

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

2.12 Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

2.13 Employee remuneration

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

The company only holds defined contribution pension plans. Contributions are expensed and paid when earned.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of goods

During 2019, the Group manufactured and sold NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. The performance obligation was to deliver a distinctive goods, and the performance obligation was satisfied when the control was transferred to the customer being at the point of delivery of the goods. Sales of goods were recognized when the performance obligation was satisfied, the costs incurred or to be incurred with respect to the transaction could be measured reliably and Thinfilm retained neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Group provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the Group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted.

2.15 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants are recognised as other income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

2.16 Financial liabilities

2.16.1 Borrowings

Borrowings are initially recognized at cost and subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs as well as discount or premium on settlement. Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date.

2.16.2 Leases

All leases are recognized in the balance sheet as a right-of-use ("ROU") asset with a corresponding lease liability, except for short term assets in which the lease term is 12 months or less, or low value assets. ROU assets represent a right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract. The depreciation of ROU asset is recognized over the lease term, and interest expenses related to the lease liability are classified as financial items in the income statement. Right-of-use assets are tested for impairment in accordance in accordance with IAS 36.

Thinfilm determines if an arrangement is a lease at inception. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, less any lease incentives. The Company's incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. Extension options are included when it, based on management's judgement, is reasonably certain to be exercised. ROU assets are measured at cost and include the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less and low-value assets.

2.17 Share based remuneration

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The fair value of the instruments is determined using a Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest.

For social security contribution related to equity-settled share-based payment transactions with employees, a liability is recognized. The liability is initially measured at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

2.18 Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

2.19 Segment information

Operating segments, according to IFRS 8, are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance and making strategic decisions, has been identified as the Chief Executive Officer (CEO). Based on Thinfilm's current deliveries, performance obligations, customer characteristic and other information, it has been assessed that Thinfilm has only one operating segment. Hence, primarily information according to IFRS 8 paragraphs –34 is provided.

2.20 Changes in accounting principles

Thinfilm has, with effect from 1 January 2019, implemented the amendments to IFRS 9 Prepayment features with negative compensation, IAS 19 Plan amendment, curtailment or settlement, IAS 28 Long-term Interests in Associates and Joint Ventures, IFRIC 23 Uncertainty over income tax treatments and annual improvements to IFRSs 2015–2017. The implementation of these standards has not had a material impact on the entity in the current reporting period.

From 1 January 2019, the Company has applied IFRS 16 Leases using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The new accounting policies for leases and transition effects to IFRS 16 are outlined in Note 8.

2.21 Approved standards and interpretations not yet in effect

- In addition to these standards, the following new and revised IFRSs have been issued, but are not

yet effective, and in some cases have not yet been adopted by the EU. The Group will assess the potential impact of these new and revised standards in due course.

- IFRS 17 Insurance contracts
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

3. Segment information

Thinfilm's business consists of sale of products, services and development of electronic products and related solutions. The CEO has determined that the Group has only one operating segment. Consequently, no additional segment information is disclosed. Reference is made to Note 6, 14, 15 and 16 for entity-wide disclosures.

4. Capital management and financial risk

4.1 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of equity and current and non-current interest-bearing liabilities. The Group is not subject to any externally imposed capital requirements apart from the requirements according to national laws and regulations for limited liability companies. In September 2019, the Company's subsidiary, Thinfilm Electronics, Inc. closed an equipment term loan facility with Utica for USD 13,200 thousand secured by select fixed assets (see Note 6). The terms of the Master Lease Agreement were interest-only monthly payments for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. The Company used the proceeds from the loans for working capital to fund ongoing operations and to pay for remaining scheduled payments for the R2R line.

The company is working on obtaining additional equity funding. see note on going concern.

4.2 Financial risk factors

Thinfilm is exposed to certain financial risks related to exchange rates and interest level. These are, however, insignificant compared to the business risk.

a. Market risk factors

(i) Currency risk

The Group has the majority of its operations in the USA. As of 31 December 2019, approximately 84% of the Company's cash balance was denominated in USD, in order to mitigate currency risk associated with the increased value of the USD relative to NOK. Management monitors this risk and will take the appropriate actions to address it as the situation requires. The currency risk related to the balance sheet is mostly related to the net investment in the Swedish subsidiary. Management monitors this risk but has not initiated any particular actions to reduce it.

(ii) Interest risk

Thin Film Electronics, Inc., the U.S. operating subsidiary and global headquarters of the Thin Film Electronics Group, closed an equipment term loan facility with Utica Leaseco, LLC for financing of USD 13.2 million, which funded in two tranches during the month of September 2019. The interest rate associated with this debt is fixed, and therefore, does not present the potential risk that would be associated with interest rate fluctuations.

b. Credit risk

The company has some credit risks relating to receivables. The loss on receivables has historically been low.

In connection with the relocation of Thinfilm's US headquarters in the first two quarters of 2017, a USD 1,600 thousand Letter of Credit was issued by Thin Film Electronics ASA to the new landlord of the Junction Avenue facility located in San Jose, California. In addition, the Company entered into a Tenancy Guaranty with the new landlord as additional security of the rent payments. The initial guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis by USD 500 thousand per year, commencing with the second lease year until the liability reaches zero dollars. As of 31 December 2019, the guaranty liability amounted to USD 4,000 thousand. Apart from that, Thinfilm has not issued additional material guarantees.

c. Liquidity risk

Aside from the equipment term loan facility of USD 13.2 million closed in September 2019, Thinfilm does not have any other material interest-bearing debt. In addition, the company has a continued obligation under a lease agreement signed in November 2016 relating to its U.S. headquarters in San Jose, California. The Company was unable to raise equity financing in 2019 and is not yet cash generative and operates at a loss. There is uncertainty tied to the generation of future cash flow in connection with the Company's new business strategy. As described in Note 2.1 Basis of preparation, the Company is currently pursuing alternative forms of generating cash in order to meet

its financial obligations. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

4.3 Fair value estimation

The carrying amounts of trade and other receivables and payables are considered to be the same as their fair values, due to their short-term nature. Accounts payable and accrued liabilities with due date within 12 months have been recognized at carrying value. The fair value of financial liabilities has been estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

4.4 Financial instruments

Thinfilm is not party to any transactions or financial instruments which are not recorded in the balance sheet or otherwise disclosed.

5. Critical accounting estimates and judgments

The financial statements of the group have been prepared based on the going concern assumption. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The estimates and assumptions in the financial statements of the Group mainly relate to share based compensation, deferred tax assets, accounting for research and development, intangible assets, property, plant and equipment and lease.

Share based compensation:

Thinfilm estimates the fair value of options at the grant date. As the subscription rights are structured equal to an option, the Black-Scholes option pricing model is used for valuing the share subscription rights. The model uses the following parameters; the exercise price, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares, and the risk-free interest rate for the life of the option.The cost of share based remuneration is expensed over the vesting period. Such estimates are updated at the balance sheet date. Changes in this estimate will impact the expensed cost of share based remuneration in the period. The variables, assumptions and relevant theoretical foundations used in the calculation of the FV per share subscription right is estimated according to the IFRS 2 standard.

Deferred tax assets:

Deferred tax assets related to losses carried forward is recognized when it is probable that the loss carried forward may be utilized. Evaluation of probability is based on historical earnings, expected future margins and the size of the order back-log. Future events may lead to these estimates being changed. Such changes will be recognized when reliable new estimates can be made. No deferred tax assets have been recognized in the balance sheet as of 31 December, 2019.

Research and development:

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset only when Thinfilm can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, the Company's intention and capability of completing the development and realize the asset, and the net future financial benefits of use or sale. Determining whether an expense meets the definition of a development cost requires judgment to be applied. Capitalized development costs as of 31 December, 2019, has been fully impaired. See Note 7.

Intangible assets:

In connection with the purchase of certain certain assets from Kovio, Inc., in January 2014, Thinfilm acquired an IP portfolio of ninety patent families. In addition, Thinfilm has acquired certain licenses and capitalized certain development costs relating to printed batteries. These assets are recognized in the balance sheet as intangible assets and valued at fair value less accumulated amortization and impairment losses. The book value is dependent on the successful development of the technology in the Parent Company and in the subsidiaries. As of 31 December, 2019 all intangible assets have been impaired. See Note 7.

Property, plant and equipment (PPE):

In connection to establishing US headquarters in San Jose, Thinfilm has invested in PPE, including a roll-based production line. Determining whether equipment / a tool a) is under construction b) is ready for use in production c) will generate sufficient net future benefits on a stand-alone basis or as part of a production line, requires judgment to be applied. The corporate restructuring announced on 15 March, 2019, 19 July, 2019 and 12 September, 2019 triggered impairment testing relating to these assets. See Note 6 for quantification of book values and impairments.

Financial lease:

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarters in San Jose, California. Thinfilm assesses whether the lease has been impaired by applying the requirements in IAS 36 - Impairment of assets. As of 31 December, 2019, the book value of the leased building is USD 0 thousand. See Note 8.

6. Property, plant and equipment

Amounts in USD 1,000	Laboratory and production equipment
	6
2019	
Accumulated cost on 1 January 2019	**45,244**
Additions	6,187
Sale/disposal of assets	(571)
Exchange differences	(2)
Accumulated cost 31 December 2019	**50,858**
Accumulated depreciation	
Accumulated depreciation on 1 January 2019	(22,695)
Depreciation expenses	(2,384)
Impairment	(25,778)
Exchange differences	(1)
Accumulated depreciation 31 December 2019	**(50,858)**
Net book value 31 December 2019	**—**
2018	
Accumulated cost on 1 January 2018	26,910
Additions	19,024
Sale/disposal of assets	(692)
Exchange differences	2
Accumulated cost 31 December 2018	**45,244**
Accumulated depreciation	
Accumulated depreciation on 1 January 2018	(6,388)
Depreciation expenses	(2,743)
Impairment	(13,565)
Exchange differences	1
Accumulated depreciation 31 December 2018	**(22,695)**
Net book value 31 December 2018	**22,549**

All property, plant and equipment are based in San Jose, California.

Impairment:

The company has revised its strategy, and does not foresee to use the roll-to-roll production facility in San Jose to its intended use. This has triggered an impairment test. Management views the roll-to-roll technology, production facility and related assets as broadly applicable to multiple potential applications, including for use in its recently announced strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors (see note 27). However, management believes that the 'value in use' is not readily supportable, as it has only been forecasted in a financial model, with no real data to support the estimates. As there is no observable market data on these assets management have not been able to find a reliable estimate on 'fair value less costs to sell'. Due to these uncertainties the assets, incl. intangible assets (see note 7) right-of-use assets (see note 8), are fully impaired as of 31 December 2019.

Assets pledged as security:

The majority of the production facility assets, incl. the roll-to-roll (R2R) production facility, have been pledged to secure borrowings of the group (see note 15). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

7. Intangible assets

Amounts in USD 1,000	Purchased intellectual property	Capitalized development costs	Total
Amortization period, years (linear)	13–16		
2019			
Acquisition cost			
Accumulated cost on 1 January 2019	1,815	1,252	3,067
Additions	(24)	378	354
Accumulated cost 31 December 2019	**1,791**	**1,630**	**3,421**
Accumulated amortization and impairment on 1 January 2019	(715)	—	(715)
Amortization	(128)	—	(128)
Accumulated amortization impaired assets	(948)	(1,630)	(2,578)
Amortization and Impairment 31 December 2019	**(1,791)**	**(1,630)**	**(3,421)**
Net book value 31 December 2019	**—**	**—**	**—**
2018			
Acquisition cost			
Accumulated cost on 1 January 2018	1,969	847	2,816
Additions	—	1,582	1,582
Impairment at cost	(154)	(1,177)	(1,331)
Accumulated cost 31 December 2018	**1,815**	**1,252**	**3,067**
Accumulated amortization and impairment on 1 January 2018	(626)	—	(626)
Amortization	(151)	—	(151)
Accumulated amortization impaired assets	62	—	62
Amortization and Impairment 31 December 2018	**(715)**	—	**(715)**
Net book value 31 December 2018	**1,100**	**1,252**	**2,352**

Thinfilm will discontinue the Electronic Article Surveillance (EAS) business after exhausting existing inventory, and has also decided to exit the NFC and EAS businesses and ceased all development and sales associated with these two businesses. Therefore, based upon its analysis under IAS 36, an impairment of USD 2,578 thousand has been booked, representing a full impairment of all assets as of 31 December 2019. See Note 6.

The amount of research and development expenditure recognized as an expense in 2019 amounts to USD 1,839 thousand (2018: USD 9,907 thousand). This was mainly related to cost incurred in connection with research & development relating to roll-to-roll printing processes.

8. Leases

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, CA. The lease in San Jose expires in September 2028. The building element of the lease was under IAS 17 classified as a financial lease, as the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. When implementing IFRS 16 from 1 January 2019 the entire contract became a lease, and the land element of the lease which previously was accounted for separately as an operating lease, which included in the right of use asset. The difference between the operating lease commitments after IAS 17, as disclosed in the 2018 financial statements, and lease debt recognized at initial application is reconciled in the table below. See Note 19 for the nature of the short-term leases.

Thinfilm applies exemption for short term leases (12 months or less) and low value leases. There are no extension options available and management's judgement, is reasonably certain to be exercised. The incremental borrowing rate applied in discounting of the nominal lease debt is 7,25% per cent. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract.

	Lease liability
Operating lease commitments as of 31 December 2018:	**4,418**
Short-term leases and leases of low-value assets	-655
Effect of discounting the above amounts	-990
Financial lease liabilities recognized under IAS 17 at 31 December 2019	12,303
Lease liability recognized at 1 January 2019	15,075
Lease payment (see note below)	-1,962
Interest expense	1,063
Lease liability as of 31 December 2019	**14,213**

In the statement of cash flow principle portion of lease payments are included in line Lease payment with an amount of USD 860 thousand, and interest portion of the payment are included in line Interest paid with an amount of USD 1,102 thousand. Both of them are presented as cash flow from financing activities.

The Group has recognized USD 2,543 thousand of right-of-use assets, USD 249 thousand in deferred rent, and USD 2,772 of lease liabilities upon transition to IFRS 16. The difference of USD 477 thousand is recognized in retained earnings. In addition, USD 10,375 thousand recognized as Financial Lease assets as of 31 December 2018 transferred to right-of-use assets when implementing IFRS 16 on 1 January 2019.

For maturity schedule of minimum lease payments, see Note 15.

A small part of the building is sub-leased and classified as operating lease. The income, for which 2019 amounts to USD 182 thousand is presented as other income (see Note 17).

Right-of use assets

Amounts in USD 1,000	Right of use assets
Depreciation period, years (linear)	12
2019	
Net value on 1 January 2019	10,376
Additions	—
Adjustments	2,543
Impairment (see Note 6)	(11,504)
Exchange differences	—
Depreciation	(1,415)
Net book value on 31 December 2019	**—**

Finance lease under IAS17

2018	
Net value on 1 January 2018	11,534
Additions	—
Adjustments	(105)
Exchange differences	—
Depreciation	(1,053)
Net book value on 31 December 2018	**10,376**

9. Inventory

Amounts in USD 1,000	2019	2018
Finished goods	1	150
Raw materials	—	155
Work in progress	—	2,336
Net book value on 31 December 2019	**1**	**2,641**
Inventory reserved	4,154	2,488

10. Trade and other receivables

Amounts in USD 1,000	31 December 2019	31 December 2018
Customer receivables	928	868
Accrued revenue not yet invoiced	—	75
Prepayments	3,287	4,846
Other receivables	1,878	2,935
Income tax prepayments	—	137
Less: provision for impairment of receivables and prepayments	(3,287)	—
Receivables – net	**2,806**	**8,862**
Of this, receivables from related parties (Note 23)	—	—

Of other receivables, prepayments of USD 3,287 thousand(which is fully impaired); (USD 4,846 thousand in 2018) relate to equipment for San Jose site not yet delivered. All receivables are due within one year and book value approximates fair value.

Other non-current financial receivables of USD 559 thousand relates to security deposit held by Utica Leaseco, LLC.

Total receivables are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2019	31 December 2018
Denominated in NOK	842	2,254
Denominated in SEK	5	334
Denominated in USD	1,873	6,175
Denominated in other currencies, including EUR, CNY, HKD, GBP and CHF	86	97
Total	**2,806**	**8,862**

Trade receivables USD 223 thousand were past due by more than 90 days.

Impairment of receivables is evaluated on a case-by-case basis, and realized losses have historically been low. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

11. Cash and bank deposits

Amounts in USD 1,000	31 December 2019	31 December 2018
Cash in bank excluding restricted cash	7,262	30,572
Deposit for Letter of Credit	1,604	1,629
Deposit for withheld tax (restricted)	6	387
Total	**8,872**	**32,588**

Payable withheld tax amounts in Norway and Sweden at 31 December 2019 were USD 17 thousand and USD 31 thousand (2018: USD 387 thousand and USD 0 thousand).

12. Share capital, warrants and subscription rights

	Number of shares	Number of warrants
Shares at 1 January 2019	**58,593,581**	**—**
Expiry of Warrants, 16 March	—	—
Expiry of Warrants, 14 July	—	—
Shares at 31 December 2019	**58,593,581**	**—**
Shares at 1 January 2018	**58,593,581**	**2,850,866**
Expiry of Warrants, 16 March	—	(850,866)
Expiry of Warrants, 14 July	—	(2,000,000)
Shares at 31 December 2018	**58,593,581**	**—**

Number of warrants and subscription rights	**1 January–31 December 2019**	**1 January–31 December 2018**
Warrants and subscription rights opening balance	4,412,622	6,121,116
Grant of incentive subscription rights	5,429,856	2,603,372
Terminated, forfeited and expired subscription rights	(4,469,248)	(1,461,000)
Exercise of subscription rights	—	—
Allotment of warrants	—	—
Exercise and expiry of warrants	—	(2,850,866)
Warrants and subscription rights closing balance	**5,373,230**	**4,412,622**

In connection with the reverse share split resolved by the extraordinary general meeting of the Company, on 23 October 2019, the general meeting authorized the Board to issue three (3) new shares at par value in order for the Company's registered number of shares to be dividable by 20 (the reverse share split ratio). Pursuant to such board authorization, the Board on 24 October 2019 resolved the issuance of three (3) new shares to an existing shareholder, which new shares subsequently could be used in connection with the rounding up of shareholdings of shareholders, who do not have a number of shares dividable by 20. Following the issue of the new shares, the Company's share capital is NOK 128,905,878.20 divided into 58,593,581 registered shares each with a nominal value of NOK 2.20.

The Annual General Meeting of the Company resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") were entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans have notified the Company that they wish to participate in the exchange program, whereupon such Eligible Holders explicitly waived any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders. The grants were made under the Company's 2019 Subscription Rights Incentive Plan, as resolved at the Annual General Meeting on 28 May 2019.

The exercise price of the subscription rights is NOK 4.67 per share.

The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The number of shares, warrants and subscription rights have been adjusted to reflect the reserve share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

13. Trade and other payables

Amounts in USD 1,000	31 December 2019	31 December 2018
Trade payables	999	1,120
Public duties, withheld taxes and social security taxes due	667	696
Accrued holiday pay and other accrued salary	1,575	2,223
Current lease liabilities	970	635
Other accrued expenses	1,243	3,458
Total	**5,454**	**8,132**
Of this, payables to related parties (Note 23)	445	—

Total payables and accruals are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2019	31 December 2018
Denominated in NOK	1,258	1,399
Denominated in SEK	—	610
Denominated in USD	3,951	5,973
Denominated in HKD	48	11
Denominated in other currencies, including GBP, EUR, CNY and CHF	197	140
Total	**5,454**	**8,132**

14. Sales revenue

The breakdown of the sales revenue is as follows:

Amounts in USD 1,000	2019	2018
Sales of goods	630	1,267
Rendering of services, technology access revenue	71	21
Total	**701**	**1,288**

The Group is domiciled in Norway. There were no sales revenue from external customers in Norway for 2019 and 2018.

The total sales revenue from external customers from other countries is USD 701 thousand, of which USD 218 thousand related to sales to customers in the United States.

In 2018 USD 218 thousand related to sales to customers in the United States out of the total sales revenue of USD 1288 thousand.

Sales revenue of approximately USD 290 thousand (2018: USD 760 thousand) are derived from single customers representing 10% or more of total sales revenue.

No warranty costs, penalties or other losses were related to sales revenue in 2019.

15. Current and long-term debt

In September 2019, the subsidiary in US, Thinfilm Electronics, Inc., closed an equipment term loan facility with Utica for USD 13,200 thousand secured by select fixed assets (see Note 6). The terms of the agreement were interest-only monthly payments for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. For the twelve months ended December 31, 2019, the current portion of the loan principal of USD 1,388 thousand and the long-term portion of the principal of USD 11,812 thousand is recorded as Long-term Debt in the Consolidated Statements of Financial Position.

The interest rate for the financing is at 14%. Table below disclosures principal payment obligations for the company.

Maturity schedule – liabilities

Amounts in USD 1,000									31 December 2019
	Principal and Interest Due								
	Within I year				1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
	1st qtr	2nd qtr	3rd qtr	4th qtr					
Principal obligations due	—	—	682	706	3,084	3,544	5,184	—	—
Interest payments	462	1,136	454	430	1,461	1,000	497	—	—
Lease payments	490	490	490	490	1,996	2,120	2,182	2,245	9,010
Total	**952**	**1,626**	**1,626**	**1,626**	**6,541**	**6,664**	**7,863**	**2,245**	**9,010**

16. Government grants

In 2018 Thinfilm ASA had a project qualified for the SkatteFUNN scheme for the three-year horizon 2018-2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million. Due to a revised strategy the company has ceased the SkatteFUNN project in 2019, and has not included any contribution from this scheme in 2019.

The SkatteFUNN grant has been recognized as Other Income in 2018 (see Note 17).

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway.

17. Other income

Amounts in USD 1,000	2019	2018
Sublease income from the site in San Jose, California (CA)	182	96
Gain on sale of fixed assets, related to sale of equipment from San Jose site.	290	470
Government grants and funded development projects (see Note 16)	8	1,540
Other	—	4
Total	**480**	**2,110**

18. Salaries and other payroll costs

Amounts in USD 1,000	2019	2018
Salaries	14,030	25,858
Social security costs	1,282	2,154
Share-based compensation (subscription rights), notional salary cost	190	1,465
Share-based compensation (subscription rights), accrued employer´s tax*	19	(96)
Pension contribution	519	1,471
Other personnel related expenses, including recruiting costs	1,788	2,392
Total	**17,828**	**33,244**
Average number of employees for the year (full-time equivalent)	75	164

At the end of the year the Group had 23 employees (full-time equivalents), down from 155 at the end of 2018.

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

*Relates to remeasurement of social security costs. See Note 2.17.

Compensation to senior management

Amounts in USD 1,000	Salary	Pension contribution	Bonus	Share-based remuneration
2019				
Kevin Barber, CEO	418	10	191	994
Ole Ronny Thorsnes, CFO (until 30 September 2019)	326	—	—	—
Mallorie Burak, CFO (from 1 July 2019)	155	5	8	35
Christian Delay, CCO (until 12 September 2019)	322	6	—	—
Peter Fischer, COO (until 22 February 2019)	160	4	—	—
Giampaolo Marino, EVP Hardware Solutions	290	10	8	145
Arvind Kamath, EVP Technology Development	279	11	78	53
Matt Kaufmann, EVP Operations (until 30 September 2019)	177	7	—	—
Shannon Fogle, VP of Global Human Resources	193	8	4	17
2018				
Kevin Barber, CEO (from 26 November, 2018)	43	—	—	330
Davor Sutija, CEO (until 26 November, 2018)	446	12	287	338
Ole Ronny Thorsnes, CFO	308	12	124	163
Christian Delay, CCO	286	11	99	140
Christer Karlsson, CTO	226	52	39	115
Peter Fischer, COO	460	11	62	140
Giampaolo Marino, EVP Hardware Solutions (from 23 July, 2018)	121	4	91	30
Arvind Kamath, EVP Technology Development	253	11	63	53
Matt Kaufmann, EVP Operations	240	9	63	39
Shannon Fogle, VP of Global Human Resources	142	7	39	17
Henrik Sjöberg, SVP Product Management (until 29 April, 2018)	97	8	33	—
John McNulty, EVP Marketing (from 13 February, 2018 to 21 June, 2018)	97	4	33	—
Bill Cummings, SVP Marketing Communications (until 20 September, 2018)	256	7	6	86
Tauseef Bashir, EVP Global Sales (until 23 May, 2018)	264	5	35	—

The salary amount is the salary declared for tax purposes. Bonus represents the amount earned and accrued as of year-end. Bonuses earned in 2018 and 2019 were subsequently paid during the first quarter of 2019 and 2020, respectively. The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights. The subscription rights cease when the employee resigns.

There were no subscription rights exercised by senior management in 2019 or 2018.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the Board of Directors

The company has no other obligation to remunerate the board than the board remuneration as resolved by the annual general meeting. The annual general meeting on 28 May 2019 resolved remuneration to the chairman of NOK 325 thousand and USD 40 thousand (or an amount in NOK equivalent thereof) for each board member for the period from the annual general meeting in 2019 to the annual general meeting in 2020. Board member Jon S. Castor shall further receive a remuneration of USD 60 thousand (or an amount in NOK equivalent thereof) fixed annual fee for service as Chairman of a strategy committee to be appointed by the Board of Directors supporting the CEO of the Company in relation to strategic questions from the date of the 2019 Annual General Meeting until the date of the 2020 Annual General Meeting. The company has not issued any advance payments or loans to, or guarantees in favor of, any board member.

19. Other operating expenses

Amounts in USD 1,000	2019	2018
Services	4,458	5,480
Premises, supplies	7,094	12,047
Sales and marketing	1,059	2,889
Other expenses	1,503	814
Total	**14,114**	**21,230**

Thinfilm has lease agreements for premises in the following locations:

Oslo (Norway): The Corporate headquarter was located at Henrik Ibsens Gate 100, Oslo, throughout 2018, with an annual lease amount of NOK 780 thousand per year, and a termination clause of 3 months. The Company has subsequently moved to a new office location at Fridjof Nansens Plass 4, Oslo, in March 2019. The lease amount at the new location is NOK 689 thousand per year, with a termination clause of 3 months. The lease expired on 31 August 2019 and the lease was not renewed.. The Company currently pays rent on a month to month basis. The monthly rent is NOK 11 thousand per month.

San Jose (California, US): The Company entered into a lease agreement in November 2016 relating to the property building of its Global headquarter at Junction Avenue in San Jose, CA. The lease in San Jose expires in September 2028. The average annual lease amount in the period is USD 2,052 thousand. See Note 8 for further description. From Q3 2018, the company receives sublease income from the second floor of the building (see Note 17).

San Francisco (California, US): This office was closed in December 2018. Total lease payments in 2018 related to the SF office space was USD 108 thousand.

Linköping (Sweden): This office was closed in 2019. The annual lease payment in 2019 was SEK 654 thousand per year.

Shanghai (China): This office was closed at the end of 2019. The lease amount was CNY 559 thousand per year.

London (England): This office was closed in 2019. The lease amount was GBP 58 thousand per year.

Singapore: This office was closed in 2019. The lease amount was SGD 44 thousand per year.

Only the lease agreement for the San Jose premises has duration longer than twelve months.

20. Income tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in USD 1,000	2019	2018
Profit (loss) before tax	(78,456)	(71,711)
Tax (tax income) calculated at domestic tax rate 22% (23%)	(17,260)	(16,494)
Effect of other tax rate in other countries	543	578
Share based compensation	97	173
Other permanent differences	(261)	(584)
Effect of change in tax rates	—	2,622
Change in deferred tax asset not recognised in the balance sheet	16,871	13,716
Tax charge	**(10)**	**11**

21. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Amounts in USD 1,000	31 Dec 2018	Charged to profit/loss	Equity	31 Dec 2019
Deferred income tax asset				
Fixed and intangible assets	2,847	6,100	(4)	8,944
Inventory	524	349	—	873
Other accruals	2,776	3,174	—	5,948
Tax loss carried forward outside Norway	381	6	—	387
Tax loss carried forward Norway	53,454	7,390	(539)	60,305
Calculated deferred tax asset 22% (22% 2018)	59,982	17,019	(543)	76,458
Impairment of deferred tax asset	(59,982)	(17,019)	543	(76,458)
Deferred tax in the balance sheet	**—**	**—**	**—**	**—**

The Equity column includes effects of currency translation.

The company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway, Sweden and the US. These tax rates are 22, 22 and 21 per cent respectively (2018: 22, 22 and 21).

22. Profit (loss) per share

Amounts in USD	2019	2018
Profit (loss) attributable to equity holders of the Company (USD 1,000)	(78,446)	(71,722)
Average number of shares in issue	58,593,581	58,593,581
Average diluted number of shares	58,593,581	58,593,581
Profit (loss) per share, basic	**(USD1.34)**	**(USD1.22)**

When the period result is a loss, the loss per diluted number of shares shall not be reduced by the higher diluted number of shares, but the diluted result per share equals the result per basic number of shares.

The diluted number of shares has been calculated by the treasury stock method. If the adjusted exercise price of subscription rights exceeds the average share price in the period, the subscription rights are not counted as being dilutive.

The weighted average basic and diluted number of shares have been adjusted to reflect the reverse share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

23. Related party transactions

a) Transactions with related parties:

Amounts in USD 1,000	2019	2018
Purchases of services from law firm Ræder	747	339
Purchase of services from Robert N. Keith	—	249
Purchase of services from Translarity	—	34

In the period 1 January - 31 December 2019, Thinfilm has recorded USD 747 thousand (net of VAT)

for legal services provided by law firm Ræder, in which Thinfilm's Chairman is a partner.

In the same period, Thinfilm did not record any services from Robert N. Keith, a shareholder of Thinfilm, relating to a service agreement under which he assists Thinfilm in strategic analysis.

Also, in the same period, Thinfilm did not record any transactions for R2R probe card equipment delivered by Translarity. Laura Ann Oliphant was affiliated with Translarity and resigned as a Thinfilm's board member in 2019.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in USD 1,000	2019	2018
Payable to law firm Ræder	445	85
Payable to Translarity	—	—
Payable to Robert N. Keith	—	249

c) Remuneration to the auditor

Amounts in USD 1,000	2019	2018
Audit	130	107
Other assurance services	—	2
Tax services	3	3
Other services	—	—
Total	**133**	**112**

24. Guarantees

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017, a USD 1,600 thousand Letter of Credit has been issued by Thin Film Electronics ASA to the new landlord and is included in the Company's cash balance in Note 11 as restricted cash. Cash and bank deposits. Thin Film Electronics ASA has in addition entered into a Tenancy Guaranty with the new landlord and is included in the Company's cash balance in Note 11. Cash and bank deposits. The Guaranty is given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2019, the Guaranty liability amounted to USD 4,000 thousand.

25. Shares, warrants and subscription rights

At the end of 2019 there were 58,593,581 shares in the company, versus 58,593,581 at the end of 2018. There were 6964 registered shareholders (2018: 6045).

Thinfilm is not aware of any shareholding agreements between shareholders.

Top 20 registered shareholders at 31 December 2019	Shares	Percent
Nordnet Bank AB	5,434,208	9.27%
ALGOT INVEST AS	2,900,000	4.95%
Danske Bank A/S	2,392,138	4.08%
Nordea Bank Abp	1,372,056	2.34%
TIGERSTADEN INVEST AS	1,000,832	1.71%
ANDREAS HOLDING AS	905,000	1.54%
EQUINOR PENSJON	839,938	1.43%
The Bank of New York Mellon SA/NV	822,014	1.40%
SUNDVALL HOLDING AS	790,859	1.35%
Saxo Bank A/S	753,078	1.29%
CODEE HOLDING AS	677,300	1.16%
UBS Switzerland AG	666,859	1.14%
RØNNING, RONNY	627,150	1.07%
Avanza Bank AB	613,365	1.05%
Svenska Handelsbanken AB	606,139	1.03%
JACO INVEST AS	548,008	0.94%
R. SUNDVALL INVEST AS	548,000	0.94%
UBS SWITZERLAND AG	547,844	0.93%
Guttis AS	541,610	0.92%
NORDNET LIVSFORSIKRING AS	528,891	0.90%
Total 20 largest shareholders	23,115,289	39.45%
Total other shareholders	35,478,292	60.55%
Total shares outstanding	**58,593,581**	**100.00%**

Shares, ADRs and subscription rights held by primary insiders and close relations at 31 December 2019.

No insiders held warrants at 31 December 2019.

	Shares	ADRs	Incentive subscription rights
Morten Opstad, Chairman	99,336	—	-
Preeti Mardia, Board Member	7,761	—	-
Jon Castor, Board Member	—	—	400,000
Kelly Doss, Board Member	—	—	200,000
Kevin Barber, CEO	—	—	2,330,120
Mallorie Burak, CFO	—	—	688,539
Giampaolo Marino, EVP Solutions	—	—	300,010
Arvind Kamath, EVP Technology Development & Manufacturing	—	—	376,264
Shannon Fogle, VP Global Human Resources	—	—	183,006
Total	**107,097**	**—**	**4,477,939**

Subscription rights

	2019		2018	
	Weighted average exercise price, NOK	Number of subscription rights	Weighted average exercise price, NOK	Number of subscription rights
Total at 1 January	41.90	4,412,622	71.63	3,270,250
Adjustment to opening balance	—	—	44.60	18,750
Granted	3.28	5,429,856	22.22	2,603,372
Forfeited	39.93	(4,469,248)	58.12	(982,688)
Exercised	—	—	—	—
Expired	—	—	102.47	(497,063)
Total at 31 December	**3.20**	**5,373,230**	**41.90**	**4,412,622**
Number of exercisable subscription rights at 31 December (included in total)		—		—
The average strike price is higher than the quoted share price on the Stock exchange at 31 December 2019.				

Subscription rights outstanding at 31 December 2019

Holder	Number of subscription rights	Weighted average exercise price, NOK
Kevin Barber, CEO	2,330,120	3.86
Mallorie Burak, CFO	688,539	2.76
Giampaolo Marino, EVP Solutions	300,010	3.06
Arvind Kamath, EVP Technology Development & Manufacturing	376,264	2.60
Shannon Fogle, VP Global Human Resources	183,006	2.47
Employees and contractors	1,495,291	2.65
Total	**5,373,230**	**3.20**

There were no subscription rights exercised in 2019 and 2018.

Value of subscription rights and assumptions upon grant	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018	Grants in 2019
Value of subscription right at grant date, NOK per subscription right	17.00–70.20	24.60–50.40	14.40–35.00	4.80–20.60	0.34–2.88
Share price, NOK per share	68.80–151.60	71.20–101.00	49.00–75.80	16.00–45.00	22.04–12.18
Exercise price, NOK per share	79.0–151.60	71.20–101.00	49.00–75.80	16.40–45.40	16.40–45.40
Expected annual volatility	47%–66%	57%–70%	53%–68%	47%–89%	62%–145%
Duration, years	2.0–5.0	2.0–5.0	1.9–5.0	1.0–4.9	1.0–4.2
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	0.65–1.24%	0.53–0.94%	0.56–1.09%	0.74%–1.57%	1.00%–4.18%
All numbers are adjusted for the 20:1 reversed share split					

Value of subscription rights and assumptions on 31 December 2019	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018	Grants in 2019
Value of subscription right at 31 December 2019, NOK per subscription right	8.60–34.80	16.80–32.40	2.80–23.00	0.80–7.40	0–1.50
Share price, NOK per share	49.60	49.60	49.60	14.96	2.33
Exercise price, NOK per share	79.00–151.60	71.20–101.00	49.00–75.80	16.40–45.40	16.40–45.40
Expected annual volatility	58%	58%	58%	61%–82%	0%–209%
Duration, years	1.16–4.35	1.15–4.36	0.84–4.35	0.90–4.34	0–3.34
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	0.65–1.20%	0.53–0.94%	0.56–1.09%	0.96%–1.35%	0%–1.38%
Number of outstanding subscription rights at 31 December 2019	371,250	731,500	1,656,750	4,412,622	5,373,230
All numbers are adjusted for the 20:1 reversed share split					

26. Statement on management remuneration policy

Thinfilm's executive management during the year 2019 is specified in Note 18.

Several of the executive management team members serve as officers and directors in the subsidiaries without additional remuneration.

The general meeting 2019 resolved guiding and binding executive remuneration policies. Thinfilm's executive remuneration policy in 2019 was a continuation of the prior year's policy, including share-based remuneration in the form of a subscription rights incentive program as resolved at the annual general meeting, latest on 28 May 2019.

Guiding executive remuneration policy and effect of the policies

Thinfilm offers a competitive remuneration consisting of a reasonable base salary with a pension contribution. Salary may be supplemented by performance based cash bonus and incentive subscription rights. Cash bonus plans are limited to fixed percentage of base pay. In addition, the management team, apart from the CEO, may receive additional discretionary bonus payments tied to specific projects.

There is no post-employment remuneration beyond notice periods of 3-6 months. The former CEO, Davor P. Sutija, had a 3-months' severance pay (equal to 3 months ordinary salary) upon expiration of his termination notice period on 31 May 2019. The current CEO, Kevin Barber, has a termination notice period of (i) three months in case of termination by the Company and (ii) one month in case of termination by Mr. Barber. If the Company terminates Mr. Barber's employment (other than for cause) or if Mr. Barber resigns his employment for good reason, Mr. Barber is entitled to a severance pay equivalent to six months of his base salary and target bonus prorated for six months (if Mr. Barber is on schedule to meet the relevant bonus criteria for the year in question) calculated from the end of his termination notice period, all subject to such detailed terms and conditions as set out in his employment agreement

The policy described above has been applied consistently throughout 2019. The principles described above apply also in 2020, however individual bonus targets and salary levels will be revisited during the Company's normal salary process. The executive remuneration policy will be reviewed at the Annual General Meeting in May 2020.

The actual remuneration to the management in 2019 is reported in Notes 18 and 25. In 2018, the Board decided to grant subscription rights to new members of the management team as a form of performance based compensation. The options vest in tranches of 25 per cent each year if the employee has not resigned his position at the vesting date, and expire after five years.

The Annual General Meeting of Thin Film Electronics ASA (the Company) resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") would be entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans, as adjusted for the 20:1 reverse stock split in November 2019, have notified the Company that they wish to participate in the exchange program, whereupon such Eligible Holders explicitly waive any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders. The grants were made under the Company's 2019 Subscription Rights Incentive Plan as resolved at the Annual General Meeting on 28 May 2019. The exercise price of the subscription rights is NOK 4.67, as adjusted for the November 2019 20:1 reverse split, per share. The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The fair value of the subscription rights awarded, calculated according to Black-Scholes option pricing model, was NOK 10.1 million as of December 31, 2019. USD 395 thousand was expensed in 2019. At December 31, 2019, the estimated amount of share-based remuneration cost yet to be expensed throughout the vesting period is NOK 4.4 million.

The Company has regranted the management team the following subscription rights in 2019:

Employee name	Number of SR	Weighted average Exercise Price	Grant date
Kevin Barber, CEO	2,330,120	3.86	3 and 25 September 2019
Mallorie Burak, CFO	688,539	2.76	23, July and 3 September 2019
Giampaolo Marino, EVP Solutions	300,010	3.06	3 and 25 September 2019
Arvind Kamath, EVP Technology Development & Manufacturing	376,264	2.60	3 and 25 September 2019
Shannon Fogle, VP Global Human Resources	183,006	2.47	3 and 25 September 2019
Total	**3,877,939**	**3.41**	

Salary, pension and any bonuses that triggers employer's tax which will be expensed simultaneously with the remuneration.

27. Events after the balance sheet date

- On 30 January 2020, Thinfilm announced its new strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond, enabling the Company to leverage previous investments in technology and equipment related to its roll-to-roll production facility in San Jose, California.
- On 20 February 2020, Thinfilm hosted an Investor Day in Oslo, Norway to present the Company's new energy storage strategy.
- In connection with the 15 April 2020 Extraordinary General Meeting, the Company conducted a reduction of paid in capital by reduction in par value of shares in accordance with the Norwegian Public Limited Companies Act to cover the losses. The implication of this is that a resolution to distribute dividends may not be adopted until three years have elapsed from the registration in the Register of Business Enterprises, unless the share capital subsequently has been increased by an amount at least equal to the reduction.
- On 14 April 2020, Thinfilm announced the filing of multiple provisional patent applications, strengthening the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries (SSLB) for wearable devices, connected sensors, and beyond. The Company also confirmed that, despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure the continuity of its development efforts and mitigate potential delays. If the Company is successful in raising additional capital, management believes that it can continue to deliver samples of its SSLB products at the end of Q2, as previously communicated.
- On 15 April 2020, Thinfilm held an Extraordinary General Meeting to obtain shareholder approval for a private placement; issuance of new shares and the amendment of the Company's Articles of Association. In connection with the Private Placement, shareholder approval was also requested for the issuance of new shares and warrants in connection with a contemplated subsequent offering, and the associated amendment of the Company's Articles of Association.
- At the 15 April 2020 Extraordinary General Meeting, the Board proposed and the shareholders approved a reduction in share capital by a reduction of the par value of the shares from NOK 2.20 to NOK 0.11 per share.

- In connection with its equity financing process, on 29 April 2020, Thinfilm announced an Extraordinary General Meeting in Thin Film Electronics ASA to be held on 20 May 2020 to obtain shareholder approval for a private placement and subsequent equity offerings. In connection with the private placement and to to ensure adequate cash remains available to operate until the equity financing closes, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA. Should the proposed resolutions be approved, the Company's share capital shall be increased with NOK 24,999,999.97 from NOK 6,445,293.91 to NOK 31,445,293.88, by issuance of 227,272,727 new shares, each share having a par value of NOK 0.11, at a subscription price per share of NOK 0.11. The total subscription amount is NOK 24,999,999.97, all constituting share capital. See also further information in the going concern section in note 2.1.

28. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows. The Company is in the process of dissolving some of these subsidiaries in 2020.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group 31 December 2019
Thin Film Electronics Inc.	Research & Development, Manufacturing and Marketing services	USA	100%
Thin Film Electronics AB	Research & Development, Manufacturing and Marketing services	Sweden	100%
Thin Film Electronics KK	Marketing services	Japan	100%
Thin Film Electronics HK Ltd.	Supply chain services	Hong Kong	100%
Thin Film Holding	Owning shares in Thin Film Inc.	USA	100%
Thin Film Electronics UK Ltd.	Marketing services	England, Wales	100%
Thin Film Electronics Co. Ltd.	Supply chain and Marketing Services	China	100%
Thin Film Electronics Singapore Pte. Ltd.	Marketing services	Singapore	100%

29. Contractual committment

Thinfilm has no contractual committment related to equipment for the new roll-based production line at the San Jose site.

Thin Film Electronics ASA
Annual financial statements 2019

Profit and loss statements

Amounts in NOK 1,000	Note	2019	2018
Sales revenue	11	5,182	8,826
Other revenue	12,13,14	—	594
Other income	12,13,14	—	971
Total revenue		**5,182**	**10,391**
Employee salaries and other benefits	15	(16,126)	(32,569)
Services (external)		(18,088)	(18,483)
Services (from subsidiaries)	18,19	(261,595)	(372,229)
Other operating expenses	19	(13,079)	(20,090)
Contribution from Skattefunn scheme	13	—	10,000
Amortization of intangible assets & negative goodwill	7	(22,466)	(11,752)
Operating profit (loss)		**(326,172)**	**(434,732)**
Impairment investment in subsidiary	6	(164,465)	(156,135)
Interest income		1,090	5,163
Other financial income		—	12
Other financial costs		3,223	10,961
Net financial items		**(160,151)**	**(140,000)**
Profit (loss) before income tax		**(486,323)**	**(574,732)**
Income tax expense	16	—	—
Profit (loss) for the year		**(486,323)**	**(574,732)**

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

Balance sheet

Amounts in NOK 1,000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets	7	—	19,494
Investment in subsidiaries	6	37,376	198,969
Total non-current assets		**37,376**	**218,463**
Current assets			
Trade and other receivables	8	1,304	104,124
Cash and bank deposits	9	27,717	242,819
Total current assets		**29,021**	**346,943**
Total assets		**66,397**	**565,406**
EQUITY			
Ordinary shares	10,21	128,906	128,906
Other paid-in capital		—	2,425,538
Total paid-in equity		**128,906**	**2,554,444**
Retained profit/uncovered losses		(136,968)	(2,070,966)
Total equity	**4**	**(8,062)**	**483,478**
LIABILITIES			
Current liabilities			
Deferred revenue		—	222
Accounts payable		6,389	1,736
Withheld tax and public duties payable		313	1,549
Debt to group companies	6,18	63,403	72,380
Other payables and accruals		4,354	6,041
Total liabilities	**20**	**74,459**	**81,928**
Total equity and liabilities		**66,397**	**565,406**

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad
Chairman

Preeti Mardia
Board Member

Jon Castor
Board Member

Kelly Doss
Board Member

Kevin Barber
Managing Director (CEO)

Cash flow statements

Amounts in NOK 1,000	Note	2019	2018
Cash flows from operating activities			
Profit (loss) before income tax		(486,323)	(574,732)
Share-based compensation (equity part)	21	3,489	6,459
Amortization and impairment (reversal)	7	22,466	11,752
Impairment investment in subsidiary	6	164,465	156,135
Change in working capital and other items		83,772	(94,631)
Net cash from operating activities		**(212,131)**	**(495,017)**
Cash flows from investing activities			
Capitalized development expenses	7	(2,971)	(12,932)
Investment in subsidiaries	6	—	(9,867)
Net cash from investing activities		**(2,971)**	**(22,799)**
Cash flows from financing activities			
Proceeds from issuance of shares	10	—	—
Net cash from financing activities		**—**	**—**
Net change in cash and bank deposits		**(215,102)**	**(517,816)**
Cash and bank deposits at the beginning of the year		242,819	760,635
Cash and bank deposits at the end of the year*	**9**	**27,717**	**242,819**

The company had no bank draft facilities at the end of 2019 or 2018.

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

* See Note 9 for restricted amount.

Notes to the Annual Financial Statements Thinfilm ASA

1. Information about the company

Thin Film Electronics ASA ("Thinfilm" or "the Company") was founded on 22 December 2005. See Note 28 of the Consolidated Financial Statements for list of subsidiaries.

Thinfilm is energizing innovation with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These annual financial statements for the parent company were resolved by the company's board of directors on 11 May 2020.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019, in order to reduce the Company's cost structure. Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020.

The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow.

The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April, 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. The Company plans to raise funds in May of 2020. At the end of April 2020, the Board received a commitment by a consortium of investors to invest NOK 20 million with an interim bridge loan to ensure that the Company has sufficient levels of cash to maintain operations, since committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May extraordinary general meeting. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and management, at a subscription price per share equal to the subscription price in the private placement.

To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Continued discussions and the processes required to secure additional equity funding from current and new shareholders;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy. However, the financial statements do not include adjustments related to the amounts of liabilities that might be necessary, should the Company and the consolidated entity not continue as going concerns.

2. Accounting policies

These annual financial statements have been prepared in accordance with the Norwegian accounting act 1998 and generally accepted accounting principles in Norway. The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been applied consistently. The currency of Thin Film Electronics ASA is NOK. The financial statements have been prepared using the historical cost convention.

Principal criteria for valuation and classification of assets and liabilities

Assets for lasting ownership or use have been classified as fixed assets. Other assets have been classified as current assets. Receivables which are due within twelve months have been classified as current assets. Corresponding criteria have been applied when classifying short-term and long-term debt.

Current assets have been valued at the lower of cost and fair value. Other long-term debt and short-term debt have been valued at face value.

Assets and liabilities denominated in foreign currency

Monetary items in foreign currency have been converted at the exchange rate on the balance sheet date.

Shares in subsidiaries

Investment in subsidiaries has been valued at cost in the parent company. In case of impairment which is not temporary, the investment has been written down to fair value if mandated according to GAAP.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Thinfilm ASA recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods

During 2019, the Company sold NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. Sales of goods are recognized when the risks and rewards of ownership are transferred to the customer, the costs incurred or to be incurred in respect of the transaction can be measured reliably and Thinfilm retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Company provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance

sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted. However, revenue from technology access agreements that involve an upfront lump-sum payment that is not tied to any future deliveries from Thinfilm is recognized at the time the agreement is entered into.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants which are related to specific development programs with commercial end-objectives are recognised as other operating revenue over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Grants or other contributions in the form of tax credit are credited against costs.

Intangible assets

Reference is made to Note 2.6 in the Consolidated Financial Statements.

Receivables

Accounts receivable and other receivables have been recorded at face value after accruals for expected losses have been deducted. Accruals for losses have been made based on an individual assessment of each receivable.

Cash and bank deposits

Cash and bank deposits include cash, bank deposits and cash equivalents with a due date less than three months from acquisition.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

Costs

In principle, cost of sales and other expenses are recognized in the same period as the revenue to which they relate. In instances where there is no clear connection between the expense and revenue, the apportionment is estimated.

Share based remuneration

The company may issue independent subscription rights to employees and individual consultants performing similar work and accounts for these transactions under the provisions of NRS 15A and generally accepted accounting principles in Norway. Two types of expenses are recognized related to grant of subscription rights: (i) Notional cost of subscription rights is recognized at time of grant and calculated based on the Black-Scholes model (share price at time of grant, exercise price, expected volatility, duration and risk-free interest rate). The subscription rights vest in four tranches of 25 per cent on each anniversary of the grant, i.e., each tranche has different duration. The notional cost of subscription rights as share based remuneration is expensed but the equity effect is nil because the contra item is a notional equity injection of equal amount. (ii) Employer's tax expense is accrued based on the net present value of the subscription right as an option on the balance sheet date. The value varies with the share price and may entail a net reversal of costs.

When the parent has an obligation to settle the share-based payment transaction with the subsidiaries' employees by providing the parent's own equity instruments, this is accounted for as an increase in equity and a corresponding increase in investment in subsidiaries.

Tax on profit

Tax cost has been matched to the reported result before tax. Tax related to equity transactions has been charged to equity. The tax cost consists of payable tax (tax on the directly taxable income for the year) and change in net deferred tax. The tax cost is split into tax on ordinary result and result from extraordinary items according to the tax base. Net deferred tax benefit is held in the balance sheet only if future benefit can be justified.

Consolidated items

Insignificant items have been combined or included in similar items in order to simplify the statements. Lines which are zero or about zero have been omitted except where it has been deemed necessary to emphasize that the item is zero.

Estimates and judgmental assessments

The preparation of the annual accounts in accordance with the generally accepted accounting principles requires that the management make estimates and assumptions that affect the income statement and the valuation of assets and liabilities. Estimates and related assumptions have been based on the management's best knowledge of past and recent events, experience and other factors which are considered reasonable under the circumstances. Estimates and underlying assumptions are subject to continuous evaluation.

3. Significant events, going concern, events after the balance sheet date, financial risk

- On 30 January 2020, Thinfilm announced its new strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond, enabling the Company to leverage previous investments in technology and equipment related to its roll-to-roll production facility in San Jose, California.

- On 20 February 2020, Thinfilm hosted an Investor Day in Oslo, Norway to present the Company's new energy storage strategy. The fundraising objective and timeline was impacted by the onset of the COVID-19 global pandemic, resulting in delays in securing commitments from potential investors.

- In connection with the 15 April 2020 Extraordinary General Meeting, the Company will also conduct a reduction of paid in capital by reduction in par value of shares in accordance with the Norwegian Public Limited Companies Act to cover the losses. The implication of this is that a resolution to distribute dividends may not be adopted until three years have elapsed from the registration in the Register of Business Enterprises, unless the share capital subsequently has been increased by an amount at least equal to the reduction.

- On 14 April 2020, Thinfilm Electronics ASA announced the filing of multiple provisional patent applications, strengthening the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries (SSLB) for wearable devices, connected sensors, and beyond. The Company also confirmed that, despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure the continuity of its development efforts and mitigate potential delays. The Company therefore believes that it can continue to deliver samples of its SSLB products at the end of Q2, as previously communicated.

- On 15 April 2020, Thinfilm held an Extraordinary General Meeting to obtain shareholder approval for a private placement; issuance of new shares and the amendment of the Company's Articles of Association. In connection with the Private Placement, shareholder approval was also requested for the issuance of new shares and warrants in connection with a contemplated subsequent offering, employee share purchase plan and the associated amendment of the Company's Articles of Association.

- At the 15 April 2020 Extraordinary General Meeting, the Board proposed and the shareholders approved a reduction in share capital by a reduction of the par value of the shares from NOK 2.20 to NOK 0.11.

- In connection with its equity financing process, on 29 April 2020, Thinfilm announced an Extraordinary General Meeting in Thin Film Electronics ASA to be held on 20 May 2020 to obtain shareholder approval for a private placement and subsequent equity offerings. In connection with the private placement and to to ensure adequate cash remains available to operate until the equity financing closes, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA.

Financial risk factors

Reference is made to Note 4.2 in the Consolidated Financial Statements.

4. Equity

Amounts in NOK 1,000	Share capital	Other paid in equity	Uncovered loss	Total
Balance at 1 January 2019	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**
Share based compensation	—	(5,217)	—	(5,217)
Net profit (loss) for the year	—	—	(486,323)	(486,323)
Transfer for coverage of losses	—	(2,420,321)	2,420,321	—
Balance at 31 December 2019	**128,906**	**—**	**(136,968)**	**(8,062)**
Balance at 1 January 2018	**128,906**	**2,410,944**	**(1,496,234)**	**1,043,616**
Share based compensation	—	14,594	—	14,594
Net profit (loss) for the year	—	—	(574,732)	(574,732)
Balance at 31 December 2018	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**

5. Property, plant and equipment

Current facilities are rented with furniture included. Minor computing and communications equipment has been expensed.

6. Investment in subsidiaries

In 2019 the remainder of the subsidiaries were written down to zero, except for Thin Film Electronics AB (Sweden), and the Company is in the process of disolving some of these subsidiaries in 2020.

The shares are held at the lower of cost and fair value in the balance sheet in 2019.

In 2020 the Company made the decision to reduce the share capital to cover the losses.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics AB — Linköping, Sweden			
At 31 December 2019	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,187)
Net book value at 31 December 2019			**37,376**
At 31 December 2018	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,944)
Net book value at 31 December 2018			**36,619**

The local currency of Thin Film Electronics AB is SEK. The net income in SEK in 2019 was a loss of SEK 151 thousand and a net profit SEK 911 thousand in 2018, while the total equity 31 December 2019 was SEK 40,442 thousand (2018; SEK 39,682 thousand).

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Inc. — CA, USA			
At 31 December 2019	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(303,517)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(147,773)
Net book value at 31 December 2018			**155,744**

The local currency of Thin Film Electronics Inc. is USD. The net income in USD in 2019 was a loss of USD 43,009 thousand compared to a loss of USD 16,203 thousand in 2018. The total equity 31 December 2019 was USD (18,917) thousand (USD 23,374 thousand in 2018). The shares are fully impaired as of 31 December 2019. This is mainly triggered by the impairment of PPE in INC as a result of the corporate restructuring (please refer to Note 6 in the Consolidated Financial Statements).

Thin Film Holding (NV, USA), is a 100% owned subsidiary, of which the only activity is holding shares in Thin Film Electronics Inc. Net book value is zero in both 2019 and 2018.

Thin Film Electronics KK (Tokyo, Japan), is a 100% owned subsidiary, which was fully written down in 2016, as all activity in the Japanese legal entity had ceased.

Thin Film Electronics HK Ltd. (Hong Kong), is a 100% owned subsidiary, which was fully written down in 2018. The local currency of Thin Film Electronics HK is HKD. The net loss in HKD in 2019 was HKD 448 thousand, while the total equity 31 December 2019 was HKD (14,906) thousand.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Co. Ltd. — Shanghai, China			
At 31 December 2019	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(21,753)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(16,106)
Net book value at 31 December 2018			**5,647**

The local currency of Thin Film Electronics Co. Ltd. is CNY. The entity was established in February 2017. The net loss of CNY 2,787 thousand (2018; loss of CNY 7,230 thousand) while the total equity 31 December 2019 was CNY 1,557 thousand (2018; CNY 4,467 thousand).

The shares were fully impaired in 2019, as Thinfilm has ceased the operation in Shanghai.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics UK Ltd. — London, England			
At 31 December 2019	100%	100%	
Accumulated cost			564
Accumulated impairment charge			(564)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			564
Accumulated impairment charge			—
Net book value at 31 December 2018			**564**

The local currency of Thin Film Electronics UK Ltd. is GBP. The entity was established in March 2017. The net income in GBP in 2019 was a loss in GBP 76 thousand compared to a profit of GBP 32 thousand in 2018. The total equity 31 December 2019 was GBP (4) thousand (GBP 72 thousand in 2018). The investment was fully impaired in 2019 as Thinfilm has ceased the operation in the UK.

Thin Film Electronics UK Ltd. has taken advantage of section 479a of the UK Companies Act 2006 to be exempt from audit of its financial statements for the years 2019 and 2018.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Singapore Pte Ltd. — Singapore			
At 31 December 2019	100%	100%	
Accumulated cost			395
Accumulated impairment charge			(395)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			395
Accumulated impairment charge			—
Net book value at 31 December 2018			**395**

The local currency of Thin Film Electronics Singapore Pte Ltd. is SGD. The entity was established in November 2017. The net income in SGD in 2019 was a loss of SGD 562 thousand (2018; loss of SGD 983 thousand) while the total equity at 31 December 2019 was SGD (1,532) thousand (SGD 973 thousand in 2018) . The investment was fully impaired in 2019 as Thinfilm has ceased the operation in Singapore.

Guarantees provided to subsidaries

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued by Thin Film Electronics ASA to the new landlord. Thin Film Electronics ASA has in addition entered into a Tenancy Guaranty with the new landlord. The guaranty is given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2019, the Guaranty liability amounted to USD 4,000 thousand.

7. Intangible assets

Amounts in NOK 1,000	Purchased intellectual property	Negative goodwill	Capitalized development costs	Total
Amortization period, years (linear)	13–16	5		
Acquisition cost				
Accumulated cost on 1 January 2019	15,872	(2,925)	9,773	22,721
Additions	—	—	2,971	2,971
Accumulated costs 31 December 2019	**15,872**	**(2,925)**	**12,744**	**25,692**
Accumulated amortization on 1 January 2019	(6,152)	2,925	—	(3,227)
Amortization	(1,329)	—	—	(1,329)
Impairment	(8,391)	—	(12,744)	(21,135)
Amortization at 31 December 2019	**(15,872)**	**2,925**	**(12,744)**	**(25,691)**
Net book value 31 December 2019	**—**	**—**	**—**	**1**
Acquisition cost				
Accumulated cost on 1 January 2018	17,198	(2,925)	7,067	21,341
Additions	—	—	12,932	12,932
Impairment (at costs)	(1,326)	—	(10,226)	(11,552)
Accumulated costs 31 December 2018	**15,872**	**(2,925)**	**9,773**	**22,721**
Accumulated amortization on 1 January 2018	(5,367)	2,340	—	(3,027)
Amortization	(1,330)	585	—	(745)
Accumulated amortization impaired assets	545	—	—	545
Amortization at 31 December 2018	**(6,152)**	**2,925**	**—**	**(3,227)**
Net book value 31 December 2018	**9,720**	**—**	**9,773**	**19,494**

The purchased intellectual property relate to licensing of certain patents. The portfolio is reviewed for impairment annually by comparing the book value to the fair market value at the patent level. In 2019 the remaining unamortized balance of NOK 8,391, has been impaired in full as the company has revised its strategy whereby the future value of these patents are uncertain. 2018 impairments related to patents with a fair market value lower than the recorded book value.

In 2018 capitalized development costs relate to EAS (Electronic article surveillance) and NFC Speedtap™. The capitalized costs of NOK 10,226 thousand related to EAS were fully impaired in 2018, as Thinfilm decided to not further commercialize the EAS product. In 2019 it was decided that the capitalized development costs relating to NFC SpeedTap™ would not be further commercialized and the remaining costs of NOK 12,744 were impaired.

On 21 January 2014, Thinfilm acquired certain assets, contracts and processes from Kovio Inc., a company active in the field of radio frequency enabled products based on printed silicon technology. The difference between total consideration transferred and estimated fair value of assets amounted to NOK 2,925 thousand. This constituted a bargain purchase and the negative goodwill of NOK 2,925 is amortized on a systematic basis over five years as a credit against cost. Reference is made to Note 25 in Consolidated Financial Statements in the 2014 Annual Report for further description.During the year 2018, the remaining NOK 585 thousand was amortized.

8. Trade and other receivables

Amounts in NOK 1,000	31 December 2019	31 December 2018
Customer receivables	2,344	5,411
Accrued revenue not yet invoiced	—	650
Other receivables, prepayments	860	98,063
Less: allowance for doubtful accounts	(1,900)	—
Receivables — net	**1,304**	**104,124**
Of this, receivables from Thinfilm AB	—	943
Of this, receivables from Thinfilm Inc.	—	77,448
Of this, receivables from Thinfilm HK	—	7,018
Of this, receivables from Thinfilm UK Ltd.	—	1,106
Of this, receivables from Thinfilm SG	—	(24)

All receivables are due within one year and book value approximates fair value. The total amount denominated in NOK is 1,304 thousand (2018: NOK 10,446 thousand), NOK — thousand is denominated in GBP (2018: NOK 1,214 thousand), NOK — thousand is denominated in USD (2018: 84,366 thousand), NOK — thousand is denominated in HKD (2018: NOK 1,650 thousand), NOK — thousand is denominated in SEK (2018: NOK 943 thousand), NOK — thousand is denominated in SGD (2018: 6,319), while NOK — thousand is denominated in other currencies (2018: NOK 160 thousand).

Of other receivables NOK 860 thousand were not past due as per 31 December.

Customer receivables, less allowance for doubtful accounts, of NOK 444 thousand were past due by more than 90 days.

The company assesses impairment risk on an individual basis.

9. Cash and bank deposits

Amounts in NOK 1,000	31 December 2019	31 December 2018
Bank deposits excluding restricted cash	13,574	227,659
Deposit for Letter of Credit (restricted)	14,096	14,262
Deposit for withheld tax (restricted)	47	897
Total	**27,717**	**242,819**

As a part of the relocation of Thinfilm INC.'s US headquarter in the second quarter of 2017 a USD 1,600 thousand Letter of Credit was issued to the new landlord.

Payable withheld tax amounts at 31 December 2019 was NOK 47 thousand.

10. Share capital

Reference is made to Note 12 in the Consolidated Financial Statements.

11. Sales revenue

Amounts in NOK 1,000	2019	2018
Sales of goods	4,672	8,729
Rendering of services, delivery of samples, technology access revenue	510	97
Total	**5,182**	**8,826**

No warranty costs, penalties or other losses were related to sales revenue in 2019 or 2018.

12. Other revenue

Amounts in NOK 1,000	2019	2018
Government grants, funded development projects	—	594
Total	—	**594**

13. Government grants

In 2018 Thinfilm ASA had a project qualified for the SkatteFUNN scheme for the three-year horizon 2018-2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million. Due to a revised strategy the company has ceased the SkatteFUNN project in 2019, and has not included any contribution from this scheme in 2019.

The SkatteFUNN grant has been credited against cost on a systematic basis over 2018.

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway.

In February 2015 Thinfilm ASA received an grant from The Research Council of Norway of NOK 12 million relating to enhancing durability and liftetime of Thinfilm smart tags. The project ran until April 1, 2018. The grant has been recognized as Other revenue (see Note 12).

14. Other Income

Amounts in NOK 1,000	2019	2018
Government grants, funded development projects	—	594
Sale of IP rights	—	971
Total	**—**	**1,565**

Sales of IP rights related to the Xerox transaction, amounting to NOK 971 thousand in 2018.

15. Employee salaries and other benefits

Amounts in NOK 1,000	2019	2018
Salaries	10,319	22,009
Social security costs	1,740	2,753
Share-based compensation (subscription rights), notional salary cost	3,489	6,459
Share-based compensation (subscription rights), accrued employer´s tax*	87	(356)
Pension contribution	347	1,001
Other personnel related expenses, including recruiting costs	144	703
Total	**16,126**	**32,569**
Average number of employees for the year	4	9
Number of employees 31 December	1	10

At the end of 2019 there was one full-time employee in the company (2018: 10 full-time employees).

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

Compensation to senior management

	Salary	Pension contribution	Bonus	Share-based remuneration
2019				
Kevin Barber, CEO starting 26 November 2018	3,681	92	1,681	8,743
Mallorie Burak, CFO starting 1 July 2019	1,364	48	68	306
Ole Ronny Thorsnes, CFO until 1 July 2019	2,870	–	–	–
Ole Ronny Thorsnes was terminated from Thinfilm on 30 September 2019.				
2018				
Kevin Barber, CEO starting 26 November 2018	370	–	–	2,680
Davor Sutija, CEO until 26 November 2018	3,625	102	2,336	2,746
Ole Ronny Thorsnes, CFO	2,506	102	1,011	1,327

The salary amount is the salary declared for tax purposes. Bonus is the amount earned during the year and accrued at year-end.

Bonuses earned in 2018 and 2019 were subsequently paid during the first quarter of 2019 and 2020, respectively.

The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights.

No subscription rights were exercised in 2019 or 2018.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the board of directors

Reference is made to Note 18 in the Consolidated Financial Statements.

16. Income tax expense

The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in NOK 1,000	2019	2018
Profit (loss) before tax	(486,323)	(574,732)
Tax (tax income) calculated at corporate tax rate	(106,991)	(132,188)
Permanent differences	37,543	35,014
Effect of change in tax rates (23% to 22%)	—	21,296
Change in deferred tax asset not recognised on the balance sheet	69,448	75,879
Tax charge	**—**	**0.00**
Corporate tax rate	22%	23%

17. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Amounts in NOK 1,000	31 December 2019	31 December 2018
Deferred income tax asset Intangible asset	(8,485)	(4,071)
Tax loss carried forward	(529,470)	(464,436)
Calculated deferred tax asset	(537,955)	(468,507)
Impairment of deferred tax asset	537,955	468,507
Deferred tax asset in the balance sheet	**—**	**—**

The Company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway with tax rate 22 % (22%: 2018).

18. Related party transactions

a) Transactions with related parties:

Amounts in NOK 1,000	2019	2018
Technical development services from Thinfilm AB	8,824	11,834
Sales, marketing, R&D and manufacturing services from Thinfilm Inc.	249,045	363,723
Sales and marketing services from Thinfilm HK	—	69
Sales and marketing services from Thinfilm CN	—	402
Sales and marketing services from Thinfilm UK	5,343	9,005
Internal purchase of goods for resale from Thinfilm Inc.	—	128
Intercompany interest income on loan to Thinfilm Inc.	(2,393)	(2,903)
Intercompany royalty income from Thinfilm Inc.	—	(83)
Purchases of services from law firm Ræder	6,031	2,739
Purchase of services from Robert N. Keith	—	2,000

Services provided by subsidiaries and capitalized in the balance sheet as development costs amount to NOK 2971 thousand (2018: 12,932 thousand).

Thinfilm's chairman, Morten Opstad, is a partner of Advokatfirmaet Ræder AS, who is also Thinfilm's legal counsel. The amounts do not include Mr. Opstad's service as chairman. Mr. Opstad and close associates hold shares in Thinfilm.

Robert N. Keith, a shareholder of Thinfilm, entered into a consulting service agreement with effect from 1 January 2013. Mr. Keith assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in NOK 1,000	2019	2018
Payable to Thinfilm Inc.	25,225	30,971
Payable to Thinfilm AB	37,376	39,670
Payable to Thinfilm HK	—	76
Payable to Thinfilm UK	802	1,260
Payable to Thinfilm CN	—	402
Receivable from Thinfilm AB	—	(943)
Receivable from Thinfilm INC	—	(77,448)
Receivable from Thinfilm HK	—	(7,018)
Receivable from Thinfilm UK	—	(1,106)
Receivable from Thinfilm SG	—	24
Payable to law firm Ræder	3,729	742
Payable to Robert Keith	—	2,000

19. Other operating expenses

Amounts in NOK 1,000	2019	2018
Premises, supplies	4,710	4,105
Sales and marketing	2,883	1,333
Other expenses	5,486	14,652
Sum	**13,079**	**20,090**

Thinfilm has a lease agreement for premises in Oslo (Norway). The lease amount in Oslo is NOK 780 thousand per year, with a termination clause of 3 months. The agreement was terminated effective March 2019, and Thinfilm moved to a new office location in March 2019.

The new lease amounts to NOK 689 thousand per year, with a termination clause of 3 months. The lease expired on 31 August 2019 and the lease was not renewed. The Company pays rent on a month to month basis. The monthly rent is NOK 11 thousand per month.

Thinfilm ASA has not entered into any other lease agreements.

Remuneration to the auditor (ex VAT)

Amounts in NOK 1,000	2019	2018
Audit	1,141	806
Other assurance services	—	15
Tax services	30	28
Other services	—	—
Total	**1,171**	**849**

20. Guarantees

Reference is made to Note 24 in the Consolidated Financial Statements.

21. Shareholders, warrants and subscription rights

Reference is made to Note 25 in the Consolidated Financial Statements.

22. Statement on management remuneration policy

Reference is made to Note 26 in the Consolidated Financial Statements.

Corporate Social Responsibility (CSR) Statement

The Thin Film Electronics ASA Group recognizes that it has important obligations regarding 1) the treatment of its employees, 2) the conditions within its facilities, 3) its impact on the environment, and 4) the relationships it maintains with the communities in which it operates. As such, it adheres to policies related to these obligations and strives to achieve goals that engender safety, health, fairness, diversity, integrity, compliance, and sustainability.

Human rights and workplace practices

Policy

Thinfilm promotes equality and non-discrimination, fairness, and ethical behavior. The Company aims to offer a pleasant, well-equipped, and risk-free work environment. It maintains fair and balanced employment practices and complies with all applicable labor laws applicable to the countries, regions, cities, and towns in which it operates. Thinfilm encourages and expects similar commitments from its customers, partners, suppliers, and other vendors with whom the Company works.

Objective

Maintain a secure, safe, and healthy work environment for all employees of the Company. Continue to be a globally diverse company that strongly distances itself from any form of discrimination. Thinfilm makes every reasonable effort to secure a healthy, safe, and lawful work environment, and the Company complies with all applicable laws, rules, and regulations concerning occupational health, safety, and environmental protection. The Company's policies prohibit discrimination against employees, shareholders, directors, customers, partners, suppliers, and other vendors on account of gender, race, sexual orientation, religion, disability, nationality, political opinion, and social or ethnic origin. Employees are provided with an Employee Handbook outlining corporate policy. Workplace diversity at all levels is highly encouraged and monitored. All persons shall be treated with dignity and respect and are encouraged to assist in creating a work environment free from any form of discrimination. The necessary conditions for a safe and healthy work environment shall be provided for all employees of the Company.

At Thin Film Electronics, Inc. (US subsidiary), all employees are required to complete a safety training course within their first month of employment. In compliance with the Safe Drinking Water and Toxic Enforcement Act of 1986 of the State of California, commonly referred to as Proposition 65, Thin Film Electronics, Inc. also informs employees of the onsite presence of any known chemical known to cause cancer or reproductive toxicity.

Thinfilm is committed to fully complying with all applicable laws regarding equal employment opportunities. Employees who believe they have been subjected to any form of unlawful discrimination may submit a complaint to their manager, any member of the management team, and/or Human Resources. The Company encourages all employees to immediately report incidents of harassment or other conduct prohibited by its anti-harassment policy so that complaints can be resolved in a fair and timely manner.

Conditions Within Facilities and Environmental Impact

Policy

Thinfilm requires that all subsidiaries of the Thinfilm Group follow all current environmental laws and regulations for the jurisdictions in which they reside and operate. Thinfilm routinely evaluates the environmental impact of its production – and manufacturing- related activities, with particular emphasis on the potential risks regarding present and future operations. Thinfilm operates its production facility and laboratories in San Jose, California.

Objective

Thinfilm strives to monitor waste production, such as chemicals and electronics materials, to evaluate where and how the Company can improve – such as using fewer chemicals, leveraging alternative materials, and/or maximize the usage of current materials. Thinfilm recognizes the impact that hazardous waste can have on the environment and takes every reasonable precaution to discard and recycle waste according to federal, state, and regional laws and regulations.

In the San Jose, California facility, Thinfilm partners with a licensed Environmental Services provider and strict guidelines are followed for the storage and disposal of hazardous material. The State of California tracks any Thinfilm hazardous material shipments to the final disposal/incineration site to ensure overall compliance.

Ethics and anti-corruption

Policy

It is important that Thinfilm staff members do not place themselves in situations whereby their fidelity can be undermined or in which they may be vulnerable to external pressures contrary to Thinfilm's or their own integrity. It is communicated and expected that all employees do not accept, either for themselves or on behalf of others, gifts, fees, services or other benefits which could influence the way they discharge their duties, or are intended to exert such influence by the giver.

Objective

Systematize and further improve internal training and education as it relates to ethics and anti-corruption compliance. Thinfilm's Ethical Guidelines are based on respect and fairness in all aspects of the Company's business dealings. We demand and expect that our employees – at every level of the organization – adhere to applicable laws and regulations in the countries where we do business. Thinfilm has a clear stance on corruption. Employees must always comply with applicable anti-bribery laws; and each manager and employee is responsible for compliance within his or her area of authority, and must report any suspected violation to HR, corporate management, and in certain cases, the local authorities.

Responsibility Statement

The board and the CEO have today reviewed and approved this report of the board of directors as well as the annual financial statements for the Thin Film Electronics ASA Group and parent company as of 31 December 2019. The consolidated annual financial statements have been prepared in accordance with IFRS as adopted by the EU and the additional requirements in the Norwegian accounting act. The annual financial statements for the parent company have been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway. The notes are an integral part of the respective financial statements. The report of the board of directors has been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway.

We confirm that, to the best of our knowledge, the information presented in the financial statements gives a true and fair view of the group's and the parent company's assets, liabilities, financial position and result for the period viewed in their entirety, and that the report from the board of directors and Managing Director (CEO) gives a true and fair view of the development, performance, and financial position of the group and the parent company, and includes a description of the principal risks and uncertainties which the group and the parent company are facing.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	Preeti Mardia Board Member	Jon Castor Board Member	Kelly Doss Board Member

Kevin Barber
Managing Director (CEO)

Auditor's Report

Deloitte.

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To the General Meeting of Thin Film Electronics ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Thin Film Electronics ASA, which comprise:

- The financial statements of the parent company Thin Film Electronics ASA (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Thin Film Electronics ASA and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at 31 December 2019, the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements of the Group and Note 1 in the financial statements of the parent and in the Board of Directors' report. The Group and the parent have historically operated at a loss and are in immediate need of cash. There is no assurance that management will be successful in raising funds. Failure to obtain funding would adversely affect the ability to continue as a going concern and consequently the Group and the parent might enter into liquidation. As stated in Note 2 in the financial statements of the Group and note 1 in the financial statements of the parent and in the Board of Directors' report, the liquidity situation, along with other matters as set forth in the notes and the Board of Directors' report, indicate that a material uncertainty

exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

From the matters communicated with 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

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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

Deloitte.

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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 11 May 2020
Deloitte AS

Mette Herdlevær

Mette Herdlevær
State Authorised Public Accountant (Norway)

Corporate Governance

Resolved by the board of directors of Thin Film Electronics ASA (the "Company") on 22 April 2020.

The statement outlines the position of the Company in relation to the recommendations contained in the Norwegian Code of Practice for Corporate Governance dated 17 October 2018 ("the Code"). The Code is available at www.nues.no and from Oslo Børs. In the following, the board of directors will address each section of the Code and explain the areas, if any, where the Company does not fully comply with the recommendations and underlying reasons.

1. Implementation and reporting on Corporate Governance

The Company seeks to create sustained shareholder value. The Company makes every reasonable effort to comply with the word and intent of the laws, rules and regulations in the countries and markets in which it operates. Thinfilm is not aware of being or having been in breach of any such statutory laws, rules or regulations. The Company pays due respect to the norms of the various stakeholders in the business. In addition to the shareholders, the Company considers its employees, Thinfilm's business partners, the society in general and the authorities as stakeholders. Thinfilm is committed to maintain a high standard of corporate governance, be a good corporate citizen and demonstrate integrity and high ethical standards in all its business dealings.

The board believes that in the present organization

- The Thinfilm Group presently has 18 ordinary employees and a few consultants on site

- The board of directors and the management have adequate monitoring and control systems in place to ensure insight into and control over the activities. (Note: In this review, the noun "the management" includes all persons conducting managerial functions, whether employed or otherwise contracted.)

The board has resolved ethical guidelines that apply to all employees, consultants and contractors as well as the elected board members. The ethical guidelines also incorporate the Company's guidelines on corporate social responsibility.

2. Thinfilm's business

As announced in January 2020, the objectives of the Company shall be Energizing Innovation™ with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond. Thinfilm's innovative solid-state lithium battery (SSLB) technology is uniquely positioned to enable the production of powerful, lightweight, and cost-effective rechargeable batteries for diverse applications. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company's business goals and principal strategies are defined in the business plans adopted by the board of directors. The plans are reviewed and revised periodically, and when needed.

Thinfilm satisfies the recommendations under this section of the Code by publishing the material at www.thinfilmsystems.com instead of in the annual report.

3. Equity and dividends

The board is aware of and acknowledges the equity requirements and duty of action in connection with loss of equity, as set out in the Norwegian Public Limited Companies Act (the "PLCA"). In the past, the Company has been in need of raising equity on several occasions to fund its operations and working capital requirements. The board has proposed to the general meeting only reasonable authorizations for share issues and incentive schemes. Such board authorizations have explicitly stated the type and purposes of transactions in which the authorizations may be applied. As of the general meeting(s) to be held in 2020, any proposed authorizations to issue shares shall be considered and voted separately by each type and purpose of such share issues.

The board authorizations to issue shares have been valid until the next annual general meeting, as recommended by the Code. The proposals have been approved by the shareholders.

The Company has in place an authorization to the board to acquire up to 10 percent of the Company's own shares for a maximum price of NOK 1,000 per share. The board was authorized to decide upon the manner and terms of the acquisition, disposition, transfer and sale of its own shares. The length of the authorization is limited to the earlier of (i) the next annual general meeting of shareholders (scheduled for 19 May 2020) or (ii) 30 June 2020.

Thinfilm has not as yet declared or paid any dividends on its shares. The Company does not anticipate paying any cash dividends on its shares in the next few years. Thinfilm intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay dividends will depend on the Company's financial condition, results of operation and capital requirements.

4. Equal treatment of shareholders and transactions with close associates

The Company places great emphasis on ensuring equal treatment of its shareholders. The Company has one class of shares. There are no trading restrictions or limitations relating only to non-residents of Norway under the Articles of Association of the Company. Each share carries one vote. There are no restrictions on voting rights of the shares.

In the authorizations to issue shares to raise additional capital for the Company, where the existing shareholders have resolved to waive the pre-emptive right to subscribe for shares, the rationale for doing so shall be presented as part of the decision material presented to the general meeting. If and when such transactions are conducted, the justification will also be included in the announcements to the market.

All related party transactions in effect are entered into on an arm's length basis. Any material future related party transactions shall be subject to an independent third-party valuation unless the transaction by law requires shareholder approval. The Company takes legal and financial advice on these matters when relevant. Members of the board and the management are obliged to notify the board if they have any material direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares

All shares are freely assignable. The Articles of Association do not contain any restrictions on negotiability of the shares.

6. General meetings

The annual general meeting of shareholders, the Company's highest decision-making body, provides a forum for shareholders to raise issues with the board as such and with the individual board members. To the maximum degree possible, all members of the board shall be present at the general meeting. The Company's auditors shall also be present at the general meeting. The shareholders elect a person to chair the general meeting. The board will arrange for an independent candidate if so requested by shareholders. Notice of a meeting of the shareholders shall be sent in a timely manner and the Company shall issue the notice and documents for a general meeting, including the proxy form, no later than 21 days before the date of the general meeting. Foreign residents will receive the notice and documents in English. When appropriate, the documents will be made available at the Company's website and not sent to the shareholders.

The board of directors endeavors to provide comprehensive information in relation to each agenda item in order to facilitate productive discussion and informed resolutions at the meeting. The notice will also provide information on the procedures shareholders must observe in order to participate in and vote at the general meeting. Shareholders who are unable to attend in person will be provided the option to vote by proxy in favor or against each of the board's proposals. The notice shall contain a proxy form as well as information of the procedure for proxy representation. At the meeting, votes shall be cast separately on each subject and for each office/candidate in the elections. Consequently, the proxy form shall, to the extent possible, facilitate separate voting instructions on each subject and on each office/candidate in elections. The notice, as well as the Company's website, will set out that the shareholders have the right to propose resolutions in respect of matters to be dealt with at the general meeting.

The general meeting has included in Section 7 of the Company's Articles of Association that documents which have been made available in a timely manner on the website of the Company and which deal with matters that are to be handled at the general meeting, need not be sent to the Company's shareholders.

All reports will be issued on the Oslo Børs marketplace (www.oslobors.no and www.newsweb.no) within the Oslo Stock Exchange, and on the OTCQX International Marketplace (www.otcmarkets.com/marketplaces/otcqx). The reports and other pertinent information are also available at www.thinfilmsystems.com.

7. Nomination committee

Under the Articles of Association, Thinfilm has a nomination committee that is elected by the annual general meeting for a term of two years. The nomination committee shall have three members, including a Chairman. The nomination committee shall prepare and present proposals to the annual general meeting in respect of the following matters:

- Propose candidates for election to the board of directors
- Propose the remuneration to be paid to the board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members shall be resolved by the annual general meeting

The Company provides information on its website about the composition of the nomination committee and any deadlines for submitting proposals to the committee.

8. Corporate assembly and board of directors; composition and independence

Thinfilm does not have a corporate assembly.

The board acknowledges the Code's recommendation that the majority of the members of the board of directors shall be independent of the Company's management and material business contacts. All board members are required to make decisions objectively in the best interest of the Company, and the presence of independent directors is intended to ensure that additional independent advice and judgement is brought to bear. The current board meets the independence criteria of the Code. The board meets the statutory gender requirements for the board.

Board members stand for election every two years. The board believes that it is beneficial for the Company and its shareholders that the board members also are shareholders in the Company and encourages the member of the board of directors to hold shares in the Company.

The board pays attention to ensure that ownership shall not in any way affect or interfere with proper performance of the fiduciary duties, which the board and the management owe the Company and all shareholders.

As and when appropriate, the board takes independent advice with respect to its procedures, corporate governance and other compliance matters.

9. The work of the board of directors

The division of duties and responsibility between the CEO and the board of directors is based on applicable laws and well-established practices, which have been formalized in writing through a board instruction in accordance with the Norwegian Public Limited Companies Act. The board instruction also sets out the number of scheduled board meetings per year and the various routines in connection with the board's work and meetings.

The board instructions state that in situations when the Chairman is not impartial or not operative, the most senior board member shall chair the board until a deputy Chairman has been elected by and among the board members present.

The board of directors shall evaluate its performance and expertise annually. Moreover, the board will produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.

With a compact board of only four members, there has not been any need for subcommittees to date. The future need for any sub-committees will be considered at a minimum annually in connection with the annual review of the Company's corporate governance.

Thinfilm is not obliged to have a separate audit committee and in view of the small number of board members, the Company's Audit Committee consists of all board members who are not also executives or have similar roles in the Company. The board instruction includes an instruction for the audit committee.

10. Risk management and internal control

The board of directors has adopted internal rules and guidelines regarding, amongst other things, risk management and internal control, which rules and guidelines take into account the extent and nature

of the Company's activities as well as the Company's corporate values and ethical guidelines, including the corporate social responsibility. The board of directors shall carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

In view of the size of the Company and the number of board members, the board has chosen to elect the full board (except any board members who hold executive positions) to constitute the audit committee. The audit committee policies and activities are compliant with the Norwegian Public Limited Companies Act.

The board of directors has adopted an insider manual with ancillary documents intended to ensure that, among other things, trading in the Company's shares by board members, executives and/or employees, including close relations to the aforementioned, are conducted in accordance with applicable laws and regulations.

Internal control and risk management of financial reporting:

Thinfilm publishes four interim financial statements in addition to the ordinary annual financial statements. The financial statements shall satisfy legal and regulatory requirements and be prepared in accordance with the adopted accounting policies and be published according to the schedule adopted by the board. Closing of accounts, financial reporting and key risks analysis are provided monthly to the board of directors.

Thinfilm has established a series of risk assessment and control measures in connection with the preparation of financial statements. In connection with subsidiaries' closing of accounts, internal review meetings are held. In addition, separate meetings are held to identify risk factors and measures linked to important accounting items or other factors. The board also has separate meetings with the external auditor to review such risk factors and measures and conducts preparatory reviews of interim financial statements and annual financial statements that particularly focus on reporting of operational costs and investments.

A financial manual provides detailed instruction for financial planning, treasury, accounting and reporting, and is reviewed and updated annually by the board.

11. Remuneration to the board of directors

A reasonable cash remuneration to the board members for their services from the annual general meeting in 2018 until the annual general meeting in 2019 was proposed to and resolved at the 2019 annual general meeting. To lessen the cash outflow, the annual general meeting granted an option to the board members to receive all or part of the remuneration in the form of shares in the Company. No board members took up this option in 2019. The nomination committee will propose board remuneration for the period between the annual general meetings of 2019 and 2020.

At the 2019 Annual General Meeting, two US residents were elected as new Board members. In order for the Company to be able to attract the interest of these two individuals, a grant of subscription rights was proposed to, and resolved by, the 2019 Annual General Meeting, as share-based incentives represent a relatively customary and expected board remuneration and incentive in the US market. The Board acknowledges that such grants were in contradiction to the Corporate Governance recommendations, but remains of the view that it was in the Company and shareholders' mutual best interest to make these grants in order to secure the services of these two US-based board members.

Advokatfirmaet Ræder AS, in which the Chairman, Morten Opstad, is a partner, renders legal services to the Company. A board member performing work for the Company beyond the board duty shall ensure that such arrangements do not in any way affect or interfere with proper performance of the fiduciary duties as a board member. Moreover, the board (without the participation of the interested member) shall approve the terms and conditions of such arrangements. Adequate details shall be disclosed in Thinfilm's annual financial statements.

12. Remuneration of the management

Thinfilm offers market-based compensation packages for the executives and employees in order to attract and retain the competence that the Company needs. The exercise price for any subscription right is equal to or higher than the market share price at the time of the grant. The subscription rights vest in tranches over three years.

The board shall determine the compensation of the CEO. There is a maximum amount of incentive remuneration per calendar year. It follows from the nature of the incentive subscription rights program resolved by the annual general meeting that the limit does not apply to the possible gain on subscription rights. The board has adopted a policy for the CEO's remuneration of the employees.

At the annual general meeting, the board will present to the shareholders for their approval a statement of remuneration to the management. The resolution by the annual general meeting is binding to the extent it relates to share-based compensation and advisory in other aspects.

13. Information and communication

The board of directors places great emphasis on the relationship and communication with the shareholders. The primary channels for communication are the interim reports, the annual report and the associated financial statements. Thinfilm also issues other notices to the shareholders when necessary or appropriate. The general meeting of shareholders provides a forum for the shareholders to raise issues with the board as such and the individual board members. All reports are issued and distributed according to the rules and practices at the market place(s) where Thinfilm shares are listed. The Company shall in due course publish an annual financial calendar for the following year; setting forth the dates for major events such as its annual general meeting, publication of interim reports, any scheduled public presentation, any dividend payment date, etc. The reports and other pertinent information are also available on the Company's website, www.thinfilmsystems.com.

The board of directors has adopted the following policies:

- Policy for reporting of financial and other information and investor relations;
- Policy for contact with shareholders outside general meeting; and
- Policy for information management in unusual situations attracting or likely to attract media or other external interest.

The financial reporting of Thinfilm is fully compliant with applicable laws and regulations. As of the interim financial information for the third quarter 2007, Thinfilm has prepared its consolidated financial reports in accordance with IFRS. The current information practices are adequate under current rules.

14. Take-overs

There are no take-over defense mechanisms in place. The board will endeavor that shareholder value is maximized and that all shareholders are treated equally. The board shall otherwise ensure full compliance with Section 14 of the Code.

15. Auditors

The Company's auditor is fully independent of the Company. Thinfilm represents a minimal share of the auditor's business. Thinfilm does not obtain business or tax planning advice from its auditor. The auditor may provide certain technical and clerical services in connection with the preparation of the annual tax return and other secondary reports, for which Thinfilm assumes full responsibility.

The board of directors has established written guidelines to the CEO with respect to assignments to the auditor other than the statutory audit.

The board of directors shall otherwise ensure full compliance with Section 15 of the Code.

Articles of Association

§1 The name of the company

The name of the Company is Thin Film Electronics ASA. The Company is a public limited company.

§2 The company's business

The company's business shall encompass multiple complimentary technologies, including but not limited to, enabling Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. The company's business shall also include maximizing the value of its San Jose, California Roll-to-Roll factory's unique combination of capabilities, including roll-based production, process knowhow, and print expertise, which are relevant to market needs for a broad range of applications within flexible large-area electronics. The Company's objectives may be carried out in full internally or in whole or in part externally through collaborative efforts with one or more of the company's ecosystem and commercial partners. The Company's business may be carried out directly by the Company and/or through subsidiary companies. The Company may hold ownership positions in companies with similar activities.

§3 Registered office

The registered office of the Company is situated in Oslo.

§4 The company's share capital

The Company's share capital is NOK 6,445,293.91 divided into 58,593,581 shares each having a par value of NOK 0.11.

§5 The company's governance

The Company's board of directors shall consist of from three to nine members, as decided by the general meeting. The board may grant powers of procuration.

§6 The general meeting

The ordinary general meeting shall consider and decide:

1 Adoption of the annual financial statement and report of the board of directors, including the declaration of a dividend.

2 Election of chairman and members of the nomination committee, and determination of remuneration to the members of the nomination committee.

3 Any other business required by the laws or the articles of association to be transacted by the general meeting.

The general meetings of the Company shall as a general rule be conducted in the Norwegian language. However, the board of directors may decide that the English language shall be used.

§7 Exemption from requirements to submit documents with notice of general meeting

Documents which timely have been made available on the Internet site of the Company, and which deal with matters that are to be handled at the general meeting, do not need to be sent to the Company's shareholders.

§8 Registration for general meeting

A shareholder who wishes to attend the general meeting, in person or by proxy, shall notify its attendance to the Company no later than two days prior to the general meeting. If the shareholder does not notify the Company of its attendance in a timely manner, the Company may deny the shareholder access to the general meeting.

§9 Nomination committee

a Thin Film Electronics ASA shall have a nomination committee. The nomination committee shall have three members, including a chairman. Members of the nomination committee shall be elected by the Annual General Meeting for a term of two years.

b The nomination committee shall:

- Propose candidates for election to the Board of Directors
- Propose the remuneration to be paid to the Board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members

c The mandate of the nomination committee shall be resolved by the Annual General Meeting.

§10 Relation to the Norwegian Public Limitied Companies Act

Reference is also made to the legislation concerning public limited companies in force at the relevant time.

Board of Directors

Morten Opstad
Chairman

MORTEN OPSTAD has served as Chairman of the Board of the Company since 2 October 2006. He is a partner and Chairman of the Board of Directors in Advokatfirmaet Ræder AS in Oslo. He has rendered legal assistance with respect to establishing and organizing several technology and innovation companies within this line of business. His directorships over the last five years include current board positions in Idex ASA (Chairman), Total Sports Online AS, Glommen Eiendom AS, Chaos AS, K-Konsult AS, and former directorships in Fileflow Technologies AS and A. Sundvall AS. Mr. Opstad was born in 1953 and is a Norwegian citizen.

Preeti Mardia
Board Member

PREETI MARDIA has diverse general management and operations expertise across electronics, semiconductors, telecommunications, aerospace, and food sectors. Preeti is currently Senior Vice President Operations at IDEX ASA, a leading fingerprint imaging and recognition technology company based in Norway. Prior to IDEX she was Vice President Operations for Axxcss Wireless UK Ltd. She previously worked within Filtronic Plc as Operations Director and established commercial and supply relationships with Tier One OEMs for mobile telecoms infrastructure. She was responsible for implementing a world class highly automated electronics manufacturing plant and establishing global supply chain partnerships. She managed and scaled a semiconductor foundry from technology phase to high volume manufacturing of Gallium Arsenide semiconductor devices for the mobile handset, aerospace, and base-station markets. Preeti has extensive FMCG experience in manufacturing, product development and quality assurance with Cadbury Schweppes Plc and supplied into major international retailers. Preeti has a degree in Food Science & Technology and is undertaking a Masters degree in Executive Management at Ashridge, UK. Mrs Mardia was born in 1967 and is a British citizen.

Jon Castor
Board Member

Kelly Doss
Board Member

JON CASTOR Jon Castor is an entrepreneur and active independent private and public company director. His 25 years of senior leadership experience has included building both classic Silicon Valley venture funded startups and two new divisions for Fortune 500 companies. He also has considerable private and public company M&A experience, including leading the team of a venture he co-founded through a double exit. His industry experience includes ICs, systems, and software, digital media, consumer electronics and services, and multiple forms of advanced and renewable power generation. Jon's Silicon Valley venture successes include Omneon, where the team built the world leader in broadcast video servers, and TeraLogic, a pioneering HDTV venture supported by Sony, Mitsubishi, and Samsung, where he was co-founder and CEO. Jon has an MBA from Stanford's Graduate School of Business, and a BA with Distinction from Northwestern University. Jon joined the Thin Film Board of Directors in May 2019 and served as Chairman of the Strategy Committee.

KELLY DOSS Kelly Doss is a senior marketing executive and brand consultant. She has over 25 years of experience in global brand management with a strong track record of delivering breakthrough revenue and sales growth in varying channels of distribution. She has considerable expertise across the marketing, innovation, and operational functions in both the alcoholic beverage and beauty categories. Her industry experience includes 15 years in the global spirits category, leading marketing for Beam Suntory in both EMEA and North America and over 10 years in the beauty industry across hair care, skin care, and color cosmetics. Over the course of her career, leading cross-functional teams, she has launched well over 100 new products & multiple global packaging restages. Kelly has a Masters in International Management from the Thunderbird School of Global Management, and a BA with honors from the University of Michigan. Kelly joined the Thin Film Board of Directors in May 2019.

Executive Management

Kevin Barber
Chief Executive Officer

KEVIN BARBER Kevin Barber joined Thinfilm as CEO in November 2018. He is responsible for driving worldwide strategic growth, scaling product innovation and manufacturing operations while increasing market penetration and identifying new business opportunities. Mr. Barber was previously Senior Vice President, General Manager Mobile Division of Synaptics, where he drove the strategy, business development, M&A and execution of growing revenue fourfold to over $1 billion annually. Previously, he was CEO of ACCO Semiconductor a Venture Capital funded startup. Prior to ACCO, Mr. Barber served as Senior Vice President, General Manager Mobile Business at Skyworks Solutions where he led the strategy achieving top RF power amplifier market share in the high growth mobile market. Prior to Skyworks, Mr. Barber served as Senior Vice President, Operations at Conexant leading strategic efforts of global manufacturing scale, technology development, and supply chain management enabling Conexant to be a leader in diverse markets. He holds a Bachelor of Science in Electrical Engineering from San Diego State University and an MBA from Pepperdine University. Mr. Barber currently serves as a Board Director at Intevac.

Mallorie Burak
Chief Financial Officer

MALLORIE BURAK joined Thinfilm in July 2019. In her role, she oversees finance, accounting, legal, and investor relations activities. She is an experienced financial executive, bringing over 25 years of expertise across a broad spectrum of industries ranging from early stage software start-ups to multi-national, public corporations. Over the span of her career, she has negotiated and managed over five hundred million dollars of successful financing and M&A deals, having spent the last 12 years focused on turn-arounds of both public and venture backed companies. Prior to joining the Thinfilm team, she served as CFO at Alta Devices, a GaAs thin-film solar technology start-up, where she secured over $56 million in funding to facilitate the build-out of its pilot manufacturing line. Prior to Alta Devices Ms. Burak served as CFO at FriendFinder Networks, Rainmaker Systems, FoodLink, and Southwall Technologies. She has a proven track record of creating a high-performance culture with a strong focus on operational excellence and maximizing shareholder value, as evidenced by the successful acquisition of Southwall Technologies, after having repositioned, restructured, and grown the company. Ms. Burak has significant experience working with a variety of financing sources, both public and private, as well as significant experience leading and managing M&A related activities. She holds a BSBA and MBA from San Jose State University.

Dr. Arvind Kamath
EVP Technology Development & Manufacturing

DR. ARVIND KAMATH joined Thinfilm in January 2014 from Kovio, Inc., where he served as Sr. Director, Technology Development. At Thinfilm, he has built and led several teams in the areas of Technology Development, Engineering and Operations. Most recently, he was responsible for the flexible substrate roll to roll PDPS (Printed Dopant Polysilicon) manufacturing scale-up and led the teams that built a global ecosystem to enable this. At Kovio, Dr. Kamath led materials and process development and integration of a revolutionary printed electronics platform based on silicon ink, from feasibility to qualification and yield enhancement. Prior to Kovio, he worked at LSI Logic in various managerial and specialist roles, including process engineering, group management, R&D operations, SRAM integration and yield enhancement. Dr. Kamath earned a B.Tech degree in Metallurgical Engineering from the Indian Institute of Technology, Chennai and a Ph.D in Materials Science and Engineering from the microelectronics program at The University of Texas - Austin.

Shannon Fogle
VP Global Human Resources

SHANNON FOGLE joined Thinfilm in January 2014 from Kovio, Inc. She leads the Human Resources functions for all Thinfilm locations. Ms. Fogle led the Human Resources functions at Kovio from 2007 until 2014. Prior to Kovio, Ms. Fogle worked in various Operations roles at Spansion and Advanced Micro Devices. Shannon holds a Bachelor of Science degree in Business Management from San Jose State University and is Certified by the Society of Human Resource Management.

Annual Report 2019

Thin Film Electronics ASA

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Annual Report 2019

thinfilm

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2019 Year in Review

2019 represented a pivotal year of strategic transition for Thinfilm. The Company experienced significant changes throughout 2019, as it navigated the process of rightsizing and repositioning the Company for future growth. Management remained focused on reducing Thinfilm's cost structure and the advancement of strategic initiatives.

During the first quarter of 2019, following the hiring of a new CEO, Kevin Barber, at the end of 2018, Thinfilm announced a strategic update and corporate restructuring intended to align the business with the then current market adoption of NFC, with plans to focus resources on developing and building market adoption of its brand protection and consumer engagement solutions. Thinfilm paused development of PDPS technology, as PDPS technology was not required nor deemed to be a critical part of building initial market volume. As a result of pausing the printed electronics line, Thinfilm also announced, after exhausting existing inventory with its leading customer, that the Electronic Article Surveillance (EAS) business would be discontinued. Consequently, the Company reduced its global footprint and shifted weight toward San Jose, California. These actions were designed to yield nearly USD 20 million in annualized savings at the operating level and resulted in an approximate 40 percent reduction in the work force.

The Company began the second quarter of 2019 with an investor presentation, released on April 24, 2019. The presentation announced pursuing two unrelated businesses. While the R2R factory has many potential applications, it had become clear that it was not a viable economic or technology fit for NFC and that there was a need to engage beyond NFC to leverage the R2R line technology and maximize the independent potential of the factory. The presentation further provided details related to the Product Solutions Business, highlighting the objectives to secure a go-to-market scale with strategic channel partner and deliver differentiated NFC silicon. On June 17, 2019, Thinfilm announced a contemplated private placement; however, subsequently announced, on June 21, 2019, the cancellation of the aforementioned private placement.

The third quarter of 2019 revealed more significant changes to Thinfilm's operations. On July 1, 2019, the company announced the hiring of a new CFO, Mallorie Burak. Later that month, a second corporate restructuring announcement was made on July 19, 2019, whereby the Company announced the need to narrow its strategic focus as a consequence of its failed fundraise attempt in June 2019. As a result, the Company further reduced its workforce, representing approximately USD 15 million in annualized savings. The Company released its First Half Report on August 30, 2019, providing further business updates, including that management was actively evaluating strategic alternatives to find new and interesting applications for the San Jose, California-based R2R line and continued to pursue paths to maximize the value of the assets and technology. In September 2019, Thinfilm closed an equipment term loan facility for USD 13.2 million. The proceeds were used for working capital to fund ongoing operations and to support its execution of strategic initiatives.

By the end of 2019, Thinfilm had reduced its headcount from 155 employees, as of December 31, 2018, to 23 employees. In addition, the Company continued the process of reducing its global footprint and focusing solely on its presence in Oslo, Norway and operations in San Jose, California. The significant cost savings resulting from operational decisions made in 2019 began to materialize in the fourth quarter, enabling the Company to preserve cash while finalizing its new business strategy for 2020. In January 2020, Thinfilm formalized its strategic shift to focus on the R2R factory and intent to monetize the NFC assets, announcing its updated corporate strategy focused on the design, development, and production of innovative battery solutions targeting existing market demand with differentiated solutions to power wearable devices and connected sensors.

About Thinfilm

Thinfilm is Energizing Innovation™ with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond. Thinfilm's innovative solid-state lithium battery (SSLB) technology is uniquely positioned to enable the production of powerful, lightweight, and cost-effective rechargeable batteries for diverse applications.

The Company's state-of-the-art flexible electronics manufacturing facility, located in the heart of Silicon Valley, combines patented process technology and materials innovation with the scale of roll-to-roll production methods to bring the advantages of SSLB technology to established and expanding markets.

Thin Film Electronics ASA is a publicly listed company in Norway with corporate headquarters in Oslo and global headquarters in San Jose, California.

Report from the Board of Directors

Introduction

Fiscal year 2019 revealed a continuation of the challenges faced during 2018 with respect to developing traction with NFC markets. Management concluded its strategic review of the Company structure, its technical competitive advantages, and the assessment of existing commercial markets the Company can most effectively serve. Thinfilm's change in leadership, with a new CEO, Kevin Barber, joining the Company in November 2018 and a new CFO, Mallorie Burak, joining the Company in July 2019, provided new perspective to this analysis.

The slower-than-expected growth rate of NFC tags on-package deployment, coupled with the inability to secure sufficient financing or monetization of the factory, required the Company to analyze the degree to which the Company could continue to invest in the development of this emerging market. As a result, the decision was made to transition away from the investment required to build the NFC market and proprietary CNECT software platform.

Consequently, Thinfilm began a process to pursue monetizing its CNECT software platform and related NFC assets through potential licensing or sale of its related intellectual property. Preliminary discussions have been initiated with potential multiple partners who are interested in offering NFC enabled solutions supported by a robust data analytics software platform. This can be accomplished by directly empowering the supply chain with cost-effective solutions, while allowing brands to engage consumers using Thinfilm's underlying technology. This decision allows management to focus on establishing a new path for the Company, leveraging its years of significant investment in its roll-to-roll ("R2R") manufacturing and process technology capabilities. The Company's focus on its R2R factory continued throughout 2019. Whereas in 2018 the Company reported several challenges relating to the timeline of the installation and acceptance testing of critical path tools, Thinfilm resolved these issues during 2019.

The Company experienced significant changes throughout 2019, as it navigated the process of rightsizing and repositioning the Company for future growth. Management remained focused on reducing Thinfilm's cost structure and closed a $13.2 million debt financing in the third quarter, enabling advancement of the new strategic initiatives.

Evaluation of new and compelling applications for the San Jose, California based R2R manufacturing plant continued throughout 2019, with the objective of leveraging the Company's years of significant investment in its R2R manufacturing and process technology capabilities. Based on the Company's decision to leverage existing intellectual property and manufacturing assets in the execution of its revised strategy, Thinfilm does not currently expect to issue warrants authorized in the October 23, 2019 Extraordinary General Meeting. The Company also focused on monetizing its remaining EAS inventory and was successful in selling a portion of its on-hand inventory in December 2019.

By the end of 2019, Thinfilm had materially reduced its headcount and cost structure by 42%. In addition, the Company continued the process of reducing its global footprint and focusing solely on its presence in Oslo, Norway and operations in San Jose, California. The significant cost savings resulting from operational decisions made in 2019 began to materialize in the fourth quarter, with further cost saving measures implemented during the first quarter of 2020, enabling the Company to preserve cash while finalizing its new business strategy for 2020.

A going concern assumption has been applied in preparing this 2019 financial report. As stated in the Business Review, slower than anticipated market adoption of on-package NFC tags underscored management's ultimate decision to pivot Thinfilm's strategic focus to existing markets that would enable the Company to leverage its state-of-the-art R2R production facility in San Jose, California.

The planned fundraising objective in March 2020 was impacted by the onset of the COVID-19 global pandemic, resulting in delays in securing commitments from potential investors. On 15 April 2020, an extraordinary general ("April EGM")

meeting was held, whereby the Board expressed its obligation to act on the loss of equity in the Company and proposed to the general meeting measures to restore the equity, also providing a statement on the Company's financial position to the shareholders. In connection with the Company's financial position, a share capital reduction was approved, reducing the par value of Thinfilm's stock from NOK 2.20 to NOK 0.11. Shareholders were advised that the Board was pursuing a Private Placement and should the Private Placement proposed not be approved and/or the Company fails to raise sufficient capital to restore the Company's equity, the Board would consider proposing a dissolution of the Company.

Following the April EGM, on 28 April 2020, the Company announced that the Board had received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants. As part of the total fundraise, and in order to secure the foregoing commitment by the consortium of investors, it is also contemplated that the Board will use its current authorization to issue shares (as provided by the 23 October 2019 extraordinary general meeting) and issue shares to such investors for the full 10% scope of the authorization at a subscription price per share of NOK 0.11, equaling the proposed subscription price in the private placement. The Company has received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and management, at a subscription price per share equal to the subscription price in the private placement. The offer is conditional upon the issuance of two warrants for each share subscribed for in the private placement. The first warrant ("Warrant A") would have an exercise price of NOK 0.11 per share and be exercisable at any time from the date of grant until 31 December 2020. The second warrant ("Warrant B") would have an exercise price of NOK 0.25 per share and be exercisable at any time from the date of grant up to fifteen months from approval by an Extraordinary General Meeting to be held on or about 20 May 2020 ("May EGM"). The Board will also propose to the upcoming May EGM that a subsequent (repair) offering is carried out at a subscription price per share equal to the subscription price in the private placement. The maximum amount of the subsequent offering would be NOK 7 million. In aggregate, we expect to receive NOK 32 million, including the repair issue, and possibly also an additional NOK 32 million in 2020 through the exercise of the first set of warrants (Warrant A), as further described in the Going Concern portion of this Report from the Board of Directors.

Risk exists that approval of the proposed equity investment programs may not be obtained during the May EGM. As of the end of April 2020, Thinfilm's cash was approximately USD 3.3 million. Total cash includes restricted cash of USD 1.6 million representing the security deposit for the San Jose, California building, as shown in Note 11 in the accompanying Notes to the Consolidated Financial Statements. The approximately USD 1.7 million of available cash at the end of April 2020 is more than offset by Thinfilm's approximately USD 3.0 million of current financial obligations to Thinfilm employees, tax authorities in various jurisdictions, and secured and unsecured creditors. In connection with the equity financing proposed for approval at the May EGM, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of Common stock in TFE Holding, owned by Thin Film Electronics ASA, in early May 2020 to ensure adequate cash remains available to operate until the equity financing closes. After closing the private placement, the Company will use the funds to further the development of the SSLB technology, continue pursuing patent filings, and work toward the integration of the SSLB technology for production on its proprietary R2R production line. With funding received through the equity programs to be approved at the May EGM, the Company anticipates having sufficient cash to operate through July 2020, providing the anticipated time required to achieve performance milestones, key among the development of product samples, remains on track and is not significantly impacted by potential supply chain, credit, and market risk resulting from the COVID-19 pandemic.

Should the equity investment programs not be approved at the May EGM, the Board will consider proposing a dissolution of the Company.

Management continues to make significant efforts to reduce its ongoing operating expense as it continues to execute its new Solid-State lithium battery (SSLB) technology as described in the outlook section in the Report from the Board of Directors. These cost cutting measures included a further reduction of headcount during the first quarter of 2020, settlement of long-term contractual obligations for services no longer required under the new strategy, and initiating processes to renegotiate payment terms tied to material agreements.

Upon approval of the private placement and subsequent offering at the May EGM, the Board plans to source additional investment from U.S. sources in order to fully fund the continued working capital requirements to execute upon the SSLB strategy. Due to the uncertain economic environment resulting from the COVID-19 pandemic and the potential supply chain and development delays that could impact Thinfilm's ability to meet its second quarter milestone of producing viable SSLB samples, successfully attracting and raising additional capital in the U.S. or abroad is not guaranteed.

There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern. If the Company fails to obtain additional investment commitments by the end of the second quarter 2020, the Board will consider proposing a dissolution of the Company. Should Thinfilm enter into liquidation, the costs to close as of the end of April 2020 are estimated to be approximately USD 3 million, excluding obligations related to its debt facility and building lease obligations. The USD 1.6 million cash secured letter of credit issued by Thin Film Electronics ASA ("Thinfilm ASA") would be surrendered to the landlord of the Junction Avenue building in San Jose, California. In addition, and as described in Note 6 – Investment in Subsidiaries included in the accompanying footnotes to the Thin Film Electronics ASA Annual Financial Statements 2019, in 2016 Thinfilm ASA executed a Tenancy Guaranty agreement with the San Jose, California landlord. The guaranty was given to secure payment of the lease rent. As of 31 December 2019, the guaranty liability was USD 4 million.

Intellectual property

As of year-end 2019, Thinfilm held 183 registered patents and had 95 patent applications pending. Many patents and submitted applications relate to PDPS technology, materials used, and processes related to the sheet and roll based manufacturing, located in San Jose, California, that will be instrumental to defining Thinfilm's differentiation in the SSLB battery space. In addition, Thinfilm holds trademarks and trade secrets relevant to its business and technology operations.

The group financial statements

Thinfilm's revenue and other income amounted to USD 1,181 thousand in 2019, a decrease of 65.24% from the preceding year (2018: USD 3,397 thousand). The Company continued to reduce its operating cost base, primarily driven by a reduction in headcount, cost control and lower manufacturing activity as the Company prepared for a strategy shift focusing on energy storage solutions to leverage its prior investment in its R2R production line and intellectual property fundamental to solid-state lithium battery technology development

Sales revenue amounted to USD 701 thousand in 2019 (2018: USD 1,288 thousand). A total of 5.8 million EAS tags were shipped during 2019, compared to 13.8 million in 2018. While shipments of NFC SpeedTap tags increased slightly in 2019 compared to the previous year, the sales relate to inventory manufactured in previous years.

Other income in 2019 of USD 472 thousand primarily related to gains on disposal of fixed assets. The company received sublease income from the second floor of its San Jose,California facility amounting to USD 182 thousand.

Salaries and other payroll costs amounted to USD 17,828 thousand in 2019, compared to USD 33,244 thousand in 2018. The decrease is primarily driven by a reduction in headcount, cost control, and lower manufacturing activity. Operating costs (excluding depreciation, amortization and impairment charges) amounted to USD 31,942 thousand during 2019. The corresponding figures for 2018 were USD 54,942 thousand. The decrease in operating costs during 2019, compared to 2018, was USD 22,531 thousand, and was primarily attributable to:

1 USD 14,237 thousand lower payroll due to the reduction in headcount for the year ended December 31, 2019, compared to the same period of 2018.

2 USD 4,953 thousand lower costs for premises and supplies. The worldwide downsizing of operations in 2019 led to a decrease in premises and supply costs. During 2018, Thinfilm's San Jose, California site was operating 24 hours per day, 7 days per week. In addition, with the implementation of IFRS 16 from 1 January 2019, the land component of the San Jose premises is treated as a financial lease, and therefore, no longer recognized as a rental expense, resulting in USD 360 thousand lower rent expense on an annual basis.

3 USD 1,830 thousand lower sales and marketing expenses. Cost savings initiatives resulted in reduced travel expenses and other sales and marketing-related costs in 2019, compared to the same period of 2018.

4 USD 1,179 thousand lower employee share based remuneration costs. The fair value of granted employee subscription rights are valued based on the Black-Scholes formula and expensed over the vesting period. This expense is lower in 2019, compared to the same period of 2018.

During 2019, Thinfilm narrowed its R&D activity to a single location, San Jose, California. During 2019, USD 811 thousand was spent developing manufacturing processes and operating procedures for roll-to-roll ("R2R") manufacturing located in San Jose, California. The corresponding amount for the same period of 2018 was USD 9,907 thousand.

Investments in fixed and intangible assets amounted to USD 6,540 thousand in 2019, compared to USD 20,606 thousand during the same period of 2018. The significant investments made in 2018 were

primarily related to equipment for the new R2R production line at the San Jose site. In 2019, Thinfilm had also made prepayments amounting to USD 3,287 thousand relating to investments in equipment and machinery and USD 4,846 in 2018. These prepayments are recognized as other receivables, since the equipment and machinery had not been received from suppliers as of 31 December 2019. However, since these prepayments relates to R2R production line and as the Company has impaired all machinery related to the production line, this prepaid amount was also impaired, recorded as a contra asset, "Impairment of Fixed Assets", resulting in a zero balance in the other receivables. Thinfilm's R2R capital expenditure program was determined to cost USD 33,500 thousand versus USD 32,000 thousand initially budgeted in November 2016. Depreciation and amortization charges in 2019 amounted to USD 3,949 thousand, compared to USD 5,214 thousand during the same period in 2018. As of December 31, 2019, Thinfilm recognized an impairment charge of USD 42,379 thousand related to Intangibles and fixed assets located in San Jose, California. The impairment charges for 2018 was 14,332 thousand.

In accordance with IAS 36, the Company has analyzed the recoverability of the carrying amounts of production-related assets and financial leases as of December 31, 2019 versus their respective fair market values. Due to uncertainty related to the timing of the implementation of Thinfilm's energy storage strategy, management concluded that a full impairment was required as of December 31, 2019. In the event Thinfilm sells equipment in the future (to the extent that the equipment has not been pledged as collateral under financing agreements), income from gains on equipment sales may be higher than the impaired book value. Furthermore, in the event of a future change in circumstances, e.g. a change in strategy or market prospects, impairments may be reversed in part or in full, if a higher asset value can be defended.

Net financial items in 2019 amounted to a loss of USD (1,367) thousand compared to a loss of USD (1,089) thousand recognized in 2018. The loss in 2019 reflected realized gains of USD 497 thousand offset by interest expense of USD (1,524) thousand, of which USD (552) thousand relates to Utica lease, as compared to 2018, whereby unrealized foreign currency gains were the largest component.

The loss in 2019 was USD (78,446) thousand, corresponding to a basic loss per share of USD (1.34). In 2018, the loss amounted to USD (71,722) thousand, corresponding to a basic loss per share of USD (1.22).

Non-current assets amounted to USD 558 thousand (2018: USD 35,276 thousand). The decrease in non-current assets from 2018 to 2019 was mainly due to full impairment of the R2R production line in San Jose, California, intangible assets and the financial lease representing the building lease in San Jose, California. Trade and other receivables amounted to USD 2,806 thousand at the end of 2019 (2018: USD 8,862 thousand). The reduction relates mainly to impairment of prepayments to suppliers and equipment vendors for R2R production line equipment not yet received. Non-current liabilities amounted to USD 25,056 thousand (2018: 11,525 thousand) and is relating to future lease payments for the Junction Avenue premises and long-term debt relating to an equipment term loan facility with Utica. The equity ratio was negative (161) percent at the end of 2019, versus 75 percent at the end of 2018.

The group's cash balance decreased by USD 23,716 thousand in 2019 (2018: decreased by USD 65,532 thousand). The net decrease in cash balance is explained by the following principal elements:

1 USD (29,054) thousand outflow from operating activities,

2 USD (4,919) thousand outflow from investing activities,

3 USD 10,257 thousand inflow from financing activities, and

The USD 29,054 thousand outflow from operating activities is primarily explained by an operating loss, excluding depreciation, amortization and impairment charges, of USD 46,328 thousand. The cash outflow from operations and investing activities in 2019 was offset by the inflow from financing activities, primarily attributable to the USD 13,200 thousand Utica debt that closed in September 2019. The cash balance on 31 December 2019 was USD 8,872 thousand, as compared to the cash balance on 31 December 2018 of USD 32,588 thousand.

Parent company financial statements

Revenue and other income in the Parent Company amounted to NOK 5,182 thousand in 2019 (2018: NOK 10,391 thousand).

Personnel and payroll costs were NOK 16,126 thousand in 2019, versus NOK 32,569 thousand in the preceding year. As of 31 December 2019, only the CEO was employed by the Parent Company, as compared to 10 employees as of December 31, 2018. The Parent Company employed, on average, four full-time employees during 2019, compared to an average of nine full-time employees during 2018.

External purchases of services amounted to NOK 18,088 thousand in 2019, a decrease from NOK 18,483 thousand in the preceding year. Of the total amount for 2019, (i) NOK 11,868 (2018: 10,587) thousand related to legal, audit and accounting services, (ii) NOK 4,822 (2018: 5,490) thousand was tied to advisory services, technology support services and recruitment services,

(iii) NOK 1,398 (2018: 1,468) thousand related to remuneration of the Board of Directors and (iv) NOK 0 (2018: 938) thousand related to the purchase of development consulting services.

Purchase of services from subsidiaries decreased to NOK 260,241 thousand in 2019 from NOK 372,229 thousand in 2018, largely as a result of the strategic shift away from the NFC business. Other operating expenses decreased from NOK 20,090 thousand in 2018 to NOK 13,079 thousand in 2019. Capitalized development costs amounted to NOK 2,971 thousand in 2019, compared to NOK 12,932 thousand in 2018. The capitalization is booked as a reduction of other operating expenses.

Amortization and impairment of intangible assets amounted to NOK 22,466 thousand in 2019 compared to NOK 11,752 thousand in 2018. Thinfilm will discontinue the current Electronic Article Surveillance (EAS) business after exhausting existing inventory. It is expected that the EAS product will not, at this time, be commercialized, and the NOK 10,226 thousand capitalized development work on EAS has been fully impaired.

Net financial items amounted to an expense of NOK 160,151 thousand in 2019, compared to an expense of NOK 140,000, thousand in 2018. The net financial expense mainly consists of impairments of intercompany investments, particularly in Thin Film Electronics Inc., as a result of the property, plant and equipment impairment described in Note 6 of the Consolidated Financial Statements. The net financial items are partly netted by NOK foreign currency gains on USD-denominated assets.

The net result for 2019 for Thinfilm ASA was a loss of NOK (486,323) thousand (2018: Loss of NOK 574,732). The Board does not propose a dividend for 2019.

Share capital

Thinfilm shares were listed on Oslo Axess from 30 January 2008 until 26 February 2015. On 27 February 2015, Thinfilm shares were transferred to Oslo Børs (OSE Main List). On 24 March 2015, Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

At the end of 2019, there were 58,593,581 (2018: 58,593,581 as adjusted for the 20:1 reverse stock split in November 2019) shares in the Company which were held by 6,964 shareholders (2018: 6,045 shareholders). Par value is NOK 2.20 per share.

The closing price of Thinfilm shares on 30 December 2019 was NOK 2.33, reflecting the 20:1 reverse share split recorded in November 2019. On the last trading day in 2018, the closing price was NOK 14.96, as adjusted for the 20:1 reverse share split. The total share turnover during 2019 amounted to NOK 3,107 million compared to NOK 1,550 million in 2018, an increase of approximately one hundred percent.

On 23 October 2019, an Extraordinary General Meeting in Thin Film Electronics ASA was held, in which it was resolved to, inter alia, carry out a 20:1 reverse share split of Thinfilm's shares. Following completion of the reverse share split, the composition of Thinfilm's share capital was changed from 1,171,871,617 shares, each having a par value of NOK 0.11, to 58,593,581 shares, each having a par value of NOK 2.20. The record date of the reverse share split was 4 November 2019.

There were no exercises of vested incentive subscription rights during 2019 nor during 2018. The Annual General Meeting of Thin Film Electronics ASA resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") would be entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans notified the Company that they wished to participate in the exchange program, whereupon such Eligible Holders explicitly waived any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders.
The grants were made under the Company's 2019 Subscription Rights Incentive Plan as resolved at the Annual General Meeting on 28 May 2019. The exercise price of the subscription rights is NOK 4.67 per share, as adjusted for the 20:1 reverse share split. The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each

October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The annual general meeting in 2018 resolved an authorization to the Board to grant up to 5,859,358, as adjusted for the 20:1 reverse share split, independent subscription rights to employees and to individual consultants performing similar work in Thinfilm but limited so that the total number of outstanding subscription rights under all subscription rights programs shall not exceed 10 percent of the share capital. By the end of 2018, the Board had granted 2,603,372 subscription rights under this authorization and the total number of outstanding subscription rights was 4,412,622.

The annual general meeting in 2018 authorized the Board to complete one or more placements by issuing up to 5,859,358 shares, equivalent to NOK 12,890 thousand, which at the time corresponded to 10 percent of the Company's registered share capital.

Further 132,000 subscription rights have been granted, none exercised, and 527,891 forfeited and expired to date in 2020. Consequently, the total number of subscription rights on 23 April 2020 is 4,977,339, hence well within the 10 percent limitation. The authorization expires at the annual general meeting 2020.

Principal risks

Thinfilm is exposed to various risks of a financial and operational nature. The extraordinary current risks of the pandemic and its effect on the world economy are affecting everyone.

The Company's predominant risks are market and business risks, summarized in the following points:

I The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. In connection with the proposed NOK 32 million equity investment that the board is recommending shareholders approve at the upcoming 20 May 2020 Extraordinary General Meeting, lead participants in the investor consortium agreed to and have provided the Company with a NOK 20 million commitment as well as a USD 500 thousand bridge loan to ensure that the Company has sufficient levels of cash to continue its operations until such time that the equity financing closes. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and Management, at a subscription price per share equal to the subscription price in the private placement. In addition, the Company also expects to issue a subsequent offering of NOK 7 million. In aggregate the proposed equity offerings total NOK 32 million.

II Technology development and engineering sample availability on Thinfilm's sheet line can be adversely affected by several factors including but not limited to:

- Quality, composition and consistency of lithium-based materials, chemicals and unanticipated interactions of the various layers and processes resulting in longer than planned learning cycles and corrective actions, delaying customer sample engagements.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- Equipment reliability, modifications needed, and process optimization learning cycle efficiency that may limit the uptime, throughput and quality of the devices produced.
- Issues encountered during handling, processing and assembly of ultrathin substrates and battery stacks.
- Need for new materials or processes and/or equipment to achieve full manufacturing qualification and product reliability.

The startup and product manufacturing yield ramp on the roll-to-roll line can also be negatively influenced by several of the conditions or events noted below (but not limited to):

- Achievement of return to manufacturing readiness and qualification of the tool set.
- On site availability of vendor personnel to assist in requalification of the machines with battery materials set.
- Electro-Static Discharge (ESD) or other phenomena that may cause the need for process or mechanical handling changes in the manufacturing line.
- Lower than anticipated throughputs and uptime of the equipment with the battery material set resulting in a lower capacity than planned.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- New and unknown modes of yield loss necessitating process, practice or equipment modifications that can result in a slower than planned yield ramp.

- Issues encountered during roll handling, processing and assembly of ultrathin substrates and battery stacks.
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

III Many of the markets that Thinfilm targets in connection with its new energy storage strategy, will require time in order to gain traction, and there is a potential risk of delays in the timing of sales. Risks and delays may include, but are not limited to:

- Uncertain global economic conditions may adversely impact demand for our products or cause our customers and other business partners to suffer financial hardship, which could cause delays in market traction and adversely impact our business.
- Our ability to meet our growth targets depends on successful product, Marketing, and operations innovation and successful responses to competitive innovation and changing consumer habits that may result in changes in our customers' specifications.

The Company cannot assure that the business will be successful or that we will be able to generate significant revenue. If we fail to establish and build relationships with our customers, or our customers' products which utilize our solutions do not gain widespread market acceptance, we may not be able to generate significant revenue. We do not sell any products to end users, and we do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our solutions. Instead, we design various devices and products that our OEM customers incorporate into their products, and we depend on such OEM customers to successfully manufacture and distribute products incorporating our solutions and to generate consumer demand through marketing and promotional activities. As a result of this, our success depends almost entirely upon the widespread market acceptance of our OEM customers' products that incorporate our devices. Even if our technologies successfully meet our customers' price and performance goals, our sales could fail to develop if our customers do not achieve commercial success in selling their products that incorporate our devices.

Our ability to generate significant revenue from new markets will depend on various factors, including the following:

- The development and growth of these markets;
- The ability of our technologies and product solutions to address the needs of these markets, the price and performance requirements of OEMs, and the preferences of end users; and
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

IV To a certain extent, Thinfilm is dependent on continued collaboration with technology, material, and manufacturing partners.

There may be process and product-development risks that arise related to time to development and cost competitiveness of the energy storage products Thinfilm is developing.

Many manufacturers of these products have well established relationships with competitive suppliers. Our ongoing success in these markets will require us to offer better performance alternatives to other solutions at competitive costs. The failure of any of these target markets to develop as we expect, or our failure to serve these markets to a significant extent, will impede our sales growth and could result in substantially reduced earnings and a restructuring of our operations. We cannot predict the size or growth rate of these markets or the market share we will achieve or maintain in these markets in the future. Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our operating results. The inability to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Many of the materials used in the production of our products are available only from a limited number of foreign suppliers, particularly suppliers located in Asia.

V Our business results depend on our ability to successfully manage ongoing organizational changes. Our financial projections assume successfully executing certain of these organizational changes, including the motivation and retention of key employees and recruitment of qualified personnel, which is critical to our business success.

Factors that may affect our ability to attract and retain talented leadership, key individual contributors, and sufficient numbers of qualified employees include:

- Employee morale,
- Our reputation,
- Competition from other employers, and
- Availability of qualified personnel.

Our success is dependent on identifying, developing and retaining key employees to provide uninterrupted leadership and direction for our business. This includes developing and retaining organizational capabilities in key technology areas, where the depth

of skilled or experienced employees may be limited and competition for these resources is intense.

VI Thinfilm is exposed to certain financial risks related to fluctuation of exchange rates and interest level.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019 and into the first and second quarters of 2020, in order to reduce the Company's cost structure.

Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Securing commitments for equity funding from current and new shareholders, subject to approval at the May EGM;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy. However, the financial statements do not include adjustments related to the amounts of liabilities that might be necessary, should the Company and the consolidated entity not continue as going concerns.

In April 2020, the Board received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants subject to approval by extraordinary general meeting in May 2020.

The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors. Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

Corporate governance

The board considers that attention to corporate governance is beneficial for companies and investors. Thinfilm seeks to comply with the Norwegian code of practice for corporate governance to the degree possible. The board's review of corporate governance has been included in the annual report.

Outlook

As Thinfilm transitioned its operational and strategic focus away from NFC in 2019, management concurrently concluded its extensive evaluation of multiple markets, in order to determine the most commercially compelling use of the Company's patented process technology innovations and state-of-the-art, production-scale roll-to-roll ("R2R") flexible electronics factory located in San Jose, California.

On 30 January, 2020, the Company announced its updated corporate strategy, focused on the design, development, and production of innovative battery solutions targeting existing market demand with differentiated solutions to power wearable devices and connected sensors.

To address the sizeable existing and expanding applications for wearable devices and connected sensors, the Company will develop a family of rechargeable solid-state lithium battery ("SSLB") products that are ultrathin, flexible, reliable, safe, and cost effective. Thinfilm's facility, located in the heart of Silicon Valley, is ideally positioned to spark rapid development of differentiated products that will offer the wearable market, estimated by IDTechEx to reach $64 billion in 2020 and growing at a 9.5% CAGR through 2024, a superior alternative to today's pouch and coin cell batteries. Thinfilm's distinct value proposition will enable technology innovation by unleashing designers' creativity, previously limited by the lack of flexibility inherent in existing battery technology.

Thinfilm's battery solutions would incorporate an innovative solid electrolyte material that enables thinner, stackable cells that can endure more charging cycles and deliver more power at sub-freezing temperatures, compared to commonly used battery technologies. Because the solid electrolyte cannot catch fire or explode, Thinfilm SSLBs would also improve the safety profile for wearable and medical applications.

Initially pioneered by Oak Ridge National Laboratory in the 1990s, SSLB technology is primarily used in embedded electronics applications including real-time clock and static random-access memory, or SRAM, backup. However, the technology's deployment has been limited by dependencies on rigid substrates, fragile materials, and small-scale manufacturing methods. In contrast, Thinfilm is well positioned to bring the advantages of SSLB technology to a broader market due to the Company's unique combination of existing capabilities, including roll-based production, robust metal foil substrate handling, materials expertise, and manufacturing process knowhow.

By leveraging its core capabilities in materials and manufacturing innovation, the Company believes it can produce compelling energy storage products that provide greater battery life and improved reliability, with the form-factor flexibility to create unique battery shapes enabling sleek, comfortable end products. The Company will initially focus on key portions of the wearables and sensor markets, particularly the rapidly growing connected and wearable medical sensing market, in which continuous glucose monitoring alone is forecasted to double in volume to over 100 million units by 2023, according to IDTechEx. Beyond wearable medical sensing, Thinfilm has identified a number of additional growing applications in existing markets that are expected to provide meaningful opportunities for additional growth. To accelerate the development of ultrathin battery technology in the San Jose factory, Thinfilm has entered into a partnership with a leading process technology development company.

In addition, the Company continues to file provisional patent applications, strengthening Thinfilm's strategy to develop and produce a new and innovative class of of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond.

As Thinfilm completes the transition to its new energy storage strategy, Management foresees five potential revenue and income sources:

1 Sales of its own designed products,

2 Non-recurring engineering fees earned through joint development agreements and/or government grant programs,

3 Monetization of its existing inventory of NFC labels and EAS devices,

4 Monetization of Thinfilm's CNECT software platform and other related NFC assets; and

5 Licensing/royalty revenue, where partners and customers pay for using the Company's intellectual property rights (IPR).

Organization, personnel and the environment

The board of directors would like to thank the Thinfilm management team members, staff, contractors, and ecosystem partners for their dedicated efforts throughout 2019 and early 2020.

Organization

As a result of significant restructuring during 2019, Thinfilm consolidated global organizational functions to the San Jose, California facility to ensure efficient and cost-effective management of the Company's resources and assets. In parallel, Thinfilm began the

process of closing its offices in Hong Kong, Shanghai, Singapore, Sweden, and the United Kingdom. As part of this consolidation, Thinfilm optimized and streamlined its processes and systems. The centralization of global operations facilitated a review of the effectiveness of Thinfilm's systems of internal controls and highlighted opportunities to strengthen and improve its processes and procedures relating to supply chain, accounting, purchasing, order fulfillment, and inventory control. The Company will continue to further optimize and develop its operational workflows.

Personnel

At the date of the report, Thinfilm had 18 full-time employees. Because of the Company's decision to navigate away from the NFC business and subsequent restructurings throughout 2019, Thinfilm reduced its global headcount from 155 at the end of 2018 to 23 full-time employees at the end of 2019, further reducing its workforce to 18 full-time employees in March 2020. With the strategic shift to energy storage having commenced in 2020, driving successful recruitment practices and appropriate staff development is fundamental to Thinfilm's success.

Environment

The board believes that the working environment at Thinfilm is safe, stimulating, challenging, and collaborative for all employees, and complies fully with relevant laws and regulations in regions within which Thinfilm operates.

Thinfilm employees are covered by benefits programs that are in line with practices in their respective countries. Throughout 2019, there were no minor workplace injuries or significant incidents or accidents involving equipment or other assets. Instances of sick leave during 2019 were relatively low and were consistent with previous years.

In addition to the employees of the Thinfilm group, Thinfilm has contracted specialists in business development, technology, design, accounting, and other services. During 2019, patenting and other intellectual property rights (IPR) services were transitioned from AWA Patent to Central California IP Group. In addition, the Company worked with an IPR consultant and received advice from external legal counsel, as needed.

Thinfilm creates and supports equal opportunity for all employees, in all aspects of the workplace. As of 31 December 2019, female employees in the company represented approximately 40%. As of the date of this report, the current management team consists of two men and two women.

Equality is one important aspect considered when recruiting new employees. The board considers the firm's equality standards and measures to be adequate and has not found reason to initiate any corrective measures.

Thinfilm appreciates its corporate responsibility to protect the environment. The Company operates its business to comply with the environmental, health, and safety regulations required for the materials and processes needed to manufacture its products. Thinfilm follows all relevant environmental rules and regulations, as discussed in the Corporate Responsibility Statement in this report.

Board of directors

Thinfilm's board of directors consists of two women and two men, the composition of which satisfies the gender requirements of the Norwegian Public Limited Companies Act. The board includes Mr. Morten Opstad (Chairman), Ms. Preeti Mardia, Mr. Jon Castor, and Ms. Kelly Doss.

At the Company's Annual General Meeting on May 28, 2019, Morten Opstad was re-elected as Chairman for another two-year term. Preeti Mardia was re-elected to continue as a board member. Mr. Castor and Ms. Doss were elected as board members, each for a period of two years.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	Preeti Mardia Board Member	Jon Castor Board Member	Kelly Doss Board Member

Kevin Barber
Managing Director (CEO)

Thin Film Electronics ASA Group
Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Amounts in USD 1,000	Note	2019	2018
Sales revenue	14	701	1,288
Other income	16,17	480	2,110
Total revenue and other income		**1,181**	**3,397**
Salaries and other payroll costs	18	(17,828)	(33,244)
Other operating expenses	19.23	(14,114)	(21,229)
Depreciation, amortization and impairment loss	6,7,8	(46,328)	(19,546)
Operating profit (loss)		**(77,089)**	**(70,622)**
Interest income		152	292
Other financial income		8	66
Interest expense		(1,524)	(1,042)
Other financial costs		(3)	(404)
Net financial items		**(1,367)**	**(1,089)**
Profit (loss) before income tax		**(78,456)**	**(71,711)**
Income tax expense	20	10	(11)
Profit (loss) for the year		**(78,446)**	**(71,722)**
Profit (loss) per share for profit attributable to the equity holders of the Company during the year			
Basic and diluted, USD per share	22	(USD1,34)	(USD1,22)
Profit (loss) for the year		**(78,446)**	**(71,722)**
Other Comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Currency translation		(637)	(198)
Total comprehensive income for the year		**(79,083)**	**(71,921)**

Consolidated Statements of Financial Position

Amounts in USD 1,000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	6	—	22,548
Building – financial lease	8	—	10,375
Intangible assets	7	—	2,353
Other financial receivables	10	559	—
Total non-current assets		**559**	**35,276**
Current assets			
Inventory	9	1	2,640
Trade and other receivables	10	2,806	8,862
Cash and bank deposits	11	8,872	32,588
Total current assets		**11,679**	**44,090**
Total assets		**12,238**	**79,366**
EQUITY	12		
Ordinary shares		18,660	18,660
Other paid-in capital		—	321,575
Currency translation		(14,356)	(13,719)
Retained earnings		(23,964)	(266,806)
Total equity	**25**	**(19,660)**	**59,709**
LIABILITIES			
Non-current liabilities			
Long-term debt	15	11,812	—
Lease liabilities	8	13,244	11,525
Total non-current liabilities		**25,056**	**11,525**
Current liabilities			
Trade and other payables	13,8	5,454	8,132
Current portion of long-term debt	15	1,388	—
Total current liabilities	**24**	**6,842**	**8,132**
Total equity and liabilities		**12,238**	**79,366**

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	John Castor Board Member	Preeti Mardia Board Member	Kelly Doss Board Member	Kevin Barber CEO

Consolidated Statements of Changes in Equity

Amounts in USD 1,000	Note	Share capital	Other paid-in equity	Currency translation	Retained earnings	Total
Balance at 1 January 2019		**18,660**	**321,575**	**(13,719)**	**(266,806)**	**59,709**
Share based compensation		—	190	—	—	190
Impact of change in accounting policy*	8	—	—	—	(477)	(477)
Comprehensive income		—	—	(637)	(78,446)	(79,083)
Transfer for coverage of losses		—	(321,765)	—	321,765	—
Balance at 31 December 2019	**12**	**18,660**	**—**	**(14,356)**	**(23,964)**	**(19,660)**
Balance at 1 January 2018		**18,660**	**319,819**	**(13,520)**	**(195,084)**	**129,874**
Share based compensation		—	1,771	—	—	1,771
Private placement (2017 residual cost)		—	(15)	—	—	(15)
Comprehensive income		—	—	(198)	(71,722)	(71,921)
Balance at 31 December 2018	**12**	**18,660**	**321,575**	**(13,719)**	**(266,806)**	**59,709**

* IFRS16 implementation. See Note 8.

Consolidated Cash Flow Statements

Amounts in USD 1,000	Note	2019	2018
Cash flows from operating activities			
Profit (loss) before income tax		(78,456)	(71,711)
– Share-based remuneration	18	190	1,771
– Depreciation and amortization	6	3,949	3,947
– Write down inventory, machinery and intangible assets	6	42,379	14,832
– Loss / (gain) on sale of fixed assets	6	(241)	(479)
– Taxes paid for the period		10	(91)
– Changes in working capital and non-cash items		1,748	(686)
Net financial items		1,367	—
Net cash from operating activities		**(29,054)**	**(52,418)**
Cash flows from investing activities			
Purchases of property, plant and equipment	6	(3,177)	(6,004)
Prepayments relating to purchase of property, plant and equipment	10	(1,653)	(5,005)
Capitalized development expenses	7	(353)	(1,580)
Proceeds from sale of fixed assets	6	112	1,389
Interest received		152	291
Net cash from investing activities		**(4,919)**	**(10,908)**
Cash flows from financing activities			
Proceeds from issuance of shares	12	—	(15)
Proceeds from debt financing	15	13,200	—
Deposits		(558)	—
Interest paid		(1,525)	—
Lease payments	8	(860)	(600)
Net cash from financing activities		**10,257**	**(615)**
Currency translation effects on cash and bank deposits		—	(1,590)
Net increase (decrease) in cash and bank deposits		**(23,716)**	**(65,532)**
Cash and bank deposits at the beginning of the year		32,588	98,120
Cash and bank deposits at the end of the year*		**8,872**	**32,588**

* Including restricted cash. See Note 11.

Notes to the Consolidated Financial Statements

1. Information about the group

"Thin Film Electronics ASA ("Thinfilm ASA" or "the company") was founded on 22 December 2005. Reference is made to Note 28 for a description of the subsidiaries consolidated into the parent company Thin Film Electronics ASA.

The objectives of the Company shall be the commercialization, research, development and production of technology and products related to solid-state lithium batteries These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem partners.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These group consolidated financial statements were resolved by the board of directors on 11 May 2020.

2. Accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied. For the purpose of ease of reading, the terms "balance sheet" and "accounting" and variations of these have been used interchangeably with the IFRS terms "statement of financial position" and "recognition".

2.1 Basis of preparation

The annual financial statements have been prepared on a historical cost basis. The financial statements of the group have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The accounting policies adopted are consistent with those of the previous financial year, except for the below descriptions. IFRS is continuously developed and recently published standards, amendments and interpretations have been reviewed and considered. Except from the impact on the implementation of IFRS 16 Leases, as described in Note 2.20 and Note 8, none of the other new standards, amendments and interpretations that apply as of 1 January 2019 had any impact on net result or equity of Thinfilm in 2019. Reference is made to Note 2.20 for a description of changes in IFRS.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019, in order to reduce the Company's cost structure. Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow.

The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors. Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Initiated the process to close a Private Placement and secure a bridge loan from current and new shareholders by May 2020;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy.

2.2 Consolidation

Subsidiaries are all entities over which the Group has control. 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 give it 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 in 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

2.3 Foreign currency translation

a) Functional and presentation currency

The consolidated financial statements are presented in US dollar (USD).

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

c) Group companies

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are included in other comprehensive income. When a foreign operation is partially disposed

of or sold, such exchange differences are reversed and recognized in the income statement as part of the gain or loss on the sale.

2.4 Property, plant and equipment

Property, plant and equipment is mainly comprised of construction in progress on the roll-to-roll line, laboratory test equipment, and office equipment. Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method as follows:

- Laboratory equipment — 5 years
- Office equipment — 3–5 years
- Office furnishings and fittings- up to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.5 Inventory

The Company has changed their strategy and hence prior years inventory are fully impaired. Historically, inventory, components and components under production are valued at the lower of cost and net realizable value after deduction of obsolescence. Net realizable value is estimated as the selling price less cost of completion and the cost necessary to make the sale. Costs are determined using the standard cost method. The FIFO principle is applied. Work in progress includes variable cost and non-variable cost which can be allocated to items based on normal capacity. Obsolete inventory is written down completely.

2.6 Intangible assets

a) Patents and licenses

Acquired patents and licenses are stated at historical cost. Patents and licenses have a finite useful life and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method to allocate the cost of patents and licenses over their estimated useful lives. An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. In January 2014, Thinfilm acquired an IP portfolio consisting of patents. These assets are initially recognized at fair value and subsequently measured at cost, less accumulated amortisation and impairment losses.

b) Research and development

Research costs are expensed as they are incurred. An intangible asset arising from development expenditure on an individual project is capitalized only when the Group reliably can measure the expenditure and can demonstrate;

- The technical feasibility of completing the intangible asset so that it will be available for use or sale
- How the asset will generate future economic benefits
- The group's ability to obtain resources to complete the project

Development costs are amortized over the period of expected use of the asset. Capitalized development expenses relate to Speedtap™. In 2019 it was decided that the capitalized development costs relating to NFC SpeedTap™ would not be further commercialized and the remaining costs of NOK 12,744 were impaired. EAS (Electronic article surveillance) costs were previoualy capitalized, but as a result of the corporate restructuring announced 15 March 2019, these have been impaired as of year-end 2018. Please ref. Note 7 for further details.

An asset's carrying amount is written down to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.7 Impairment of assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill are reviewed for possible reversal of any previous impairment at each reporting date.

2.8 Trade receivables and other receivables

Trade receivables and other short-term receivables are measured at initial recognition at fair value and subsequently measured at amortized cost. Short-term

receivables, which are due within three months, are normally not discounted. Impairment of receivables is evaluated on a case-by-case basis. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

2.9 Cash and bank deposits

Cash and bank deposits include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and any bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.10 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to raising new equity are shown as a deduction to the equity, net of tax.

2.11 Trade payables

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

2.12 Deferred income tax

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or a liability in a transaction other than a business combination that at the time of the transaction affects neither accounting, nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted on the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax liabilities are recognized for taxable temporary differences.

2.13 Employee remuneration

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognizes termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

The company only holds defined contribution pension plans. Contributions are expensed and paid when earned.

2.14 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the Group's activities, as described below.

(a) Sales of goods

During 2019, the Group manufactured and sold NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. The performance obligation was to deliver a distinctive goods, and the performance obligation was satisfied when the control was transferred to the customer being at the point of delivery of the goods. Sales of goods were recognized when the performance obligation was satisfied, the costs incurred or to be incurred with respect to the transaction could be measured reliably and Thinfilm retained neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Group provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the Group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted.

2.15 Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants are recognised as other income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

2.16 Financial liabilities

2.16.1 Borrowings

Borrowings are initially recognized at cost and subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs as well as discount or premium on settlement. Financial liabilities are presented as current if the liabilities are due to be settled within 12 months after the balance sheet date.

2.16.2 Leases

All leases are recognized in the balance sheet as a right-of-use ("ROU") asset with a corresponding lease liability, except for short term assets in which the lease term is 12 months or less, or low value assets. ROU assets represent a right to use an underlying asset for the lease term and lease liabilities represent an obligation to make lease payments arising from the lease. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract. The depreciation of ROU asset is recognized over the lease term, and interest expenses related to the lease liability are classified as financial items in the income statement. Right-of-use assets are tested for impairment in accordance in accordance with IAS 36.

Thinfilm determines if an arrangement is a lease at inception. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments, less any lease incentives. The Company's incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. Extension options are included when it, based on management's judgement, is reasonably certain to be exercised. ROU assets are measured at cost and include the amount of the initial measurement of lease liability, any lease payments made at or before the commencement date less any lease incentives received, any initial direct costs, and restoration costs. Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less and low-value assets.

2.17 Share based remuneration

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at grant date. The fair value of the instruments is determined using a Black-Scholes option pricing model.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest.

For social security contribution related to equity-settled share-based payment transactions with employees, a liability is recognized. The liability is initially measured at the fair value of the liability. At the end of each reporting period until the liability is settled, and the date of settlement, the fair value of the liability is remeasured, with any changes in fair value recognized in profit or loss for the year.

2.18 Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

2.19 Segment information

Operating segments, according to IFRS 8, are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources, assessing performance and making strategic decisions, has been identified as the Chief Executive Officer (CEO). Based on Thinfilm's current deliveries, performance obligations, customer characteristic and other information, it has been assessed that Thinfilm has only one operating segment. Hence, primarily information according to IFRS 8 paragraphs –34 is provided.

2.20 Changes in accounting principles

Thinfilm has, with effect from 1 January 2019, implemented the amendments to IFRS 9 Prepayment features with negative compensation, IAS 19 Plan amendment, curtailment or settlement, IAS 28 Long-term Interests in Associates and Joint Ventures, IFRIC 23 Uncertainty over income tax treatments and annual improvements to IFRSs 2015–2017. The implementation of these standards has not had a material impact on the entity in the current reporting period.

From 1 January 2019, the Company has applied IFRS 16 Leases using the modified retrospective approach. Therefore, the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The new accounting policies for leases and transition effects to IFRS 16 are outlined in Note 8.

2.21 Approved standards and interpretations not yet in effect

- In addition to these standards, the following new and revised IFRSs have been issued, but are not

yet effective, and in some cases have not yet been adopted by the EU. The Group will assess the potential impact of these new and revised standards in due course.

- IFRS 17 Insurance contracts
- Amendments to IFRS 3 Business Combinations
- Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
- Amendments to IFRS 9, IAS 39 and IFRS17: Interest Rate Benchmark Reform
- Amendments to IAS 1 and IAS 8: Definition of Material
- Amendments to References to the Conceptual Framework in IFRS Standards

3. Segment information

Thinfilm's business consists of sale of products, services and development of electronic products and related solutions. The CEO has determined that the Group has only one operating segment. Consequently, no additional segment information is disclosed. Reference is made to Note 6, 14, 15 and 16 for entity-wide disclosures.

4. Capital management and financial risk

4.1 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern. The capital structure of the Group consists of equity and current and non-current interest-bearing liabilities. The Group is not subject to any externally imposed capital requirements apart from the requirements according to national laws and regulations for limited liability companies. In September 2019, the Company's subsidiary, Thinfilm Electronics, Inc. closed an equipment term loan facility with Utica for USD 13,200 thousand secured by select fixed assets (see Note 6). The terms of the Master Lease Agreement were interest-only monthly payments for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. The Company used the proceeds from the loans for working capital to fund ongoing operations and to pay for remaining scheduled payments for the R2R line.

The company is working on obtaining additional equity funding. see note on going concern.

4.2 Financial risk factors

Thinfilm is exposed to certain financial risks related to exchange rates and interest level. These are, however, insignificant compared to the business risk.

a. Market risk factors

(i) Currency risk

The Group has the majority of its operations in the USA. As of 31 December 2019, approximately 84% of the Company's cash balance was denominated in USD, in order to mitigate currency risk associated with the increased value of the USD relative to NOK. Management monitors this risk and will take the appropriate actions to address it as the situation requires. The currency risk related to the balance sheet is mostly related to the net investment in the Swedish subsidiary. Management monitors this risk but has not initiated any particular actions to reduce it.

(ii) Interest risk

Thin Film Electronics, Inc., the U.S. operating subsidiary and global headquarters of the Thin Film Electronics Group, closed an equipment term loan facility with Utica Leaseco, LLC for financing of USD 13.2 million, which funded in two tranches during the month of September 2019. The interest rate associated with this debt is fixed, and therefore, does not present the potential risk that would be associated with interest rate fluctuations.

b. Credit risk

The company has some credit risks relating to receivables. The loss on receivables has historically been low.

In connection with the relocation of Thinfilm's US headquarters in the first two quarters of 2017, a USD 1,600 thousand Letter of Credit was issued by Thin Film Electronics ASA to the new landlord of the Junction Avenue facility located in San Jose, California. In addition, the Company entered into a Tenancy Guaranty with the new landlord as additional security of the rent payments. The initial guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis by USD 500 thousand per year, commencing with the second lease year until the liability reaches zero dollars. As of 31 December 2019, the guaranty liability amounted to USD 4,000 thousand. Apart from that, Thinfilm has not issued additional material guarantees.

c. Liquidity risk

Aside from the equipment term loan facility of USD 13.2 million closed in September 2019, Thinfilm does not have any other material interest-bearing debt. In addition, the company has a continued obligation under a lease agreement signed in November 2016 relating to its U.S. headquarters in San Jose, California. The Company was unable to raise equity financing in 2019 and is not yet cash generative and operates at a loss. There is uncertainty tied to the generation of future cash flow in connection with the Company's new business strategy. As described in Note 2.1 Basis of preparation, the Company is currently pursuing alternative forms of generating cash in order to meet

its financial obligations. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

4.3 Fair value estimation

The carrying amounts of trade and other receivables and payables are considered to be the same as their fair values, due to their short-term nature. Accounts payable and accrued liabilities with due date within 12 months have been recognized at carrying value. The fair value of financial liabilities has been estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

4.4 Financial instruments

Thinfilm is not party to any transactions or financial instruments which are not recorded in the balance sheet or otherwise disclosed.

5. Critical accounting estimates and judgments

The financial statements of the group have been prepared based on the going concern assumption. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results.

The estimates and assumptions in the financial statements of the Group mainly relate to share based compensation, deferred tax assets, accounting for research and development, intangible assets, property, plant and equipment and lease.

Share based compensation:

Thinfilm estimates the fair value of options at the grant date. As the subscription rights are structured equal to an option, the Black-Scholes option pricing model is used for valuing the share subscription rights. The model uses the following parameters; the exercise price, the life of the option, the current price of the underlying shares, the expected volatility of the share price, the dividends expected on the shares, and the risk-free interest rate for the life of the option.The cost of share based remuneration is expensed over the vesting period. Such estimates are updated at the balance sheet date. Changes in this estimate will impact the expensed cost of share based remuneration in the period. The variables, assumptions and relevant theoretical foundations used in the calculation of the FV per share subscription right is estimated according to the IFRS 2 standard.

Deferred tax assets:

Deferred tax assets related to losses carried forward is recognized when it is probable that the loss carried forward may be utilized. Evaluation of probability is based on historical earnings, expected future margins and the size of the order back-log. Future events may lead to these estimates being changed. Such changes will be recognized when reliable new estimates can be made. No deferred tax assets have been recognized in the balance sheet as of 31 December, 2019.

Research and development:

Research costs are expensed as incurred. Development expenditure on an individual project is recognised as an intangible asset only when Thinfilm can demonstrate the technical feasibility of completing the intangible assets so that it will be available for use or sale, the Company's intention and capability of completing the development and realize the asset, and the net future financial benefits of use or sale. Determining whether an expense meets the definition of a development cost requires judgment to be applied. Capitalized development costs as of 31 December, 2019, has been fully impaired. See Note 7.

Intangible assets:

In connection with the purchase of certain certain assets from Kovio, Inc., in January 2014, Thinfilm acquired an IP portfolio of ninety patent families. In addition, Thinfilm has acquired certain licenses and capitalized certain development costs relating to printed batteries. These assets are recognized in the balance sheet as intangible assets and valued at fair value less accumulated amortization and impairment losses. The book value is dependent on the successful development of the technology in the Parent Company and in the subsidiaries. As of 31 December, 2019 all intangible assets have been impaired. See Note 7.

Property, plant and equipment (PPE):

In connection to establishing US headquarters in San Jose, Thinfilm has invested in PPE, including a roll-based production line. Determining whether equipment / a tool a) is under construction b) is ready for use in production c) will generate sufficient net future benefits on a stand-alone basis or as part of a production line, requires judgment to be applied. The corporate restructuring announced on 15 March, 2019, 19 July, 2019 and 12 September, 2019 triggered impairment testing relating to these assets. See Note 6 for quantification of book values and impairments.

Financial lease:

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarters in San Jose, California. Thinfilm assesses whether the lease has been impaired by applying the requirements in IAS 36 - Impairment of assets. As of 31 December, 2019, the book value of the leased building is USD 0 thousand. See Note 8.

6. Property, plant and equipment

Amounts in USD 1,000	Laboratory and production equipment
	6
2019	
Accumulated cost on 1 January 2019	**45,244**
Additions	6,187
Sale/disposal of assets	(571)
Exchange differences	(2)
Accumulated cost 31 December 2019	**50,858**
Accumulated depreciation	
Accumulated depreciation on 1 January 2019	(22,695)
Depreciation expenses	(2,384)
Impairment	(25,778)
Exchange differences	(1)
Accumulated depreciation 31 December 2019	**(50,858)**
Net book value 31 December 2019	**–**
2018	
Accumulated cost on 1 January 2018	26,910
Additions	19,024
Sale/disposal of assets	(692)
Exchange differences	2
Accumulated cost 31 December 2018	**45,244**
Accumulated depreciation	
Accumulated depreciation on 1 January 2018	(6,388)
Depreciation expenses	(2,743)
Impairment	(13,565)
Exchange differences	1
Accumulated depreciation 31 December 2018	**(22,695)**
Net book value 31 December 2018	**22,549**

All property, plant and equipment are based in San Jose, California.

Impairment:

The company has revised its strategy, and does not foresee to use the roll-to-roll production facility in San Jose to its intended use. This has triggered an impairment test. Management views the roll-to-roll technology, production facility and related assets as broadly applicable to multiple potential applications, including for use in its recently announced strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors (see note 27). However, management believes that the 'value in use' is not readily supportable, as it has only been forecasted in a financial model, with no real data to support the estimates. As there is no observable market data on these assets management have not been able to find a reliable estimate on 'fair value less costs to sell'. Due to these uncertainties the assets, incl. intangible assets (see note 7) right-of-use assets (see note 8), are fully impaired as of 31 December 2019.

Assets pledged as security:

The majority of the production facility assets, incl. the roll-to-roll (R2R) production facility, have been pledged to secure borrowings of the group (see note 15). The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

7. Intangible assets

Amounts in USD 1,000	Purchased intellectual property	Capitalized development costs	Total
Amortization period, years (linear)	13–16		
2019			
Acquisition cost			
Accumulated cost on 1 January 2019	1,815	1,252	3,067
Additions	(24)	378	354
Accumulated cost 31 December 2019	**1,791**	**1,630**	**3,421**
Accumulated amortization and impairment on 1 January 2019	(715)	—	(715)
Amortization	(128)	—	(128)
Accumulated amortization impaired assets	(948)	(1,630)	(2,578)
Amortization and Impairment 31 December 2019	**(1,791)**	**(1,630)**	**(3,421)**
Net book value 31 December 2019	**—**	**—**	**—**
2018			
Acquisition cost			
Accumulated cost on 1 January 2018	1,969	847	2,816
Additions	—	1,582	1,582
Impairment at cost	(154)	(1,177)	(1,331)
Accumulated cost 31 December 2018	**1,815**	**1,252**	**3,067**
Accumulated amortization and impairment on 1 January 2018	(626)	—	(626)
Amortization	(151)	—	(151)
Accumulated amortization impaired assets	62	—	62
Amortization and Impairment 31 December 2018	**(715)**	—	**(715)**
Net book value 31 December 2018	**1,100**	**1,252**	**2,352**

Thinfilm will discontinue the Electronic Article Surveillance (EAS) business after exhausting existing inventory, and has also decided to exit the NFC and EAS businesses and ceased all development and sales associated with these two businesses. Therefore, based upon its analysis under IAS 36, an impairment of USD 2,578 thousand has been booked, representing a full impairment of all assets as of 31 December 2019. See Note 6.

The amount of research and development expenditure recognized as an expense in 2019 amounts to USD 1,839 thousand (2018: USD 9,907 thousand). This was mainly related to cost incurred in connection with research & development relating to roll-to-roll printing processes.

8. Leases

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, CA. The lease in San Jose expires in September 2028. The building element of the lease was under IAS 17 classified as a financial lease, as the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. When implementing IFRS 16 from 1 January 2019 the entire contract became a lease, and the land element of the lease which previously was accounted for separately as an operating lease, which included in the right of use asset. The difference between the operating lease commitments after IAS 17, as disclosed in the 2018 financial statements, and lease debt recognized at initial application is reconciled in the table below. See Note 19 for the nature of the short-term leases.

Thinfilm applies exemption for short term leases (12 months or less) and low value leases. There are no extension options available and management's judgement, is reasonably certain to be exercised. The incremental borrowing rate applied in discounting of the nominal lease debt is 7,25% per cent. Right-of-use assets are depreciated linearly over the lifetime of the related lease contract.

	Lease liability
Operating lease commitments as of 31 December 2018:	**4,418**
Short-term leases and leases of low-value assets	-655
Effect of discounting the above amounts	-990
Financial lease liabilities recognized under IAS 17 at 31 December 2019	12,303
Lease liability recognized at 1 January 2019	15,075
Lease payment (see note below)	-1,962
Interest expense	1,063
Lease liability as of 31 December 2019	**14,213**

In the statement of cash flow principle portion of lease payments are included in line Lease payment with an amount of USD 860 thousand, and interest portion of the payment are included in line Interest paid with an amount of USD 1,102 thousand. Both of them are presented as cash flow from financing activities.

The Group has recognized USD 2,543 thousand of right-of-use assets, USD 249 thousand in deferred rent, and USD 2,772 of lease liabilities upon transition to IFRS 16. The difference of USD 477 thousand is recognized in retained earnings. In addition, USD 10,375 thousand recognized as Financial Lease assets as of 31 December 2018 transferred to right-of-use assets when implementing IFRS 16 on 1 January 2019.

For maturity schedule of minimum lease payments, see Note 15.

A small part of the building is sub-leased and classified as operating lease. The income, for which 2019 amounts to USD 182 thousand is presented as other income (see Note 17).

Right-of use assets

Amounts in USD 1,000	Right of use assets
Depreciation period, years (linear)	12
2019	
Net value on 1 January 2019	10,376
Additions	—
Adjustments	2,543
Impairment (see Note 6)	(11,504)
Exchange differences	—
Depreciation	(1,415)
Net book value on 31 December 2019	**—**

Finance lease under IAS17	
2018	
Net value on 1 January 2018	11,534
Additions	—
Adjustments	(105)
Exchange differences	—
Depreciation	(1,053)
Net book value on 31 December 2018	**10,376**

9. Inventory

Amounts in USD 1,000	2019	2018
Finished goods	1	150
Raw materials	—	155
Work in progress	—	2,336
Net book value on 31 December 2019	**1**	**2,641**
Inventory reserved	4,154	2,488

10. Trade and other receivables

Amounts in USD 1,000	31 December 2019	31 December 2018
Customer receivables	928	868
Accrued revenue not yet invoiced	—	75
Prepayments	3,287	4,846
Other receivables	1,878	2,935
Income tax prepayments	—	137
Less: provision for impairment of receivables and prepayments	(3,287)	—
Receivables – net	**2,806**	**8,862**
Of this, receivables from related parties (Note 23)	—	—

Of other receivables, prepayments of USD 3,287 thousand(which is fully impaired); (USD 4,846 thousand in 2018) relate to equipment for San Jose site not yet delivered. All receivables are due within one year and book value approximates fair value.

Other non-current financial receivables of USD 559 thousand relates to security deposit held by Utica Leaseco, LLC.

Total receivables are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2019	31 December 2018
Denominated in NOK	842	2,254
Denominated in SEK	5	334
Denominated in USD	1,873	6,175
Denominated in other currencies, including EUR, CNY, HKD, GBP and CHF	86	97
Total	**2,806**	**8,862**

Trade receivables USD 223 thousand were past due by more than 90 days.

Impairment of receivables is evaluated on a case-by-case basis, and realized losses have historically been low. The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery.

11. Cash and bank deposits

Amounts in USD 1,000	31 December 2019	31 December 2018
Cash in bank excluding restricted cash	7,262	30,572
Deposit for Letter of Credit	1,604	1,629
Deposit for withheld tax (restricted)	6	387
Total	**8,872**	**32,588**

Payable withheld tax amounts in Norway and Sweden at 31 December 2019 were USD 17 thousand and USD 31 thousand (2018: USD 387 thousand and USD 0 thousand).

12. Share capital, warrants and subscription rights

	Number of shares	Number of warrants
Shares at 1 January 2019	**58,593,581**	**—**
Expiry of Warrants, 16 March	—	—
Expiry of Warrants, 14 July	—	—
Shares at 31 December 2019	**58,593,581**	**—**
Shares at 1 January 2018	**58,593,581**	**2,850,866**
Expiry of Warrants, 16 March	—	(850,866)
Expiry of Warrants, 14 July	—	(2,000,000)
Shares at 31 December 2018	**58,593,581**	**—**

Number of warrants and subscription rights	**1 January–31 December 2019**	**1 January–31 December 2018**
Warrants and subscription rights opening balance	4,412,622	6,121,116
Grant of incentive subscription rights	5,429,856	2,603,372
Terminated, forfeited and expired subscription rights	(4,469,248)	(1,461,000)
Exercise of subscription rights	—	—
Allotment of warrants	—	—
Exercise and expiry of warrants	—	(2,850,866)
Warrants and subscription rights closing balance	**5,373,230**	**4,412,622**

In connection with the reverse share split resolved by the extraordinary general meeting of the Company, on 23 October 2019, the general meeting authorized the Board to issue three (3) new shares at par value in order for the Company's registered number of shares to be dividable by 20 (the reverse share split ratio). Pursuant to such board authorization, the Board on 24 October 2019 resolved the issuance of three (3) new shares to an existing shareholder, which new shares subsequently could be used in connection with the rounding up of shareholdings of shareholders, who do not have a number of shares dividable by 20. Following the issue of the new shares, the Company's share capital is NOK 128,905,878.20 divided into 58,593,581 registered shares each with a nominal value of NOK 2.20.

The Annual General Meeting of the Company resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") were entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans have notified the Company that they wish to participate in the exchange program, whereupon such Eligible Holders explicitly waived any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders. The grants were made under the Company's 2019 Subscription Rights Incentive Plan, as resolved at the Annual General Meeting on 28 May 2019.

The exercise price of the subscription rights is NOK 4.67 per share.

The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The number of shares, warrants and subscription rights have been adjusted to reflect the reserve share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

13. Trade and other payables

Amounts in USD 1,000	31 December 2019	31 December 2018
Trade payables	999	1,120
Public duties, withheld taxes and social security taxes due	667	696
Accrued holiday pay and other accrued salary	1,575	2,223
Current lease liabilities	970	635
Other accrued expenses	1,243	3,458
Total	**5,454**	**8,132**
Of this, payables to related parties (Note 23)	445	—

Total payables and accruals are denominated in currencies as shown below

Amounts in USD 1,000	31 December 2019	31 December 2018
Denominated in NOK	1,258	1,399
Denominated in SEK	—	610
Denominated in USD	3,951	5,973
Denominated in HKD	48	11
Denominated in other currencies, including GBP, EUR, CNY and CHF	197	140
Total	**5,454**	**8,132**

14. Sales revenue

The breakdown of the sales revenue is as follows:

Amounts in USD 1,000	2019	2018
Sales of goods	630	1,267
Rendering of services, technology access revenue	71	21
Total	**701**	**1,288**

The Group is domiciled in Norway. There were no sales revenue from external customers in Norway for 2019 and 2018.

The total sales revenue from external customers from other countries is USD 701 thousand, of which USD 218 thousand related to sales to customers in the United States.

In 2018 USD 218 thousand related to sales to customers in the United States out of the total sales revenue of USD 1288 thousand.

Sales revenue of approximately USD 290 thousand (2018: USD 760 thousand) are derived from single customers representing 10% or more of total sales revenue.

No warranty costs, penalties or other losses were related to sales revenue in 2019.

15. Current and long-term debt

In September 2019, the subsidiary in US, Thinfilm Electronics, Inc., closed an equipment term loan facility with Utica for USD 13,200 thousand secured by select fixed assets (see Note 6). The terms of the agreement were interest-only monthly payments for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. For the twelve months ended December 31, 2019, the current portion of the loan principal of USD 1,388 thousand and the long-term portion of the principal of USD 11,812 thousand is recorded as Long-term Debt in the Consolidated Statements of Financial Position.

The interest rate for the financing is at 14%. Table below disclosures principal payment obligations for the company.

Maturity schedule – liabilities

Amounts in USD 1,000									31 December 2019
					Principal and Interest Due				
	Within I year				1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years
	1st qtr	2nd qtr	3rd qtr	4th qtr					
Principal obligations due	—	—	682	706	3,084	3,544	5,184	—	—
Interest payments	462	1,136	454	430	1,461	1,000	497	—	—
Lease payments	490	490	490	490	1,996	2,120	2,182	2,245	9,010
Total	**952**	**1,626**	**1,626**	**1,626**	**6,541**	**6,664**	**7,863**	**2,245**	**9,010**

16. Government grants

In 2018 Thinfilm ASA had a project qualified for the SkatteFUNN scheme for the three-year horizon 2018-2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million. Due to a revised strategy the company has ceased the SkatteFUNN project in 2019, and has not included any contribution from this scheme in 2019.

The SkatteFUNN grant has been recognized as Other Income in 2018 (see Note 17).

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway.

17. Other income

Amounts in USD 1,000	2019	2018
Sublease income from the site in San Jose, California (CA)	182	96
Gain on sale of fixed assets, related to sale of equipment from San Jose site.	290	470
Government grants and funded development projects (see Note 16)	8	1,540
Other	—	4
Total	**480**	**2,110**

18. Salaries and other payroll costs

Amounts in USD 1,000	2019	2018
Salaries	14,030	25,858
Social security costs	1,282	2,154
Share-based compensation (subscription rights), notional salary cost	190	1,465
Share-based compensation (subscription rights), accrued employer´s tax*	19	(96)
Pension contribution	519	1,471
Other personnel related expenses, including recruiting costs	1,788	2,392
Total	**17,828**	**33,244**
Average number of employees for the year (full-time equivalent)	75	164

At the end of the year the Group had 23 employees (full-time equivalents), down from 155 at the end of 2018.

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

*Relates to remeasurement of social security costs. See Note 2.17.

Compensation to senior management

Amounts in USD 1,000	Salary	Pension contribution	Bonus	Share-based remuneration
2019				
Kevin Barber, CEO	418	10	191	994
Ole Ronny Thorsnes, CFO (until 30 September 2019)	326	—	—	—
Mallorie Burak, CFO (from 1 July 2019)	155	5	8	35
Christian Delay, CCO (until 12 September 2019)	322	6	—	—
Peter Fischer, COO (until 22 February 2019)	160	4	—	—
Giampaolo Marino, EVP Hardware Solutions	290	10	8	145
Arvind Kamath, EVP Technology Development	279	11	78	53
Matt Kaufmann, EVP Operations (until 30 September 2019)	177	7	—	—
Shannon Fogle, VP of Global Human Resources	193	8	4	17
2018				
Kevin Barber, CEO (from 26 November, 2018)	43	—	—	330
Davor Sutija, CEO (until 26 November, 2018)	446	12	287	338
Ole Ronny Thorsnes, CFO	308	12	124	163
Christian Delay, CCO	286	11	99	140
Christer Karlsson, CTO	226	52	39	115
Peter Fischer, COO	460	11	62	140
Giampaolo Marino, EVP Hardware Solutions (from 23 July, 2018)	121	4	91	30
Arvind Kamath, EVP Technology Development	253	11	63	53
Matt Kaufmann, EVP Operations	240	9	63	39
Shannon Fogle, VP of Global Human Resources	142	7	39	17
Henrik Sjöberg, SVP Product Management (until 29 April, 2018)	97	8	33	—
John McNulty, EVP Marketing (from 13 February, 2018 to 21 June, 2018)	97	4	33	—
Bill Cummings, SVP Marketing Communications (until 20 September, 2018)	256	7	6	86
Tauseef Bashir, EVP Global Sales (until 23 May, 2018)	264	5	35	—

The salary amount is the salary declared for tax purposes. Bonus represents the amount earned and accrued as of year-end. Bonuses earned in 2018 and 2019 were subsequently paid during the first quarter of 2019 and 2020, respectively. The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights. The subscription rights cease when the employee resigns.

There were no subscription rights exercised by senior management in 2019 or 2018.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the Board of Directors

The company has no other obligation to remunerate the board than the board remuneration as resolved by the annual general meeting. The annual general meeting on 28 May 2019 resolved remuneration to the chairman of NOK 325 thousand and USD 40 thousand (or an amount in NOK equivalent thereof) for each board member for the period from the annual general meeting in 2019 to the annual general meeting in 2020. Board member Jon S. Castor shall further receive a remuneration of USD 60 thousand (or an amount in NOK equivalent thereof) fixed annual fee for service as Chairman of a strategy committee to be appointed by the Board of Directors supporting the CEO of the Company in relation to strategic questions from the date of the 2019 Annual General Meeting until the date of the 2020 Annual General Meeting. The company has not issued any advance payments or loans to, or guarantees in favor of, any board member.

19. Other operating expenses

Amounts in USD 1,000	2019	2018
Services	4,458	5,480
Premises, supplies	7,094	12,047
Sales and marketing	1,059	2,889
Other expenses	1,503	814
Total	**14,114**	**21,230**

Thinfilm has lease agreements for premises in the following locations:

Oslo (Norway): The Corporate headquarter was located at Henrik Ibsens Gate 100, Oslo, throughout 2018, with an annual lease amount of NOK 780 thousand per year, and a termination clause of 3 months. The Company has subsequently moved to a new office location at Fridjof Nansens Plass 4, Oslo, in March 2019. The lease amount at the new location is NOK 689 thousand per year, with a termination clause of 3 months. The lease expired on 31 August 2019 and the lease was not renewed.. The Company currently pays rent on a month to month basis. The monthly rent is NOK 11 thousand per month.

San Jose (California, US): The Company entered into a lease agreement in November 2016 relating to the property building of its Global headquarter at Junction Avenue in San Jose, CA. The lease in San Jose expires in September 2028. The average annual lease amount in the period is USD 2,052 thousand. See Note 8 for further description. From Q3 2018, the company receives sublease income from the second floor of the building (see Note 17).

San Francisco (California, US): This office was closed in December 2018. Total lease payments in 2018 related to the SF office space was USD 108 thousand.

Linköping (Sweden): This office was closed in 2019. The annual lease payment in 2019 was SEK 654 thousand per year.

Shanghai (China): This office was closed at the end of 2019. The lease amount was CNY 559 thousand per year.

London (England): This office was closed in 2019. The lease amount was GBP 58 thousand per year.

Singapore: This office was closed in 2019. The lease amount was SGD 44 thousand per year.

Only the lease agreement for the San Jose premises has duration longer than twelve months.

20. Income tax expense

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in USD 1,000	2019	2018
Profit (loss) before tax	(78,456)	(71,711)
Tax (tax income) calculated at domestic tax rate 22% (23%)	(17,260)	(16,494)
Effect of other tax rate in other countries	543	578
Share based compensation	97	173
Other permanent differences	(261)	(584)
Effect of change in tax rates	—	2,622
Change in deferred tax asset not recognised in the balance sheet	16,871	13,716
Tax charge	**(10)**	**11**

21. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Amounts in USD 1,000	31 Dec 2018	Charged to profit/loss	Equity	31 Dec 2019
Deferred income tax asset				
Fixed and intangible assets	2,847	6,100	(4)	8,944
Inventory	524	349	—	873
Other accruals	2,776	3,174	—	5,948
Tax loss carried forward outside Norway	381	6	—	387
Tax loss carried forward Norway	53,454	7,390	(539)	60,305
Calculated deferred tax asset 22% (22% 2018)	59,982	17,019	(543)	76,458
Impairment of deferred tax asset	(59,982)	(17,019)	543	(76,458)
Deferred tax in the balance sheet	**—**	**—**	**—**	**—**

The Equity column includes effects of currency translation.

The company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway, Sweden and the US. These tax rates are 22, 22 and 21 per cent respectively (2018: 22, 22 and 21).

22. Profit (loss) per share

Amounts in USD	2019	2018
Profit (loss) attributable to equity holders of the Company (USD 1,000)	(78,446)	(71,722)
Average number of shares in issue	58,593,581	58,593,581
Average diluted number of shares	58,593,581	58,593,581
Profit (loss) per share, basic	**(USD1.34)**	**(USD1.22)**

When the period result is a loss, the loss per diluted number of shares shall not be reduced by the higher diluted number of shares, but the diluted result per share equals the result per basic number of shares.

The diluted number of shares has been calculated by the treasury stock method. If the adjusted exercise price of subscription rights exceeds the average share price in the period, the subscription rights are not counted as being dilutive.

The weighted average basic and diluted number of shares have been adjusted to reflect the reverse share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

23. Related party transactions

a) Transactions with related parties:

Amounts in USD 1,000	2019	2018
Purchases of services from law firm Ræder	747	339
Purchase of services from Robert N. Keith	—	249
Purchase of services from Translarity	—	34

In the period 1 January - 31 December 2019, Thinfilm has recorded USD 747 thousand (net of VAT)

for legal services provided by law firm Ræder, in which Thinfilm's Chairman is a partner.

In the same period, Thinfilm did not record any services from Robert N. Keith, a shareholder of Thinfilm, relating to a service agreement under which he assists Thinfilm in strategic analysis.

Also, in the same period, Thinfilm did not record any transactions for R2R probe card equipment delivered by Translarity. Laura Ann Oliphant was affiliated with Translarity and resigned as a Thinfilm's board member in 2019.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in USD 1,000	2019	2018
Payable to law firm Ræder	445	85
Payable to Translarity	—	—
Payable to Robert N. Keith	—	249

c) Remuneration to the auditor

Amounts in USD 1,000	2019	2018
Audit	130	107
Other assurance services	—	2
Tax services	3	3
Other services	—	—
Total	**133**	**112**

24. Guarantees

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017, a USD 1,600 thousand Letter of Credit has been issued by Thin Film Electronics ASA to the new landlord and is included in the Company's cash balance in Note 11 as restricted cash. Cash and bank deposits. Thin Film Electronics ASA has in addition entered into a Tenancy Guaranty with the new landlord and is included in the Company's cash balance in Note 11. Cash and bank deposits. The Guaranty is given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2019, the Guaranty liability amounted to USD 4,000 thousand.

25. Shares, warrants and subscription rights

At the end of 2019 there were 58,593,581 shares in the company, versus 58,593,581 at the end of 2018. There were 6964 registered shareholders (2018: 6045).

Thinfilm is not aware of any shareholding agreements between shareholders.

Top 20 registered shareholders at 31 December 2019	Shares	Percent
Nordnet Bank AB	5,434,208	9.27%
ALGOT INVEST AS	2,900,000	4.95%
Danske Bank A/S	2,392,138	4.08%
Nordea Bank Abp	1,372,056	2.34%
TIGERSTADEN INVEST AS	1,000,832	1.71%
ANDREAS HOLDING AS	905,000	1.54%
EQUINOR PENSJON	839,938	1.43%
The Bank of New York Mellon SA/NV	822,014	1.40%
SUNDVALL HOLDING AS	790,859	1.35%
Saxo Bank A/S	753,078	1.29%
CODEE HOLDING AS	677,300	1.16%
UBS Switzerland AG	666,859	1.14%
RØNNING, RONNY	627,150	1.07%
Avanza Bank AB	613,365	1.05%
Svenska Handelsbanken AB	606,139	1.03%
JACO INVEST AS	548,008	0.94%
R. SUNDVALL INVEST AS	548,000	0.94%
UBS SWITZERLAND AG	547,844	0.93%
Guttis AS	541,610	0.92%
NORDNET LIVSFORSIKRING AS	528,891	0.90%
Total 20 largest shareholders	23,115,289	39.45%
Total other shareholders	35,478,292	60.55%
Total shares outstanding	**58,593,581**	**100.00%**

Shares, ADRs and subscription rights held by primary insiders and close relations at 31 December 2019.

No insiders held warrants at 31 December 2019.

	Shares	ADRs	Incentive subscription rights
Morten Opstad, Chairman	99,336	—	-
Preeti Mardia, Board Member	7,761	—	-
Jon Castor, Board Member	—	—	400,000
Kelly Doss, Board Member	—	—	200,000
Kevin Barber, CEO	—	—	2,330,120
Mallorie Burak, CFO	—	—	688,539
Giampaolo Marino, EVP Solutions	—	—	300,010
Arvind Kamath, EVP Technology Development & Manufacturing	—	—	376,264
Shannon Fogle, VP Global Human Resources	—	—	183,006
Total	**107,097**	**—**	**4,477,939**

Subscription rights

	2019		2018	
	Weighted average exercise price, NOK	Number of subscription rights	Weighted average exercise price, NOK	Number of subscription rights
Total at 1 January	41.90	4,412,622	71.63	3,270,250
Adjustment to opening balance	—	—	44.60	18,750
Granted	3.28	5,429,856	22.22	2,603,372
Forfeited	39.93	(4,469,248)	58.12	(982,688)
Exercised	—	—	—	—
Expired	—	—	102.47	(497,063)
Total at 31 December	**3.20**	**5,373,230**	**41.90**	**4,412,622**
Number of exercisable subscription rights at 31 December (included in total)		—		—
The average strike price is higher than the quoted share price on the Stock exchange at 31 December 2019.				

Subscription rights outstanding at 31 December 2019

Holder	Number of subscription rights	Weighted average exercise price, NOK
Kevin Barber, CEO	2,330,120	3.86
Mallorie Burak, CFO	688,539	2.76
Giampaolo Marino, EVP Solutions	300,010	3.06
Arvind Kamath, EVP Technology Development & Manufacturing	376,264	2.60
Shannon Fogle, VP Global Human Resources	183,006	2.47
Employees and contractors	1,495,291	2.65
Total	**5,373,230**	**3.20**

There were no subscription rights exercised in 2019 and 2018.

Value of subscription rights and assumptions upon grant	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018	Grants in 2019
Value of subscription right at grant date, NOK per subscription right	17.00–70.20	24.60–50.40	14.40–35.00	4.80–20.60	0.34–2.88
Share price, NOK per share	68.80–151.60	71.20–101.00	49.00–75.80	16.00–45.00	22.04–12.18
Exercise price, NOK per share	79.0–151.60	71.20–101.00	49.00–75.80	16.40–45.40	16.40–45.40
Expected annual volatility	47%–66%	57%–70%	53%–68%	47%–89%	62%–145%
Duration, years	2.0–5.0	2.0–5.0	1.9–5.0	1.0–4.9	1.0–4.2
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	0.65–1.24%	0.53–0.94%	0.56–1.09%	0.74%–1.57%	1.00%–4.18%

All numbers are adjusted for the 20:1 reversed share split

Value of subscription rights and assumptions on 31 December 2019	Grants in 2015	Grants in 2016	Grants in 2017	Grants in 2018	Grants in 2019
Value of subscription right at 31 December 2019, NOK per subscription right	8.60–34.80	16.80–32.40	2.80–23.00	0.80–7.40	0–1.50
Share price, NOK per share	49.60	49.60	49.60	14.96	2.33
Exercise price, NOK per share	79.00–151.60	71.20–101.00	49.00–75.80	16.40–45.40	16.40–45.40
Expected annual volatility	58%	58%	58%	61%–82%	0%–209%
Duration, years	1.16–4.35	1.15–4.36	0.84–4.35	0.90–4.34	0–3.34
Expected dividend	—	—	—	—	—
Risk-free interest rate, government bonds	0.65–1.20%	0.53–0.94%	0.56–1.09%	0.96%–1.35%	0%–1.38%
Number of outstanding subscription rights at 31 December 2019	371,250	731,500	1,656,750	4,412,622	5,373,230

All numbers are adjusted for the 20:1 reversed share split

26. Statement on management remuneration policy

Thinfilm's executive management during the year 2019 is specified in Note 18.

Several of the executive management team members serve as officers and directors in the subsidiaries without additional remuneration.

The general meeting 2019 resolved guiding and binding executive remuneration policies. Thinfilm's executive remuneration policy in 2019 was a continuation of the prior year's policy, including share-based remuneration in the form of a subscription rights incentive program as resolved at the annual general meeting, latest on 28 May 2019.

Guiding executive remuneration policy and effect of the policies

Thinfilm offers a competitive remuneration consisting of a reasonable base salary with a pension contribution. Salary may be supplemented by performance based cash bonus and incentive subscription rights. Cash bonus plans are limited to fixed percentage of base pay. In addition, the management team, apart from the CEO, may receive additional discretionary bonus payments tied to specific projects.

There is no post-employment remuneration beyond notice periods of 3-6 months. The former CEO, Davor P. Sutija, had a 3-months' severance pay (equal to 3 months ordinary salary) upon expiration of his termination notice period on 31 May 2019. The current CEO, Kevin Barber, has a termination notice period of (i) three months in case of termination by the Company and (ii) one month in case of termination by Mr. Barber. If the Company terminates Mr. Barber's employment (other than for cause) or if Mr. Barber resigns his employment for good reason, Mr. Barber is entitled to a severance pay equivalent to six months of his base salary and target bonus prorated for six months (if Mr. Barber is on schedule to meet the relevant bonus criteria for the year in question) calculated from the end of his termination notice period, all subject to such detailed terms and conditions as set out in his employment agreement

The policy described above has been applied consistently throughout 2019. The principles described above apply also in 2020, however individual bonus targets and salary levels will be revisited during the Company's normal salary process. The executive remuneration policy will be reviewed at the Annual General Meeting in May 2020.

The actual remuneration to the management in 2019 is reported in Notes 18 and 25. In 2018, the Board decided to grant subscription rights to new members of the management team as a form of performance based compensation. The options vest in tranches of 25 per cent each year if the employee has not resigned his position at the vesting date, and expire after five years.

The Annual General Meeting of Thin Film Electronics ASA (the Company) resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") would be entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans, as adjusted for the 20:1 reverse stock split in November 2019, have notified the Company that they wish to participate in the exchange program, whereupon such Eligible Holders explicitly waive any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders. The grants were made under the Company's 2019 Subscription Rights Incentive Plan as resolved at the Annual General Meeting on 28 May 2019. The exercise price of the subscription rights is NOK 4.67, as adjusted for the November 2019 20:1 reverse split, per share. The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The fair value of the subscription rights awarded, calculated according to Black-Scholes option pricing model, was NOK 10.1 million as of December 31, 2019. USD 395 thousand was expensed in 2019. At December 31, 2019, the estimated amount of share-based remuneration cost yet to be expensed throughout the vesting period is NOK 4.4 million.

The Company has regranted the management team the following subscription rights in 2019:

Employee name	Number of SR	Weighted average Exercise Price	Grant date
Kevin Barber, CEO	2,330,120	3.86	3 and 25 September 2019
Mallorie Burak, CFO	688,539	2.76	23, July and 3 September 2019
Giampaolo Marino, EVP Solutions	300,010	3.06	3 and 25 September 2019
Arvind Kamath, EVP Technology Development & Manufacturing	376,264	2.60	3 and 25 September 2019
Shannon Fogle, VP Global Human Resources	183,006	2.47	3 and 25 September 2019
Total	**3,877,939**	**3.41**	

Salary, pension and any bonuses that triggers employer's tax which will be expensed simultaneously with the remuneration.

27. Events after the balance sheet date

- On 30 January 2020, Thinfilm announced its new strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond, enabling the Company to leverage previous investments in technology and equipment related to its roll-to-roll production facility in San Jose, California.

- On 20 February 2020, Thinfilm hosted an Investor Day in Oslo, Norway to present the Company's new energy storage strategy.

- In connection with the 15 April 2020 Extraordinary General Meeting, the Company conducted a reduction of paid in capital by reduction in par value of shares in accordance with the Norwegian Public Limited Companies Act to cover the losses. The implication of this is that a resolution to distribute dividends may not be adopted until three years have elapsed from the registration in the Register of Business Enterprises, unless the share capital subsequently has been increased by an amount at least equal to the reduction.

- On 14 April 2020, Thinfilm announced the filing of multiple provisional patent applications, strengthening the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries (SSLB) for wearable devices, connected sensors, and beyond. The Company also confirmed that, despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure the continuity of its development efforts and mitigate potential delays. If the Company is successful in raising additional capital, management believes that it can continue to deliver samples of its SSLB products at the end of Q2, as previously communicated.

- On 15 April 2020, Thinfilm held an Extraordinary General Meeting to obtain shareholder approval for a private placement; issuance of new shares and the amendment of the Company's Articles of Association. In connection with the Private Placement, shareholder approval was also requested for the issuance of new shares and warrants in connection with a contemplated subsequent offering, and the associated amendment of the Company's Articles of Association.

- At the 15 April 2020 Extraordinary General Meeting, the Board proposed and the shareholders approved a reduction in share capital by a reduction of the par value of the shares from NOK 2.20 to NOK 0.11 per share.

- In connection with its equity financing process, on 29 April 2020, Thinfilm announced an Extraordinary General Meeting in Thin Film Electronics ASA to be held on 20 May 2020 to obtain shareholder approval for a private placement and subsequent equity offerings. In connection with the private placement and to to ensure adequate cash remains available to operate until the equity financing closes, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA. Should the proposed resolutions be approved, the Company's share capital shall be increased with NOK 24,999,999.97 from NOK 6,445,293.91 to NOK 31,445,293.88, by issuance of 227,272,727 new shares, each share having a par value of NOK 0.11, at a subscription price per share of NOK 0.11. The total subscription amount is NOK 24,999,999.97, all constituting share capital. See also further information in the going concern section in note 2.1.

28. Subsidiaries

Details of the Group's subsidiaries at the end of the reporting period are as follows. The Company is in the process of dissolving some of these subsidiaries in 2020.

Name of subsidiary	Principal activity	Place of incorporation and operation	Proportion of ownership interest and voting power held by the group 31 December 2019
Thin Film Electronics Inc.	Research & Development, Manufacturing and Marketing services	USA	100%
Thin Film Electronics AB	Research & Development, Manufacturing and Marketing services	Sweden	100%
Thin Film Electronics KK	Marketing services	Japan	100%
Thin Film Electronics HK Ltd.	Supply chain services	Hong Kong	100%
Thin Film Holding	Owning shares in Thin Film Inc.	USA	100%
Thin Film Electronics UK Ltd.	Marketing services	England, Wales	100%
Thin Film Electronics Co. Ltd.	Supply chain and Marketing Services	China	100%
Thin Film Electronics Singapore Pte. Ltd.	Marketing services	Singapore	100%

29. Contractual committment

Thinfilm has no contractual committment related to equipment for the new roll-based production line at the San Jose site.

Thin Film Electronics ASA
Annual financial statements 2019

Profit and loss statements

Amounts in NOK 1,000	Note	2019	2018
Sales revenue	11	5,182	8,826
Other revenue	12,13,14	—	594
Other income	12,13,14	—	971
Total revenue		**5,182**	**10,391**
Employee salaries and other benefits	15	(16,126)	(32,569)
Services (external)		(18,088)	(18,483)
Services (from subsidiaries)	18,19	(261,595)	(372,229)
Other operating expenses	19	(13,079)	(20,090)
Contribution from Skattefunn scheme	13	—	10,000
Amortization of intangible assets & negative goodwill	7	(22,466)	(11,752)
Operating profit (loss)		**(326,172)**	**(434,732)**
Impairment investment in subsidiary	6	(164,465)	(156,135)
Interest income		1,090	5,163
Other financial income		—	12
Other financial costs		3,223	10,961
Net financial items		**(160,151)**	**(140,000)**
Profit (loss) before income tax		**(486,323)**	**(574,732)**
Income tax expense	16	—	—
Profit (loss) for the year		**(486,323)**	**(574,732)**

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

Balance sheet

Amounts in NOK 1,000	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Intangible assets	7	—	19,494
Investment in subsidiaries	6	37,376	198,969
Total non-current assets		**37,376**	**218,463**
Current assets			
Trade and other receivables	8	1,304	104,124
Cash and bank deposits	9	27,717	242,819
Total current assets		**29,021**	**346,943**
Total assets		**66,397**	**565,406**
EQUITY			
Ordinary shares	10,21	128,906	128,906
Other paid-in capital		—	2,425,538
Total paid-in equity		**128,906**	**2,554,444**
Retained profit/uncovered losses		(136,968)	(2,070,966)
Total equity	**4**	**(8,062)**	**483,478**
LIABILITIES			
Current liabilities			
Deferred revenue		—	222
Accounts payable		6,389	1,736
Withheld tax and public duties payable		313	1,549
Debt to group companies	6,18	63,403	72,380
Other payables and accruals		4,354	6,041
Total liabilities	**20**	**74,459**	**81,928**
Total equity and liabilities		**66,397**	**565,406**

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad
Chairman

Preeti Mardia
Board Member

Jon Castor
Board Member

Kelly Doss
Board Member

Kevin Barber
Managing Director (CEO)

Cash flow statements

Amounts in NOK 1,000	Note	2019	2018
Cash flows from operating activities			
Profit (loss) before income tax		(486,323)	(574,732)
Share-based compensation (equity part)	21	3,489	6,459
Amortization and impairment (reversal)	7	22,466	11,752
Impairment investment in subsidiary	6	164,465	156,135
Change in working capital and other items		83,772	(94,631)
Net cash from operating activities		**(212,131)**	**(495,017)**
Cash flows from investing activities			
Capitalized development expenses	7	(2,971)	(12,932)
Investment in subsidiaries	6	—	(9,867)
Net cash from investing activities		**(2,971)**	**(22,799)**
Cash flows from financing activities			
Proceeds from issuance of shares	10	—	—
Net cash from financing activities		**—**	**—**
Net change in cash and bank deposits		**(215,102)**	**(517,816)**
Cash and bank deposits at the beginning of the year		242,819	760,635
Cash and bank deposits at the end of the year*	**9**	**27,717**	**242,819**

The company had no bank draft facilities at the end of 2019 or 2018.

The notes on pages page 50 to page 63 are an integral part of these annual financial statements.

* See Note 9 for restricted amount.

Notes to the Annual Financial Statements Thinfilm ASA

1. Information about the company

Thin Film Electronics ASA ("Thinfilm" or "the Company") was founded on 22 December 2005. See Note 28 of the Consolidated Financial Statements for list of subsidiaries.

Thinfilm is energizing innovation with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Fridjof Nansens Plass 4, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

These annual financial statements for the parent company were resolved by the company's board of directors on 11 May 2020.

Going concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019, in order to reduce the Company's cost structure. Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020.

The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow.

The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April, 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. The Company plans to raise funds in May of 2020. At the end of April 2020, the Board received a commitment by a consortium of investors to invest NOK 20 million with an interim bridge loan to ensure that the Company has sufficient levels of cash to maintain operations, since committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May extraordinary general meeting. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and management, at a subscription price per share equal to the subscription price in the private placement.

To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Continued discussions and the processes required to secure additional equity funding from current and new shareholders;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy. However, the financial statements do not include adjustments related to the amounts of liabilities that might be necessary, should the Company and the consolidated entity not continue as going concerns.

2. Accounting policies

These annual financial statements have been prepared in accordance with the Norwegian accounting act 1998 and generally accepted accounting principles in Norway. The principal accounting policies applied in the preparation of these annual financial statements are set out below. These policies have been applied consistently. The currency of Thin Film Electronics ASA is NOK. The financial statements have been prepared using the historical cost convention.

Principal criteria for valuation and classification of assets and liabilities

Assets for lasting ownership or use have been classified as fixed assets. Other assets have been classified as current assets. Receivables which are due within twelve months have been classified as current assets. Corresponding criteria have been applied when classifying short-term and long-term debt.

Current assets have been valued at the lower of cost and fair value. Other long-term debt and short-term debt have been valued at face value.

Assets and liabilities denominated in foreign currency

Monetary items in foreign currency have been converted at the exchange rate on the balance sheet date.

Shares in subsidiaries

Investment in subsidiaries has been valued at cost in the parent company. In case of impairment which is not temporary, the investment has been written down to fair value if mandated according to GAAP.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the group.

Thinfilm ASA recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities, as described below.

(a) Sales of goods

During 2019, the Company sold NFC tags, Electronic Article Surveillance (EAS) anti-theft tags and printed integrated systems in the form of products delivered to customers, prototype development projects, engineering samples and technology demonstration kits to strategic customers and partners. Sales of goods are recognized when the risks and rewards of ownership are transferred to the customer, the costs incurred or to be incurred in respect of the transaction can be measured reliably and Thinfilm retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(b) Rendering of services

The Company provides engineering and support services to strategic customers and partners. Revenue from services provided at an hourly rate is recognized when, or in the same period as, the group has provided the services. Revenue from services related to achieving certain milestones are recognized when the milestone is met, given that the stage of completion as well as the the costs incurred at the balance

sheet date can be measured reliably. The revenue is recognized when the costs incurred in respect of the transaction can be measured reliably.

(c) Technology access revenue

The Group grants technology access rights to strategic customers and partners, i.e., the right to work with Thinfilm and its technology to develop bespoke printed products and systems. Revenue from granting technology access rights is generally recognized on a straight-line basis over the period or contract term the technology access is granted. However, revenue from technology access agreements that involve an upfront lump-sum payment that is not tied to any future deliveries from Thinfilm is recognized at the time the agreement is entered into.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and the conditions will be complied with. Grants which are related to specific development programs with commercial end-objectives are recognised as other operating revenue over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis. Grants or other contributions in the form of tax credit are credited against costs.

Intangible assets

Reference is made to Note 2.6 in the Consolidated Financial Statements.

Receivables

Accounts receivable and other receivables have been recorded at face value after accruals for expected losses have been deducted. Accruals for losses have been made based on an individual assessment of each receivable.

Cash and bank deposits

Cash and bank deposits include cash, bank deposits and cash equivalents with a due date less than three months from acquisition.

Cash flow statement

The cash flow statement is prepared in accordance with the indirect method.

Costs

In principle, cost of sales and other expenses are recognized in the same period as the revenue to which they relate. In instances where there is no clear connection between the expense and revenue, the apportionment is estimated.

Share based remuneration

The company may issue independent subscription rights to employees and individual consultants performing similar work and accounts for these transactions under the provisions of NRS 15A and generally accepted accounting principles in Norway. Two types of expenses are recognized related to grant of subscription rights: (i) Notional cost of subscription rights is recognized at time of grant and calculated based on the Black-Scholes model (share price at time of grant, exercise price, expected volatility, duration and risk-free interest rate). The subscription rights vest in four tranches of 25 per cent on each anniversary of the grant, i.e., each tranche has different duration. The notional cost of subscription rights as share based remuneration is expensed but the equity effect is nil because the contra item is a notional equity injection of equal amount. (ii) Employer's tax expense is accrued based on the net present value of the subscription right as an option on the balance sheet date. The value varies with the share price and may entail a net reversal of costs.

When the parent has an obligation to settle the share-based payment transaction with the subsidiaries' employees by providing the parent's own equity instruments, this is accounted for as an increase in equity and a corresponding increase in investment in subsidiaries.

Tax on profit

Tax cost has been matched to the reported result before tax. Tax related to equity transactions has been charged to equity. The tax cost consists of payable tax (tax on the directly taxable income for the year) and change in net deferred tax. The tax cost is split into tax on ordinary result and result from extraordinary items according to the tax base. Net deferred tax benefit is held in the balance sheet only if future benefit can be justified.

Consolidated items

Insignificant items have been combined or included in similar items in order to simplify the statements. Lines which are zero or about zero have been omitted except where it has been deemed necessary to emphasize that the item is zero.

Estimates and judgmental assessments

The preparation of the annual accounts in accordance with the generally accepted accounting principles requires that the management make estimates and assumptions that affect the income statement and the valuation of assets and liabilities. Estimates and related assumptions have been based on the management's best knowledge of past and recent events, experience and other factors which are considered reasonable under the circumstances. Estimates and underlying assumptions are subject to continuous evaluation.

3. Significant events, going concern, events after the balance sheet date, financial risk

- On 30 January 2020, Thinfilm announced its new strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries for wearable devices, connected sensors, and beyond, enabling the Company to leverage previous investments in technology and equipment related to its roll-to-roll production facility in San Jose, California.

- On 20 February 2020, Thinfilm hosted an Investor Day in Oslo, Norway to present the Company's new energy storage strategy. The fundraising objective and timeline was impacted by the onset of the COVID-19 global pandemic, resulting in delays in securing commitments from potential investors.

- In connection with the 15 April 2020 Extraordinary General Meeting, the Company will also conduct a reduction of paid in capital by reduction in par value of shares in accordance with the Norwegian Public Limited Companies Act to cover the losses. The implication of this is that a resolution to distribute dividends may not be adopted until three years have elapsed from the registration in the Register of Business Enterprises, unless the share capital subsequently has been increased by an amount at least equal to the reduction.

- On 14 April 2020, Thinfilm Electronics ASA announced the filing of multiple provisional patent applications, strengthening the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries (SSLB) for wearable devices, connected sensors, and beyond. The Company also confirmed that, despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure the continuity of its development efforts and mitigate potential delays. The Company therefore believes that it can continue to deliver samples of its SSLB products at the end of Q2, as previously communicated.

- On 15 April 2020, Thinfilm held an Extraordinary General Meeting to obtain shareholder approval for a private placement; issuance of new shares and the amendment of the Company's Articles of Association. In connection with the Private Placement, shareholder approval was also requested for the issuance of new shares and warrants in connection with a contemplated subsequent offering, employee share purchase plan and the associated amendment of the Company's Articles of Association.

- At the 15 April 2020 Extraordinary General Meeting, the Board proposed and the shareholders approved a reduction in share capital by a reduction of the par value of the shares from NOK 2.20 to NOK 0.11.

- In connection with its equity financing process, on 29 April 2020, Thinfilm announced an Extraordinary General Meeting in Thin Film Electronics ASA to be held on 20 May 2020 to obtain shareholder approval for a private placement and subsequent equity offerings. In connection with the private placement and to to ensure adequate cash remains available to operate until the equity financing closes, lead investors have provided a bridge loan of approximately USD 500 thousand to the company, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA.

Financial risk factors

Reference is made to Note 4.2 in the Consolidated Financial Statements.

4. Equity

Amounts in NOK 1,000	Share capital	Other paid in equity	Uncovered loss	Total
Balance at 1 January 2019	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**
Share based compensation	—	(5,217)	—	(5,217)
Net profit (loss) for the year	—	—	(486,323)	(486,323)
Transfer for coverage of losses	—	(2,420,321)	2,420,321	—
Balance at 31 December 2019	**128,906**	**—**	**(136,968)**	**(8,062)**
Balance at 1 January 2018	**128,906**	**2,410,944**	**(1,496,234)**	**1,043,616**
Share based compensation	—	14,594	—	14,594
Net profit (loss) for the year	—	—	(574,732)	(574,732)
Balance at 31 December 2018	**128,906**	**2,425,538**	**(2,070,966)**	**483,478**

5. Property, plant and equipment

Current facilities are rented with furniture included. Minor computing and communications equipment has been expensed.

6. Investment in subsidiaries

In 2019 the remainder of the subsidiaries were written down to zero, except for Thin Film Electronics AB (Sweden), and the Company is in the process of disolving some of these subsidiaries in 2020.

The shares are held at the lower of cost and fair value in the balance sheet in 2019.

In 2020 the Company made the decision to reduce the share capital to cover the losses.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics AB — Linköping, Sweden			
At 31 December 2019	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,187)
Net book value at 31 December 2019			**37,376**
At 31 December 2018	100%	100%	
Accumulated cost			58,563
Accumulated impairment charge			(21,944)
Net book value at 31 December 2018			**36,619**

The local currency of Thin Film Electronics AB is SEK. The net income in SEK in 2019 was a loss of SEK 151 thousand and a net profit SEK 911 thousand in 2018, while the total equity 31 December 2019 was SEK 40,442 thousand (2018; SEK 39,682 thousand).

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Inc. — CA, USA			
At 31 December 2019	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(303,517)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			303,517
Accumulated impairment charge			(147,773)
Net book value at 31 December 2018			**155,744**

The local currency of Thin Film Electronics Inc. is USD. The net income in USD in 2019 was a loss of USD 43,009 thousand compared to a loss of USD 16,203 thousand in 2018. The total equity 31 December 2019 was USD (18,917) thousand (USD 23,374 thousand in 2018). The shares are fully impaired as of 31 December 2019. This is mainly triggered by the impairment of PPE in INC as a result of the corporate restructuring (please refer to Note 6 in the Consolidated Financial Statements).

Thin Film Holding (NV, USA), is a 100% owned subsidiary, of which the only activity is holding shares in Thin Film Electronics Inc. Net book value is zero in both 2019 and 2018.

Thin Film Electronics KK (Tokyo, Japan), is a 100% owned subsidiary, which was fully written down in 2016, as all activity in the Japanese legal entity had ceased.

Thin Film Electronics HK Ltd. (Hong Kong), is a 100% owned subsidiary, which was fully written down in 2018. The local currency of Thin Film Electronics HK is HKD. The net loss in HKD in 2019 was HKD 448 thousand, while the total equity 31 December 2019 was HKD (14,906) thousand.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Co. Ltd. — Shanghai, China			
At 31 December 2019	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(21,753)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			21,753
Accumulated impairment charge			(16,106)
Net book value at 31 December 2018			**5,647**

The local currency of Thin Film Electronics Co. Ltd. is CNY. The entity was established in February 2017. The net loss of CNY 2,787 thousand (2018; loss of CNY 7,230 thousand) while the total equity 31 December 2019 was CNY 1,557 thousand (2018; CNY 4,467 thousand).

The shares were fully impaired in 2019, as Thinfilm has ceased the operation in Shanghai.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics UK Ltd. — London, England			
At 31 December 2019	100%	100%	
Accumulated cost			564
Accumulated impairment charge			(564)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			564
Accumulated impairment charge			—
Net book value at 31 December 2018			**564**

The local currency of Thin Film Electronics UK Ltd. is GBP. The entity was established in March 2017. The net income in GBP in 2019 was a loss in GBP 76 thousand compared to a profit of GBP 32 thousand in 2018. The total equity 31 December 2019 was GBP (4) thousand (GBP 72 thousand in 2018). The investment was fully impaired in 2019 as Thinfilm has ceased the operation in the UK.

Thin Film Electronics UK Ltd. has taken advantage of section 479a of the UK Companies Act 2006 to be exempt from audit of its financial statements for the years 2019 and 2018.

Amounts in NOK 1,000	Percent holding	Percent of votes	Book value
Thin Film Electronics Singapore Pte Ltd. — Singapore			
At 31 December 2019	100%	100%	
Accumulated cost			395
Accumulated impairment charge			(395)
Net book value at 31 December 2019			**—**
At 31 December 2018	100%	100%	
Accumulated cost			395
Accumulated impairment charge			—
Net book value at 31 December 2018			**395**

The local currency of Thin Film Electronics Singapore Pte Ltd. is SGD. The entity was established in November 2017. The net income in SGD in 2019 was a loss of SGD 562 thousand (2018; loss of SGD 983 thousand) while the total equity at 31 December 2019 was SGD (1,532) thousand (SGD 973 thousand in 2018) . The investment was fully impaired in 2019 as Thinfilm has ceased the operation in Singapore.

Guarantees provided to subsidaries

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued by Thin Film Electronics ASA to the new landlord. Thin Film Electronics ASA has in addition entered into a Tenancy Guaranty with the new landlord. The guaranty is given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 December 2019, the Guaranty liability amounted to USD 4,000 thousand.

7. Intangible assets

Amounts in NOK 1,000	Purchased intellectual property	Negative goodwill	Capitalized development costs	Total
Amortization period, years (linear)	13–16	5		
Acquisition cost				
Accumulated cost on 1 January 2019	15,872	(2,925)	9,773	22,721
Additions	—	—	2,971	2,971
Accumulated costs 31 December 2019	**15,872**	**(2,925)**	**12,744**	**25,692**
Accumulated amortization on 1 January 2019	(6,152)	2,925	—	(3,227)
Amortization	(1,329)	—	—	(1,329)
Impairment	(8,391)	—	(12,744)	(21,135)
Amortization at 31 December 2019	**(15,872)**	**2,925**	**(12,744)**	**(25,691)**
Net book value 31 December 2019	**—**	**—**	**—**	**1**
Acquisition cost				
Accumulated cost on 1 January 2018	17,198	(2,925)	7,067	21,341
Additions	—	—	12,932	12,932
Impairment (at costs)	(1,326)	—	(10,226)	(11,552)
Accumulated costs 31 December 2018	**15,872**	**(2,925)**	**9,773**	**22,721**
Accumulated amortization on 1 January 2018	(5,367)	2,340	—	(3,027)
Amortization	(1,330)	585	—	(745)
Accumulated amortization impaired assets	545	—	—	545
Amortization at 31 December 2018	**(6,152)**	**2,925**	**—**	**(3,227)**
Net book value 31 December 2018	**9,720**	**—**	**9,773**	**19,494**

The purchased intellectual property relate to licensing of certain patents. The portfolio is reviewed for impairment annually by comparing the book value to the fair market value at the patent level. In 2019 the remaining unamortized balance of NOK 8,391, has been impaired in full as the company has revised its strategy whereby the future value of these patents are uncertain. 2018 impairments related to patents with a fair market value lower than the recorded book value.

In 2018 capitalized development costs relate to EAS (Electronic article surveillance) and NFC Speedtap™. The capitalized costs of NOK 10,226 thousand related to EAS were fully impaired in 2018, as Thinfilm decided to not further commercialize the EAS product. In 2019 it was decided that the capitalized development costs relating to NFC SpeedTap™ would not be further commercialized and the remaining costs of NOK 12,744 were impaired.

On 21 January 2014, Thinfilm acquired certain assets, contracts and processes from Kovio Inc., a company active in the field of radio frequency enabled products based on printed silicon technology. The difference between total consideration transferred and estimated fair value of assets amounted to NOK 2,925 thousand. This constituted a bargain purchase and the negative goodwill of NOK 2,925 is amortized on a systematic basis over five years as a credit against cost. Reference is made to Note 25 in Consolidated Financial Statements in the 2014 Annual Report for further description.During the year 2018, the remaining NOK 585 thousand was amortized.

8. Trade and other receivables

Amounts in NOK 1,000	31 December 2019	31 December 2018
Customer receivables	2,344	5,411
Accrued revenue not yet invoiced	—	650
Other receivables, prepayments	860	98,063
Less: allowance for doubtful accounts	(1,900)	—
Receivables — net	**1,304**	**104,124**
Of this, receivables from Thinfilm AB	—	943
Of this, receivables from Thinfilm Inc.	—	77,448
Of this, receivables from Thinfilm HK	—	7,018
Of this, receivables from Thinfilm UK Ltd.	—	1,106
Of this, receivables from Thinfilm SG	—	(24)

All receivables are due within one year and book value approximates fair value. The total amount denominated in NOK is 1,304 thousand (2018: NOK 10,446 thousand), NOK — thousand is denominated in GBP (2018: NOK 1,214 thousand), NOK — thousand is denominated in USD (2018: 84,366 thousand), NOK — thousand is denominated in HKD (2018: NOK 1,650 thousand), NOK — thousand is denominated in SEK (2018: NOK 943 thousand), NOK — thousand is denominated in SGD (2018: 6,319), while NOK — thousand is denominated in other currencies (2018: NOK 160 thousand).

Of other receivables NOK 860 thousand were not past due as per 31 December.

Customer receivables, less allowance for doubtful accounts, of NOK 444 thousand were past due by more than 90 days.

The company assesses impairment risk on an individual basis.

9. Cash and bank deposits

Amounts in NOK 1,000	31 December 2019	31 December 2018
Bank deposits excluding restricted cash	13,574	227,659
Deposit for Letter of Credit (restricted)	14,096	14,262
Deposit for withheld tax (restricted)	47	897
Total	**27,717**	**242,819**

As a part of the relocation of Thinfilm INC.'s US headquarter in the second quarter of 2017 a USD 1,600 thousand Letter of Credit was issued to the new landlord.

Payable withheld tax amounts at 31 December 2019 was NOK 47 thousand.

10. Share capital

Reference is made to Note 12 in the Consolidated Financial Statements.

11. Sales revenue

Amounts in NOK 1,000	2019	2018
Sales of goods	4,672	8,729
Rendering of services, delivery of samples, technology access revenue	510	97
Total	**5,182**	**8,826**

No warranty costs, penalties or other losses were related to sales revenue in 2019 or 2018.

12. Other revenue

Amounts in NOK 1,000	2019	2018
Government grants, funded development projects	—	594
Total	—	**594**

13. Government grants

In 2018 Thinfilm ASA had a project qualified for the SkatteFUNN scheme for the three-year horizon 2018-2020, which relates to the innovative manufacturing of smart NFC labels enabling the Internet of Everything (IoE). Net contribution from the SkatteFUNN scheme in 2018 was NOK 10 million. Due to a revised strategy the company has ceased the SkatteFUNN project in 2019, and has not included any contribution from this scheme in 2019.

The SkatteFUNN grant has been credited against cost on a systematic basis over 2018.

To receive grants from SkatteFUNN, the Company has to engage in research and development activities that qualify for the SkatteFUNN programme. The costs incurred have to be reported annually to the Norwegian tax authorities. It is also required that the Company reports progress and achievements to the Research Council of Norway.

In February 2015 Thinfilm ASA received an grant from The Research Council of Norway of NOK 12 million relating to enhancing durability and liftetime of Thinfilm smart tags. The project ran until April 1, 2018. The grant has been recognized as Other revenue (see Note 12).

14. Other Income

Amounts in NOK 1,000	2019	2018
Government grants, funded development projects	—	594
Sale of IP rights	—	971
Total	**—**	**1,565**

Sales of IP rights related to the Xerox transaction, amounting to NOK 971 thousand in 2018.

15. Employee salaries and other benefits

Amounts in NOK 1,000	2019	2018
Salaries	10,319	22,009
Social security costs	1,740	2,753
Share-based compensation (subscription rights), notional salary cost	3,489	6,459
Share-based compensation (subscription rights), accrued employer´s tax*	87	(356)
Pension contribution	347	1,001
Other personnel related expenses, including recruiting costs	144	703
Total	**16,126**	**32,569**
Average number of employees for the year	4	9
Number of employees 31 December	1	10

At the end of 2019 there was one full-time employee in the company (2018: 10 full-time employees).

The company has only defined contribution pension plans. Contributions are expensed and paid when earned.

Compensation to senior management

	Salary	Pension contribution	Bonus	Share-based remuneration
2019				
Kevin Barber, CEO starting 26 November 2018	3,681	92	1,681	8,743
Mallorie Burak, CFO starting 1 July 2019	1,364	48	68	306
Ole Ronny Thorsnes, CFO until 1 July 2019	2,870	–	–	–
Ole Ronny Thorsnes was terminated from Thinfilm on 30 September 2019.				
2018				
Kevin Barber, CEO starting 26 November 2018	370	–	–	2,680
Davor Sutija, CEO until 26 November 2018	3,625	102	2,336	2,746
Ole Ronny Thorsnes, CFO	2,506	102	1,011	1,327

The salary amount is the salary declared for tax purposes. Bonus is the amount earned during the year and accrued at year-end.

Bonuses earned in 2018 and 2019 were subsequently paid during the first quarter of 2019 and 2020, respectively.

The value of share-based remuneration is the expensed amount excluding employer's tax in the period for incentive subscription rights.

No subscription rights were exercised in 2019 or 2018.

The Company has not made any advance payments or issued loans to, or guarantees in favour of, any members of management.

Remuneration to the board of directors

Reference is made to Note 18 in the Consolidated Financial Statements.

16. Income tax expense

The tax on the company's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

Amounts in NOK 1,000	2019	2018
Profit (loss) before tax	(486,323)	(574,732)
Tax (tax income) calculated at corporate tax rate	(106,991)	(132,188)
Permanent differences	37,543	35,014
Effect of change in tax rates (23% to 22%)	—	21,296
Change in deferred tax asset not recognised on the balance sheet	69,448	75,879
Tax charge	**—**	**0.00**
Corporate tax rate	22%	23%

17. Deferred income tax

Deferred income tax assets and liabilities are offset when the company has a right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

Amounts in NOK 1,000	31 December 2019	31 December 2018
Deferred income tax asset Intangible asset	(8,485)	(4,071)
Tax loss carried forward	(529,470)	(464,436)
Calculated deferred tax asset	(537,955)	(468,507)
Impairment of deferred tax asset	537,955	468,507
Deferred tax asset in the balance sheet	**—**	**—**

The Company has not recognised the tax asset as there is uncertainty relating to future taxable income for utilization of the tax loss carried forward, and the taxable loss on intangible assets. There is no expiration date on the tax loss carried forward. No tax item has been recorded directly to equity.

The unrecognized deferred tax asset is calculated by applying the local tax rates in Norway with tax rate 22 % (22%: 2018).

18. Related party transactions

a) Transactions with related parties:

Amounts in NOK 1,000	2019	2018
Technical development services from Thinfilm AB	8,824	11,834
Sales, marketing, R&D and manufacturing services from Thinfilm Inc.	249,045	363,723
Sales and marketing services from Thinfilm HK	—	69
Sales and marketing services from Thinfilm CN	—	402
Sales and marketing services from Thinfilm UK	5,343	9,005
Internal purchase of goods for resale from Thinfilm Inc.	—	128
Intercompany interest income on loan to Thinfilm Inc.	(2,393)	(2,903)
Intercompany royalty income from Thinfilm Inc.	—	(83)
Purchases of services from law firm Ræder	6,031	2,739
Purchase of services from Robert N. Keith	—	2,000

Services provided by subsidiaries and capitalized in the balance sheet as development costs amount to NOK 2971 thousand (2018: 12,932 thousand).

Thinfilm's chairman, Morten Opstad, is a partner of Advokatfirmaet Ræder AS, who is also Thinfilm's legal counsel. The amounts do not include Mr. Opstad's service as chairman. Mr. Opstad and close associates hold shares in Thinfilm.

Robert N. Keith, a shareholder of Thinfilm, entered into a consulting service agreement with effect from 1 January 2013. Mr. Keith assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Transaction prices are based on what would be the prices for sale to third parties and are net of VAT.

b) Year-end balances arising from sales/purchases of goods/services with related parties

Amounts in NOK 1,000	2019	2018
Payable to Thinfilm Inc.	25,225	30,971
Payable to Thinfilm AB	37,376	39,670
Payable to Thinfilm HK	—	76
Payable to Thinfilm UK	802	1,260
Payable to Thinfilm CN	—	402
Receivable from Thinfilm AB	—	(943)
Receivable from Thinfilm INC	—	(77,448)
Receivable from Thinfilm HK	—	(7,018)
Receivable from Thinfilm UK	—	(1,106)
Receivable from Thinfilm SG	—	24
Payable to law firm Ræder	3,729	742
Payable to Robert Keith	—	2,000

19. Other operating expenses

Amounts in NOK 1,000	2019	2018
Premises, supplies	4,710	4,105
Sales and marketing	2,883	1,333
Other expenses	5,486	14,652
Sum	**13,079**	**20,090**

Thinfilm has a lease agreement for premises in Oslo (Norway). The lease amount in Oslo is NOK 780 thousand per year, with a termination clause of 3 months. The agreement was terminated effective March 2019, and Thinfilm moved to a new office location in March 2019.

The new lease amounts to NOK 689 thousand per year, with a termination clause of 3 months. The lease expired on 31 August 2019 and the lease was not renewed. The Company pays rent on a month to month basis. The monthly rent is NOK 11 thousand per month.

Thinfilm ASA has not entered into any other lease agreements.

Remuneration to the auditor (ex VAT)

Amounts in NOK 1,000	2019	2018
Audit	1,141	806
Other assurance services	—	15
Tax services	30	28
Other services	—	—
Total	**1,171**	**849**

20. Guarantees

Reference is made to Note 24 in the Consolidated Financial Statements.

21. Shareholders, warrants and subscription rights

Reference is made to Note 25 in the Consolidated Financial Statements.

22. Statement on management remuneration policy

Reference is made to Note 26 in the Consolidated Financial Statements.

Corporate Social Responsibility (CSR) Statement

The Thin Film Electronics ASA Group recognizes that it has important obligations regarding 1) the treatment of its employees, 2) the conditions within its facilities, 3) its impact on the environment, and 4) the relationships it maintains with the communities in which it operates. As such, it adheres to policies related to these obligations and strives to achieve goals that engender safety, health, fairness, diversity, integrity, compliance, and sustainability.

Human rights and workplace practices

Policy

Thinfilm promotes equality and non-discrimination, fairness, and ethical behavior. The Company aims to offer a pleasant, well-equipped, and risk-free work environment. It maintains fair and balanced employment practices and complies with all applicable labor laws applicable to the countries, regions, cities, and towns in which it operates. Thinfilm encourages and expects similar commitments from its customers, partners, suppliers, and other vendors with whom the Company works.

Objective

Maintain a secure, safe, and healthy work environment for all employees of the Company. Continue to be a globally diverse company that strongly distances itself from any form of discrimination. Thinfilm makes every reasonable effort to secure a healthy, safe, and lawful work environment, and the Company complies with all applicable laws, rules, and regulations concerning occupational health, safety, and environmental protection. The Company's policies prohibit discrimination against employees, shareholders, directors, customers, partners, suppliers, and other vendors on account of gender, race, sexual orientation, religion, disability, nationality, political opinion, and social or ethnic origin. Employees are provided with an Employee Handbook outlining corporate policy. Workplace diversity at all levels is highly encouraged and monitored. All persons shall be treated with dignity and respect and are encouraged to assist in creating a work environment free from any form of discrimination. The necessary conditions for a safe and healthy work environment shall be provided for all employees of the Company.

At Thin Film Electronics, Inc. (US subsidiary), all employees are required to complete a safety training course within their first month of employment. In compliance with the Safe Drinking Water and Toxic Enforcement Act of 1986 of the State of California, commonly referred to as Proposition 65, Thin Film Electronics, Inc. also informs employees of the onsite presence of any known chemical known to cause cancer or reproductive toxicity.

Thinfilm is committed to fully complying with all applicable laws regarding equal employment opportunities. Employees who believe they have been subjected to any form of unlawful discrimination may submit a complaint to their manager, any member of the management team, and/or Human Resources. The Company encourages all employees to immediately report incidents of harassment or other conduct prohibited by its anti-harassment policy so that complaints can be resolved in a fair and timely manner.

Conditions Within Facilities and Environmental Impact

Policy

Thinfilm requires that all subsidiaries of the Thinfilm Group follow all current environmental laws and regulations for the jurisdictions in which they reside and operate. Thinfilm routinely evaluates the environmental impact of its production – and manufacturing- related activities, with particular emphasis on the potential risks regarding present and future operations. Thinfilm operates its production facility and laboratories in San Jose, California.

Objective

Thinfilm strives to monitor waste production, such as chemicals and electronics materials, to evaluate where and how the Company can improve – such as using fewer chemicals, leveraging alternative materials, and/or maximize the usage of current materials. Thinfilm recognizes the impact that hazardous waste can have on the environment and takes every reasonable precaution to discard and recycle waste according to federal, state, and regional laws and regulations.

In the San Jose, California facility, Thinfilm partners with a licensed Environmental Services provider and strict guidelines are followed for the storage and disposal of hazardous material. The State of California tracks any Thinfilm hazardous material shipments to the final disposal/incineration site to ensure overall compliance.

Ethics and anti-corruption

Policy

It is important that Thinfilm staff members do not place themselves in situations whereby their fidelity can be undermined or in which they may be vulnerable to external pressures contrary to Thinfilm's or their own integrity. It is communicated and expected that all employees do not accept, either for themselves or on behalf of others, gifts, fees, services or other benefits which could influence the way they discharge their duties, or are intended to exert such influence by the giver.

Objective

Systematize and further improve internal training and education as it relates to ethics and anti-corruption compliance. Thinfilm's Ethical Guidelines are based on respect and fairness in all aspects of the Company's business dealings. We demand and expect that our employees – at every level of the organization – adhere to applicable laws and regulations in the countries where we do business. Thinfilm has a clear stance on corruption. Employees must always comply with applicable anti-bribery laws; and each manager and employee is responsible for compliance within his or her area of authority, and must report any suspected violation to HR, corporate management, and in certain cases, the local authorities.

Responsibility Statement

The board and the CEO have today reviewed and approved this report of the board of directors as well as the annual financial statements for the Thin Film Electronics ASA Group and parent company as of 31 December 2019. The consolidated annual financial statements have been prepared in accordance with IFRS as adopted by the EU and the additional requirements in the Norwegian accounting act. The annual financial statements for the parent company have been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway. The notes are an integral part of the respective financial statements. The report of the board of directors has been prepared in accordance with the Norwegian accounting act and generally accepted accounting principles in Norway.

We confirm that, to the best of our knowledge, the information presented in the financial statements gives a true and fair view of the group's and the parent company's assets, liabilities, financial position and result for the period viewed in their entirety, and that the report from the board of directors and Managing Director (CEO) gives a true and fair view of the development, performance, and financial position of the group and the parent company, and includes a description of the principal risks and uncertainties which the group and the parent company are facing.

The board of directors of Thin Film Electronics ASA, Oslo, Norway, 11 May 2020

Morten Opstad Chairman	Preeti Mardia Board Member	Jon Castor Board Member	Kelly Doss Board Member

Kevin Barber
Managing Director (CEO)

Auditor's Report

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To the General Meeting of Thin Film Electronics ASA

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Thin Film Electronics ASA, which comprise:

- The financial statements of the parent company Thin Film Electronics ASA (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Thin Film Electronics ASA and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at 31 December 2019, the consolidated statements of comprehensive income, consolidated statement of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the financial statements of the Group and Note 1 in the financial statements of the parent and in the Board of Directors' report. The Group and the parent have historically operated at a loss and are in immediate need of cash. There is no assurance that management will be successful in raising funds. Failure to obtain funding would adversely affect the ability to continue as a going concern and consequently the Group and the parent might enter into liquidation. As stated in Note 2 in the financial statements of the Group and note 1 in the financial statements of the parent and in the Board of Directors' report, the liquidity situation, along with other matters as set forth in the notes and the Board of Directors' report, indicate that a material uncertainty

exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no key audit matters to communicate in our report.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

From the matters communicated with 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

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 statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements and the going concern assumption 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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 11 May 2020
Deloitte AS

Mette Herdlevær
State Authorised Public Accountant (Norway)

Corporate Governance

Resolved by the board of directors of Thin Film Electronics ASA (the "Company") on 22 April 2020.

The statement outlines the position of the Company in relation to the recommendations contained in the Norwegian Code of Practice for Corporate Governance dated 17 October 2018 ("the Code"). The Code is available at www.nues.no and from Oslo Børs. In the following, the board of directors will address each section of the Code and explain the areas, if any, where the Company does not fully comply with the recommendations and underlying reasons.

1. Implementation and reporting on Corporate Governance

The Company seeks to create sustained shareholder value. The Company makes every reasonable effort to comply with the word and intent of the laws, rules and regulations in the countries and markets in which it operates. Thinfilm is not aware of being or having been in breach of any such statutory laws, rules or regulations. The Company pays due respect to the norms of the various stakeholders in the business. In addition to the shareholders, the Company considers its employees, Thinfilm's business partners, the society in general and the authorities as stakeholders. Thinfilm is committed to maintain a high standard of corporate governance, be a good corporate citizen and demonstrate integrity and high ethical standards in all its business dealings.

The board believes that in the present organization

- The Thinfilm Group presently has 18 ordinary employees and a few consultants on site

- The board of directors and the management have adequate monitoring and control systems in place to ensure insight into and control over the activities. (Note: In this review, the noun "the management" includes all persons conducting managerial functions, whether employed or otherwise contracted.)

The board has resolved ethical guidelines that apply to all employees, consultants and contractors as well as the elected board members. The ethical guidelines also incorporate the Company's guidelines on corporate social responsibility.

2. Thinfilm's business

As announced in January 2020, the objectives of the Company shall be Energizing Innovation™ with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond. Thinfilm's innovative solid-state lithium battery (SSLB) technology is uniquely positioned to enable the production of powerful, lightweight, and cost-effective rechargeable batteries for diverse applications. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem and commercial partners.

The Company's business goals and principal strategies are defined in the business plans adopted by the board of directors. The plans are reviewed and revised periodically, and when needed.

Thinfilm satisfies the recommendations under this section of the Code by publishing the material at www.thinfilmsystems.com instead of in the annual report.

3. Equity and dividends

The board is aware of and acknowledges the equity requirements and duty of action in connection with loss of equity, as set out in the Norwegian Public Limited Companies Act (the "PLCA"). In the past, the Company has been in need of raising equity on several occasions to fund its operations and working capital requirements. The board has proposed to the general meeting only reasonable authorizations for share issues and incentive schemes. Such board authorizations have explicitly stated the type and purposes of transactions in which the authorizations may be applied. As of the general meeting(s) to be held in 2020, any proposed authorizations to issue shares shall be considered and voted separately by each type and purpose of such share issues.

The board authorizations to issue shares have been valid until the next annual general meeting, as recommended by the Code. The proposals have been approved by the shareholders.

The Company has in place an authorization to the board to acquire up to 10 percent of the Company's own shares for a maximum price of NOK 1,000 per share. The board was authorized to decide upon the manner and terms of the acquisition, disposition, transfer and sale of its own shares. The length of the authorization is limited to the earlier of (i) the next annual general meeting of shareholders (scheduled for 19 May 2020) or (ii) 30 June 2020.

Thinfilm has not as yet declared or paid any dividends on its shares. The Company does not anticipate paying any cash dividends on its shares in the next few years. Thinfilm intends to retain future earnings, if any, to finance operations and the expansion of its business. Any future determination to pay dividends will depend on the Company's financial condition, results of operation and capital requirements.

4. Equal treatment of shareholders and transactions with close associates

The Company places great emphasis on ensuring equal treatment of its shareholders. The Company has one class of shares. There are no trading restrictions or limitations relating only to non-residents of Norway under the Articles of Association of the Company. Each share carries one vote. There are no restrictions on voting rights of the shares.

In the authorizations to issue shares to raise additional capital for the Company, where the existing shareholders have resolved to waive the pre-emptive right to subscribe for shares, the rationale for doing so shall be presented as part of the decision material presented to the general meeting. If and when such transactions are conducted, the justification will also be included in the announcements to the market.

All related party transactions in effect are entered into on an arm's length basis. Any material future related party transactions shall be subject to an independent third-party valuation unless the transaction by law requires shareholder approval. The Company takes legal and financial advice on these matters when relevant. Members of the board and the management are obliged to notify the board if they have any material direct or indirect interest in any transaction entered into by the Company.

5. Freely negotiable shares

All shares are freely assignable. The Articles of Association do not contain any restrictions on negotiability of the shares.

6. General meetings

The annual general meeting of shareholders, the Company's highest decision-making body, provides a forum for shareholders to raise issues with the board as such and with the individual board members. To the maximum degree possible, all members of the board shall be present at the general meeting. The Company's auditors shall also be present at the general meeting. The shareholders elect a person to chair the general meeting. The board will arrange for an independent candidate if so requested by shareholders. Notice of a meeting of the shareholders shall be sent in a timely manner and the Company shall issue the notice and documents for a general meeting, including the proxy form, no later than 21 days before the date of the general meeting. Foreign residents will receive the notice and documents in English. When appropriate, the documents will be made available at the Company's website and not sent to the shareholders.

The board of directors endeavors to provide comprehensive information in relation to each agenda item in order to facilitate productive discussion and informed resolutions at the meeting. The notice will also provide information on the procedures shareholders must observe in order to participate in and vote at the general meeting. Shareholders who are unable to attend in person will be provided the option to vote by proxy in favor or against each of the board's proposals. The notice shall contain a proxy form as well as information of the procedure for proxy representation. At the meeting, votes shall be cast separately on each subject and for each office/candidate in the elections. Consequently, the proxy form shall, to the extent possible, facilitate separate voting instructions on each subject and on each office/candidate in elections. The notice, as well as the Company's website, will set out that the shareholders have the right to propose resolutions in respect of matters to be dealt with at the general meeting.

The general meeting has included in Section 7 of the Company's Articles of Association that documents which have been made available in a timely manner on the website of the Company and which deal with matters that are to be handled at the general meeting, need not be sent to the Company's shareholders.

All reports will be issued on the Oslo Børs marketplace (www.oslobors.no and www.newsweb.no) within the Oslo Stock Exchange, and on the OTCQX International Marketplace (www.otcmarkets.com/marketplaces/otcqx). The reports and other pertinent information are also available at www.thinfilmsystems.com.

7. Nomination committee

Under the Articles of Association, Thinfilm has a nomination committee that is elected by the annual general meeting for a term of two years. The nomination committee shall have three members, including a Chairman. The nomination committee shall prepare and present proposals to the annual general meeting in respect of the following matters:

- Propose candidates for election to the board of directors
- Propose the remuneration to be paid to the board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members shall be resolved by the annual general meeting

The Company provides information on its website about the composition of the nomination committee and any deadlines for submitting proposals to the committee.

8. Corporate assembly and board of directors; composition and independence

Thinfilm does not have a corporate assembly.

The board acknowledges the Code's recommendation that the majority of the members of the board of directors shall be independent of the Company's management and material business contacts. All board members are required to make decisions objectively in the best interest of the Company, and the presence of independent directors is intended to ensure that additional independent advice and judgement is brought to bear. The current board meets the independence criteria of the Code. The board meets the statutory gender requirements for the board.

Board members stand for election every two years. The board believes that it is beneficial for the Company and its shareholders that the board members also are shareholders in the Company and encourages the member of the board of directors to hold shares in the Company.

The board pays attention to ensure that ownership shall not in any way affect or interfere with proper performance of the fiduciary duties, which the board and the management owe the Company and all shareholders.

As and when appropriate, the board takes independent advice with respect to its procedures, corporate governance and other compliance matters.

9. The work of the board of directors

The division of duties and responsibility between the CEO and the board of directors is based on applicable laws and well-established practices, which have been formalized in writing through a board instruction in accordance with the Norwegian Public Limited Companies Act. The board instruction also sets out the number of scheduled board meetings per year and the various routines in connection with the board's work and meetings.

The board instructions state that in situations when the Chairman is not impartial or not operative, the most senior board member shall chair the board until a deputy Chairman has been elected by and among the board members present.

The board of directors shall evaluate its performance and expertise annually. Moreover, the board will produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.

With a compact board of only four members, there has not been any need for subcommittees to date. The future need for any sub-committees will be considered at a minimum annually in connection with the annual review of the Company's corporate governance.

Thinfilm is not obliged to have a separate audit committee and in view of the small number of board members, the Company's Audit Committee consists of all board members who are not also executives or have similar roles in the Company. The board instruction includes an instruction for the audit committee.

10. Risk management and internal control

The board of directors has adopted internal rules and guidelines regarding, amongst other things, risk management and internal control, which rules and guidelines take into account the extent and nature

of the Company's activities as well as the Company's corporate values and ethical guidelines, including the corporate social responsibility. The board of directors shall carry out an annual review of the Company's most important areas of exposure to risk and its internal control arrangements.

In view of the size of the Company and the number of board members, the board has chosen to elect the full board (except any board members who hold executive positions) to constitute the audit committee. The audit committee policies and activities are compliant with the Norwegian Public Limited Companies Act.

The board of directors has adopted an insider manual with ancillary documents intended to ensure that, among other things, trading in the Company's shares by board members, executives and/or employees, including close relations to the aforementioned, are conducted in accordance with applicable laws and regulations.

Internal control and risk management of financial reporting:

Thinfilm publishes four interim financial statements in addition to the ordinary annual financial statements. The financial statements shall satisfy legal and regulatory requirements and be prepared in accordance with the adopted accounting policies and be published according to the schedule adopted by the board. Closing of accounts, financial reporting and key risks analysis are provided monthly to the board of directors.

Thinfilm has established a series of risk assessment and control measures in connection with the preparation of financial statements. In connection with subsidiaries' closing of accounts, internal review meetings are held. In addition, separate meetings are held to identify risk factors and measures linked to important accounting items or other factors. The board also has separate meetings with the external auditor to review such risk factors and measures and conducts preparatory reviews of interim financial statements and annual financial statements that particularly focus on reporting of operational costs and investments.

A financial manual provides detailed instruction for financial planning, treasury, accounting and reporting, and is reviewed and updated annually by the board.

11. Remuneration to the board of directors

A reasonable cash remuneration to the board members for their services from the annual general meeting in 2018 until the annual general meeting in 2019 was proposed to and resolved at the 2019 annual general meeting. To lessen the cash outflow, the annual general meeting granted an option to the board members to receive all or part of the remuneration in the form of shares in the Company. No board members took up this option in 2019. The nomination committee will propose board remuneration for the period between the annual general meetings of 2019 and 2020.

At the 2019 Annual General Meeting, two US residents were elected as new Board members. In order for the Company to be able to attract the interest of these two individuals, a grant of subscription rights was proposed to, and resolved by, the 2019 Annual General Meeting, as share-based incentives represent a relatively customary and expected board remuneration and incentive in the US market. The Board acknowledges that such grants were in contradiction to the Corporate Governance recommendations, but remains of the view that it was in the Company and shareholders' mutual best interest to make these grants in order to secure the services of these two US-based board members.

Advokatfirmaet Ræder AS, in which the Chairman, Morten Opstad, is a partner, renders legal services to the Company. A board member performing work for the Company beyond the board duty shall ensure that such arrangements do not in any way affect or interfere with proper performance of the fiduciary duties as a board member. Moreover, the board (without the participation of the interested member) shall approve the terms and conditions of such arrangements. Adequate details shall be disclosed in Thinfilm's annual financial statements.

12. Remuneration of the management

Thinfilm offers market-based compensation packages for the executives and employees in order to attract and retain the competence that the Company needs. The exercise price for any subscription right is equal to or higher than the market share price at the time of the grant. The subscription rights vest in tranches over three years.

The board shall determine the compensation of the CEO. There is a maximum amount of incentive remuneration per calendar year. It follows from the nature of the incentive subscription rights program resolved by the annual general meeting that the limit does not apply to the possible gain on subscription rights. The board has adopted a policy for the CEO's remuneration of the employees.

At the annual general meeting, the board will present to the shareholders for their approval a statement of remuneration to the management. The resolution by the annual general meeting is binding to the extent it relates to share-based compensation and advisory in other aspects.

13. Information and communication

The board of directors places great emphasis on the relationship and communication with the shareholders. The primary channels for communication are the interim reports, the annual report and the associated financial statements. Thinfilm also issues other notices to the shareholders when necessary or appropriate. The general meeting of shareholders provides a forum for the shareholders to raise issues with the board as such and the individual board members. All reports are issued and distributed according to the rules and practices at the market place(s) where Thinfilm shares are listed. The Company shall in due course publish an annual financial calendar for the following year; setting forth the dates for major events such as its annual general meeting, publication of interim reports, any scheduled public presentation, any dividend payment date, etc. The reports and other pertinent information are also available on the Company's website, www.thinfilmsystems.com.

The board of directors has adopted the following policies:

- Policy for reporting of financial and other information and investor relations;
- Policy for contact with shareholders outside general meeting; and
- Policy for information management in unusual situations attracting or likely to attract media or other external interest.

The financial reporting of Thinfilm is fully compliant with applicable laws and regulations. As of the interim financial information for the third quarter 2007, Thinfilm has prepared its consolidated financial reports in accordance with IFRS. The current information practices are adequate under current rules.

14. Take-overs

There are no take-over defense mechanisms in place. The board will endeavor that shareholder value is maximized and that all shareholders are treated equally. The board shall otherwise ensure full compliance with Section 14 of the Code.

15. Auditors

The Company's auditor is fully independent of the Company. Thinfilm represents a minimal share of the auditor's business. Thinfilm does not obtain business or tax planning advice from its auditor. The auditor may provide certain technical and clerical services in connection with the preparation of the annual tax return and other secondary reports, for which Thinfilm assumes full responsibility.

The board of directors has established written guidelines to the CEO with respect to assignments to the auditor other than the statutory audit.

The board of directors shall otherwise ensure full compliance with Section 15 of the Code.

Articles of Association

§1 The name of the company

The name of the Company is Thin Film Electronics ASA. The Company is a public limited company.

§2 The company's business

The company's business shall encompass multiple complimentary technologies, including but not limited to, enabling Intelligence Everywhere® through near field communications (NFC) solutions, including hardware, software and integration services. The company's business shall also include maximizing the value of its San Jose, California Roll-to-Roll factory's unique combination of capabilities, including roll-based production, process knowhow, and print expertise, which are relevant to market needs for a broad range of applications within flexible large-area electronics. The Company's objectives may be carried out in full internally or in whole or in part externally through collaborative efforts with one or more of the company's ecosystem and commercial partners. The Company's business may be carried out directly by the Company and/or through subsidiary companies. The Company may hold ownership positions in companies with similar activities.

§3 Registered office

The registered office of the Company is situated in Oslo.

§4 The company's share capital

The Company's share capital is NOK 6,445,293.91 divided into 58,593,581 shares each having a par value of NOK 0.11.

§5 The company's governance

The Company's board of directors shall consist of from three to nine members, as decided by the general meeting. The board may grant powers of procuration.

§6 The general meeting

The ordinary general meeting shall consider and decide:

1 Adoption of the annual financial statement and report of the board of directors, including the declaration of a dividend.

2 Election of chairman and members of the nomination committee, and determination of remuneration to the members of the nomination committee.

3 Any other business required by the laws or the articles of association to be transacted by the general meeting.

The general meetings of the Company shall as a general rule be conducted in the Norwegian language. However, the board of directors may decide that the English language shall be used.

§7 Exemption from requirements to submit documents with notice of general meeting

Documents which timely have been made available on the Internet site of the Company, and which deal with matters that are to be handled at the general meeting, do not need to be sent to the Company's shareholders.

§8 Registration for general meeting

A shareholder who wishes to attend the general meeting, in person or by proxy, shall notify its attendance to the Company no later than two days prior to the general meeting. If the shareholder does not notify the Company of its attendance in a timely manner, the Company may deny the shareholder access to the general meeting.

§9 Nomination committee

a Thin Film Electronics ASA shall have a nomination committee. The nomination committee shall have three members, including a chairman. Members of the nomination committee shall be elected by the Annual General Meeting for a term of two years.

b The nomination committee shall:

- Propose candidates for election to the Board of Directors
- Propose the remuneration to be paid to the Board members
- Propose candidates for election to the nomination committee
- Propose the remuneration to be paid to the nomination committee members

c The mandate of the nomination committee shall be resolved by the Annual General Meeting.

§10 Relation to the Norwegian Public Limitied Companies Act

Reference is also made to the legislation concerning public limited companies in force at the relevant time.

Board of Directors

Morten Opstad
Chairman

MORTEN OPSTAD has served as Chairman of the Board of the Company since 2 October 2006. He is a partner and Chairman of the Board of Directors in Advokatfirmaet Ræder AS in Oslo. He has rendered legal assistance with respect to establishing and organizing several technology and innovation companies within this line of business. His directorships over the last five years include current board positions in Idex ASA (Chairman), Total Sports Online AS, Glommen Eiendom AS, Chaos AS, K-Konsult AS, and former directorships in Fileflow Technologies AS and A. Sundvall AS. Mr. Opstad was born in 1953 and is a Norwegian citizen.

Preeti Mardia
Board Member

PREETI MARDIA has diverse general management and operations expertise across electronics, semiconductors, telecommunications, aerospace, and food sectors. Preeti is currently Senior Vice President Operations at IDEX ASA, a leading fingerprint imaging and recognition technology company based in Norway. Prior to IDEX she was Vice President Operations for Axxcss Wireless UK Ltd. She previously worked within Filtronic Plc as Operations Director and established commercial and supply relationships with Tier One OEMs for mobile telecoms infrastructure. She was responsible for implementing a world class highly automated electronics manufacturing plant and establishing global supply chain partnerships. She managed and scaled a semiconductor foundry from technology phase to high volume manufacturing of Gallium Arsenide semiconductor devices for the mobile handset, aerospace, and base-station markets. Preeti has extensive FMCG experience in manufacturing, product development and quality assurance with Cadbury Schweppes Plc and supplied into major international retailers. Preeti has a degree in Food Science & Technology and is undertaking a Masters degree in Executive Management at Ashridge, UK. Mrs Mardia was born in 1967 and is a British citizen.

Jon Castor
Board Member

JON CASTOR Jon Castor is an entrepreneur and active independent private and public company director. His 25 years of senior leadership experience has included building both classic Silicon Valley venture funded startups and two new divisions for Fortune 500 companies. He also has considerable private and public company M&A experience, including leading the team of a venture he co-founded through a double exit. His industry experience includes ICs, systems, and software, digital media, consumer electronics and services, and multiple forms of advanced and renewable power generation. Jon's Silicon Valley venture successes include Omneon, where the team built the world leader in broadcast video servers, and TeraLogic, a pioneering HDTV venture supported by Sony, Mitsubishi, and Samsung, where he was co-founder and CEO. Jon has an MBA from Stanford's Graduate School of Business, and a BA with Distinction from Northwestern University. Jon joined the Thin Film Board of Directors in May 2019 and served as Chairman of the Strategy Committee.

Kelly Doss
Board Member

KELLY DOSS Kelly Doss is a senior marketing executive and brand consultant. She has over 25 years of experience in global brand management with a strong track record of delivering breakthrough revenue and sales growth in varying channels of distribution. She has considerable expertise across the marketing, innovation, and operational functions in both the alcoholic beverage and beauty categories. Her industry experience includes 15 years in the global spirits category, leading marketing for Beam Suntory in both EMEA and North America and over 10 years in the beauty industry across hair care, skin care, and color cosmetics. Over the course of her career, leading cross-functional teams, she has launched well over 100 new products & multiple global packaging restages. Kelly has a Masters in International Management from the Thunderbird School of Global Management, and a BA with honors from the University of Michigan. Kelly joined the Thin Film Board of Directors in May 2019.

Executive Management

Kevin Barber
Chief Executive Officer

KEVIN BARBER Kevin Barber joined Thinfilm as CEO in November 2018. He is responsible for driving worldwide strategic growth, scaling product innovation and manufacturing operations while increasing market penetration and identifying new business opportunities. Mr. Barber was previously Senior Vice President, General Manager Mobile Division of Synaptics, where he drove the strategy, business development, M&A and execution of growing revenue fourfold to over $1 billion annually. Previously, he was CEO of ACCO Semiconductor a Venture Capital funded startup. Prior to ACCO, Mr. Barber served as Senior Vice President, General Manager Mobile Business at Skyworks Solutions where he led the strategy achieving top RF power amplifier market share in the high growth mobile market. Prior to Skyworks, Mr. Barber served as Senior Vice President, Operations at Conexant leading strategic efforts of global manufacturing scale, technology development, and supply chain management enabling Conexant to be a leader in diverse markets. He holds a Bachelor of Science in Electrical Engineering from San Diego State University and an MBA from Pepperdine University. Mr. Barber currently serves as a Board Director at Intevac.

Mallorie Burak
Chief Financial Officer

MALLORIE BURAK joined Thinfilm in July 2019. In her role, she oversees finance, accounting, legal, and investor relations activities. She is an experienced financial executive, bringing over 25 years of expertise across a broad spectrum of industries ranging from early stage software start-ups to multi-national, public corporations. Over the span of her career, she has negotiated and managed over five hundred million dollars of successful financing and M&A deals, having spent the last 12 years focused on turn-arounds of both public and venture backed companies. Prior to joining the Thinfilm team, she served as CFO at Alta Devices, a GaAs thin-film solar technology start-up, where she secured over $56 million in funding to facilitate the build-out of its pilot manufacturing line. Prior to Alta Devices Ms. Burak served as CFO at FriendFinder Networks, Rainmaker Systems, FoodLink, and Southwall Technologies. She has a proven track record of creating a high-performance culture with a strong focus on operational excellence and maximizing shareholder value, as evidenced by the successful acquisition of Southwall Technologies, after having repositioned, restructured, and grown the company. Ms. Burak has significant experience working with a variety of financing sources, both public and private, as well as significant experience leading and managing M&A related activities. She holds a BSBA and MBA from San Jose State University.

Dr. Arvind Kamath
EVP Technology Development & Manufacturing

DR. ARVIND KAMATH joined Thinfilm in January 2014 from Kovio, Inc., where he served as Sr. Director, Technology Development. At Thinfilm, he has built and led several teams in the areas of Technology Development, Engineering and Operations. Most recently, he was responsible for the flexible substrate roll to roll PDPS (Printed Dopant Polysilicon) manufacturing scale-up and led the teams that built a global ecosystem to enable this. At Kovio, Dr. Kamath led materials and process development and integration of a revolutionary printed electronics platform based on silicon ink, from feasibility to qualification and yield enhancement. Prior to Kovio, he worked at LSI Logic in various managerial and specialist roles, including process engineering, group management, R&D operations, SRAM integration and yield enhancement. Dr. Kamath earned a B.Tech degree in Metallurgical Engineering from the Indian Institute of Technology, Chennai and a Ph.D in Materials Science and Engineering from the microelectronics program at The University of Texas - Austin.

Shannon Fogle
VP Global Human Resources

SHANNON FOGLE joined Thinfilm in January 2014 from Kovio, Inc. She leads the Human Resources functions for all Thinfilm locations. Ms. Fogle led the Human Resources functions at Kovio from 2007 until 2014. Prior to Kovio, Ms. Fogle worked in various Operations roles at Spansion and Advanced Micro Devices. Shannon holds a Bachelor of Science degree in Business Management from San Jose State University and is Certified by the Society of Human Resource Management.

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Annual Report 2019

Thin Film Electronics ASA

Thin Film Electronics ASA

First Quarter 2020

Interim Report and
Financial Statements

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Contents

Locations

Norway — Oslo

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c/o House of Business

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Phone: +47 22 42 45 00
Email: info@thinfilmsystems.com

USA — San Jose

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2581 Junction Avenue
San Jose, CA 95134
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Contact

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Thinfilmsystems.com

Business Review

During the first quarter of 2020, Thinfilm announced its new energy storage strategy along with its new corporate website, www.thinfilmsystems.com, and focused on three primary objectives: continuing work toward achieving milestones critical to its solid-state lithium battery ("SSLB") technology development, securing a private placement to raise capital, and continuing efforts to reduce its ongoing operating costs.

Despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure continuity of its development efforts and mitigate potential delays. Technical achievements made during the first quarter of 2020 resulted in the filing of multiple provisional patent applications during the first half of April 2020. These initial filings serve to strengthen the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe SSLBs for wearable devices, connected sensors, and beyond. Further, these patent filings represent key Thinfilm intellectual property related to the encapsulation, assembly, and stacking of SSLB products based on stainless steel substrates. Thinfilm's technological advances are essential to the production of ultrathin, stackable milliamp-hour battery cells with the highest volumetric energy density in their class, enabling Thinfilm to minimize battery size and extend battery life for thinner, more comfortable wearable devices and connected sensors. Beyond manufacturing innovation, Thinfilm has also filed patents based on inventions in core battery technology, including solid-state battery materials and cell stack design. These core innovations are the work of Thinfilm's technical team, which has been expanded to include solid-state battery expertise. To further expand the company's intellectual property footprint in SSLB's and flexible electronics manufacturing, the Company is preparing additional patent filings in new and adjacent areas to expand the Company's IP portfolio in SSLB design and manufacturing. In addition, Thinfilm has partnered with a leading process technology development company to accelerate the development of ultrathin battery technology in the San Jose factory.

Thinfilm began a process to raise capital in the first quarter of 2020. On 28 February 2020, Management presented the Company's new SSLB strategy, market opportunity, technology, and product differentiation in an Investor Presentation in Oslo, Norway. Significant time was also spent meeting with potential investors and evaluating various financing alternatives. In April 2020, the Board received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants subject to approval by extraordinary general meeting in May 2020.

The Board called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued. Warrant A will bring an additional up to NOK 32 million to the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised. In connection with the private placement, on 7 May 2020, lead investors provided a bridge loan of approximately USD 500 thousand, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA, to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures.

Efforts to restructure the Company and reduce its ongoing operational costs remained an ongoing focus from 2019 into the first quarter of 2020, as Management began to execute its new SSLB battery strategy. These cost cutting measures included a further reduction of headcount in March of 2020, resulting in a final headcount of eighteen as of 31 March 2020. In addition, Management continued work to close non-operational entities worldwide, negotiated settlements of long-term contractual obligations for services no longer required under the new energy storage strategy and began initiating discussions to renegotiate payment terms tied to material agreements to enable working capital to be optimized and focused on the development of the SSLB technology development. Based on its overall progress in the first quarter, the Company believes it is on schedule to deliver samples of its SSLB products at the end of Q2, subject to approval of the private placement and other equity investment programs at the extraordinary general meeting scheduled for 20 May 2020 ("May EGM").

Additionally, discussions are underway to monetize its CNECT software platform and NFC related assets. The Company continued to facilitate due diligence requests from potential acquirors interested in deploying NFC solutions supported by a robust data analytics software platform.

About Thinfilm

Thinfilm is Energizing Innovation™ with ultrathin, flexible, and safe energy storage solutions for wearable devices, connected sensors, and beyond. Thinfilm's innovative solid-state lithium battery (SSLB) technology is uniquely positioned to enable the production of powerful, lightweight, and cost-effective rechargeable batteries for diverse applications. The company's state-of-the-art flexible electronics manufacturing facility, located in the heart of Silicon Valley, combines patented process technology and materials innovation with the scale of roll-to-roll production methods to bring the advantages of SSLB technology to established and expanding markets.

Thin Film Electronics ASA is a publicly listed company in Norway with corporate headquarters in Oslo and global headquarters in San Jose, California.

Condensed Consolidated Financial Report as of 31 March 2020

In 2019, Thinfilm rightsized and repositioned the Company for future growth by remaining focused on reducing the Company's cost structure and closed a $13.2 million debt financing in the third quarter, enabling the advancement of strategic initiatives and continued operations into the first quarter of 2020.

Evaluation of new and compelling applications for the San Jose, California based roll to roll ("R2R") manufacturing plant continued throughout 2019, with the objective of leveraging the Company's years of significant investment in its R2R manufacturing and process technology capabilities. The Company also focused on monetizing its remaining EAS inventory and was successful in selling a portion of its on-hand inventory in December 2019.

By the end of the first quarter of 2020, Thinfilm had materially reduced its headcount and cost structure. In addition, the Company continued the process of reducing its global footprint and focusing solely on its presence in Oslo, Norway and operations in San Jose, California. The significant cost savings resulting from operational decisions made throughout 2019 began to materialize in the fourth quarter, with further cost saving measures implemented during the first quarter of 2020, enabling the Company to preserve cash while finalizing its new energy storage business strategy for 2020.

Profit and Loss

Thinfilm's sales revenue in the first three months of 2020 was USD 491 thousand, compared to USD 402 thousand during the same period last year. For the first three months of 2020, the USD 491 thousand represented the sale of the EAS on-hand finished goods inventory that had been prepaid by the customer in December 2019 and delivered in January 2020. There was no income related to government grants and other funded projects during the first three months of 2020 (Q1 2019: USD 322 thousand). Government grant programs ended in mid-2019.

Excluding government grants, other income amounted to USD 67 thousand in the first three months of 2020 (Q1 2019: USD 57 thousand), primarily related to sublease income from the second floor of its Junction Avenue, San Jose California facility. Other income in Q1 2019 also included gains on disposal of fixed assets. Disposed assets included those acquired when the Company secured the Junction Avenue facility, in addition to surplus Linköping, Sweden site assets.

Operating costs amounted to USD 2,634 thousand during the first three months of 2020, including the notional cost of share based compensation of USD 68 thousand. The corresponding figures for the same period last year were USD 11,620 thousand and USD 271 thousand, respectively. The decrease in operating costs during the first three months of 2020, compared to the same period of 2019, was USD 8,986 thousand, primarily attributable to a significant reduction in headcount and its overall cost structure. The expenses by major category are as follows:

1) USD 6,333 thousand lower payroll cost due to a reduction in headcount in 2019.

2) USD 1,074 thousand lower costs for premises and supplies. The worldwide downsizing of operations in 2019 led to a decrease in premises and supply costs.

3) USD 925 thousand lower services costs. Expenditures for consultants and contractors have decreased as a result of cost savings initiatives and lower activity levels.

4) USD 493 thousand lower sales and marketing costs. Cost saving initiatives and discontinuation of the NFC business resulted in reduced travel expenses and other sales and marketing-related costs during 2019.

5) USD 200 thousand lower employee share based remuneration costs. The fair value of granted employee subscription rights are valued based on the Black-Scholes formula and expensed over the vesting period.

Historically, Thinfilm had maintained a high level of R&D activity. During the first three months of 2020, minimal funds were spent developing manufacturing processes and operating procedures for R2R manufacturing and solid-state lithium battery technology development. The corresponding amount for the same period of 2019 was USD 1,882 thousand.

There were no investments in fixed and intangible assets during the first three months of 2020, compared to USD 1,592 thousand during the same period of 2019.

Net financial items for the first three months of 2020 amounted to an expense of USD 751 thousand (Q1 2019: USD 195 thousand gain), and were mainly related to interest expense offset by unrealized foreign currency gains.

The Company operates at a loss and there is a tax loss carryforward position in the parent company and in the Swedish and U.S. subsidiaries. The parent company in Norway has not incurred any tax during the first three months of 2020, nor in the same period of the prior year. The Company has not recognized any deferred tax assets on its balance sheet relating to these tax loss carryforward positions, as this potential asset does not yet qualify for inclusion.

The loss for the first three months of 2020 was USD 2,827 thousand, corresponding to a basic loss per share of USD 0.05. During the same period of 2019, the loss amounted to USD 11,775 thousand, corresponding to a basic loss per share of USD 0.20.

Cash Flow

The group's cash balance decreased by USD 4,307 thousand during the first three months of 2020, compared to a decrease of USD 12,543 thousand during the same period last year. The net decrease in cash balance is explained by the following principal elements:

1) USD 3,373 thousand outflow from operating activities,

2) USD 22 thousand inflow from investing activities, and

3) USD 956 thousand outflow from financing activities.

The USD 3,373 thousand outflow from operating activities is primarily explained by an operating loss excluding depreciation, amortization and impairment charges of USD 2,076 thousand. The cash balance on 31 March 2020 amounted to USD 4,565 thousand, while the cash balance on 31 March 2019 amounted to USD 20,045 thousand. The cash balance at 31 March 2020 includes restricted cash of USD 1,600 thousand, securing the letter of credit issued in 2017 by Thin Film Electronics ASA to the landlord of the San Jose, California facility. (see Note 12. Current and long-Term Debt for further detail).

Balance Sheet

Non-current assets amounted to USD 559 thousand (31 March 2019: USD 38,281 thousand). The decrease in non-current assets from 31 March 2019 to 31 March 2020 was mainly due to full impairment of the R2R production line in San Jose, California, intangible assets and the financial lease for the building lease in San Jose, California. Trade and other receivables amounted to USD 2,127 thousand as of 31 March 2020 (31 March 2019: USD 9,560 thousand). The reduction relates mainly to impairment of prepayments to suppliers and equipment vendors for R2R production line equipment not yet received. Non-current liabilities as of 31 March 2020 was USD 24,075 thousand (31 March 2019: 13,978 thousand) and was related to future lease payments for the Junction Avenue, San Jose, California premises and long-term debt relating to an equipment term loan facility with Utica. The equity ratio was negative 313 percent as of 31 March 2019, versus 68 percent as of 31 March 2020.

Principal Risks

Thinfilm is exposed to various risks of a financial and operational nature. The extraordinary current risks of the pandemic and its effect on the world economy are affecting everyone.

The Company's predominant risks are market and business risks, summarized in the following points:

I The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million (including restricted cash of USD 1.6 million), which is sufficient to fund the company into Q2 2020. In connection with the proposed NOK 32 million equity investment that the board is recommending shareholders approve at the upcoming 20 May 2020 Extraordinary General Meeting, lead participants in the investor consortium agreed to and have provided the Company with a NOK 20 million commitment as well as a USD 500 thousand bridge loan to ensure that the Company has sufficient levels of cash to continue its operations until such time that the equity financing closes. The Company has also received binding commitments for at least NOK 5 million, on the same terms from certain other investors, including from members of the Board and Management, at a subscription price per share equal to the subscription price in the private placement. In addition, the Company also expects to issue a subsequent offering of NOK 7 million. In aggregate the proposed equity offerings total NOK 32 million.

II Technology development and engineering sample availability on Thinfilm's sheet line can be adversely affected by several factors including but not limited to:

- Quality, composition and consistency of lithium-based materials, chemicals and unanticipated interactions of the various layers and processes resulting in longer than planned learning cycles and corrective actions, delaying customer sample engagements.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- Equipment reliability, modifications needed, and process optimization learning cycle efficiency that may limit the uptime, throughput and quality of the devices produced.
- Issues encountered during handling, processing and assembly of ultrathin substrates and battery stacks.
- Need for new materials or processes and/or equipment to achieve full manufacturing qualification and product reliability.

The startup and product manufacturing yield ramp on the roll-to-roll line can also be negatively influenced by several of the conditions or events noted below (but not limited to):

- Achievement of return to manufacturing readiness and qualification of the tool set.
- On site availability of vendor personnel to assist in requalification of the machines with battery materials set.
- Electro-Static Discharge (ESD) or other phenomena that may cause the need for process or mechanical handling changes in the manufacturing line.
- Lower than anticipated throughputs and uptime of the equipment with the battery material set resulting in a lower capacity than planned.
- Adequate environmental control of the manufacturing area and storage that might compromise the composition, performance and defectivity of the device.
- New and unknown modes of yield loss necessitating process, practice or equipment modifications that can result in a slower than planned yield ramp.
- Issues encountered during roll handling, processing and assembly of ultrathin substrates and battery stacks.
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

III Many of the markets that Thinfilm targets in connection with its new energy storage strategy, will require time in order to gain traction, and there is a potential risk of delays in the timing of sales. Risks and delays may include, but are not limited to:

- Uncertain global economic conditions may adversely impact demand for our products or cause our customers and other business partners to suffer financial hardship, which could cause delays in market traction and adversely impact our business.

- Our ability to meet our growth targets depends on successful product, Marketing, and operations innovation and successful responses to competitive innovation and changing consumer habits that may result in changes in our customers' specifications.

The Company cannot assure that the business will be successful or that we will be able to generate significant revenue. If we fail to establish and build relationships with our customers, or our customers' products which utilize our solutions do not gain widespread market acceptance, we may not be able to generate significant revenue. We do not sell any products to end users, and we do not control or influence the manufacture, promotion, distribution, or pricing of the products that incorporate our solutions. Instead, we design various devices and products that our OEM customers incorporate into their products, and we depend on such OEM customers to successfully manufacture and distribute products incorporating our solutions and to generate consumer demand through marketing and promotional activities. As a result of this, our success depends almost entirely upon the widespread market acceptance of our OEM customers' products that incorporate our devices. Even if our technologies successfully meet our customers' price and performance goals, our sales could fail to develop if our customers do not achieve commercial success in selling their products that incorporate our devices.

Our ability to generate significant revenue from new markets will depend on various factors, including the following:

- The development and growth of these markets;
- The ability of our technologies and product solutions to address the needs of these markets, the price and performance requirements of OEMs, and the preferences of end users; and
- Our ability to provide OEMs with solutions that provide advantages in terms of size, reliability, durability, performance, and value-added features compared with alternative solutions.

IV To a certain extent, Thinfilm is dependent on continued collaboration with technology, material, and manufacturing partners.

There may be process and product-development risks that arise related to time to development and cost competitiveness of the energy storage products Thinfilm is developing.

Many manufacturers of these products have well established relationships with competitive suppliers. Our ongoing success in these markets will require us to offer better performance alternatives to other solutions at competitive costs. The failure of any of these target markets to develop as we expect, or our failure to serve these markets to a significant extent, will impede our sales growth and could result in substantially reduced earnings and a restructuring of our operations. We cannot predict the size or growth rate of these markets or the market share we will achieve or maintain in these markets in the future. Shortages of components and materials may delay or reduce our sales and increase our costs, thereby harming our operating results. The inability to obtain sufficient quantities of components and other materials necessary for the production of our products could result in reduced or delayed sales or lost orders. Many of the materials used in the production of our products are available only from a limited number of foreign suppliers, particularly suppliers located in Asia.

V Our business results depend on our ability to successfully manage ongoing organizational changes. Our financial projections assume successfully executing certain of these organizational changes, including the motivation and retention of key employees and recruitment of qualified personnel, which is critical to our business success.

Factors that may affect our ability to attract and retain talented leadership, key individual contributors, and sufficient numbers of qualified employees include:

- Employee morale,
- Our reputation,
- Competition from other employers, and
- Availability of qualified personnel.

Our success is dependent on identifying, developing and retaining key employees to provide uninterrupted leadership and direction for our business. This includes developing and retaining organizational capabilities in key technology areas, where the depth of skilled or experienced employees may be limited and competition for these resources is intense.

VI Thinfilm is exposed to certain financial risks related to fluctuation of exchange rates and interest level.

Going Concern

The board confirms that the financial statements of the group, as well as the parent company, have been prepared under the going concern assumption. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019 and into the first and second quarters of 2020, in order to reduce the Company's cost structure.

Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow. To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Securing commitments for equity funding from current and new shareholders, subject to approval at the May EGM;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

The financial statements for the year ending 2019 reflect a full impairment of the Company's fixed assets and financial lease, given the uncertainty related to its cash position and new strategy. However, the financial statements do not include adjustments related to the amounts of liabilities that might be necessary, should the Company and the consolidated entity not continue as going concerns.

In April 2020, the Board received an offer from a consortium of investors, who provided a commitment to subscribe for shares for a total subscription amount of NOK 20 million, subject to certain conditions as to price and warrants subject to approval by extraordinary general meeting in May 2020.

The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors. Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

Outlook

In January 2020, Thinfilm announced its updated corporate strategy focused on the design, development, and production of innovative battery solutions targeting existing market demand with differentiated solutions to power wearable devices and connected sensors. This decision followed extensive evaluation of multiple markets to determine the most commercially compelling use of the Company's patented process technology innovations and state-of-the-art, production-scale roll-to-roll flexible electronics factory located in San Jose, California.

To address the sizeable existing and expanding applications for wearable devices and connected sensors, the Company is developing a family of rechargeable solid-state lithium battery ("SSLB") products that are ultrathin, flexible, reliable, safe, and cost effective. Thinfilm's facility, located in the heart of Silicon Valley, is ideally positioned to spark rapid development of differentiated products that will offer the wearable market, estimated by IDTechEx to reach $64 billion in 2020 and growing at a 9.5% CAGR through 2024, a superior alternative to today's pouch and coin cell batteries. Thinfilm's distinct value proposition will enable technology innovation by unleashing designers' creativity, previously limited by the lack of flexibility inherent in existing battery technology.

The Company's strategy is to develop a new class of premium microbatteries based on SSLB technology that will be highly desirable to companies developing portable electronics for use in existing market segments as well as emerging applications. Thinfilm's rechargeable batteries are designed to overcome certain limitations of traditional rechargeable batteries that are currently used in wearable electronics and distributed sensor applications. Specifically, Thinfilm SSLB products are designed to be fundamentally safe (without risk of excessive heat buildup, fire, or explosion), ultrathin, and capable of storing more energy in a fixed volume compared to others in their class.

By leveraging its core capabilities in materials and manufacturing innovation, the Company believes it can produce compelling energy storage products that provide greater battery life and improved reliability, with the form-factor flexibility to create unique battery shapes enabling sleek, comfortable end products. Thinfilm battery solutions incorporate an innovative solid electrolyte material that enables thinner, stackable cells that can endure more charging cycles and deliver more power at sub-freezing temperatures, compared to commonly used battery technologies. Because the solid electrolyte cannot catch fire or explode, Thinfilm SSLBs can also improve the safety profile for wearable and medical applications.

The Company will initially focus on key portions of the wearables and sensor markets, particularly the rapidly growing connected and wearable medical sensing market, in which continuous glucose monitoring alone is forecasted to double in volume to over 100 million units by 2023, according to IDTechEx. Beyond wearable medical sensing, Thinfilm has identified a number of additional growing applications in existing markets that are expected to provide meaningful opportunities for additional growth.

Based on the Company's decision to leverage existing intellectual property and manufacturing assets in the execution of its revised SSLB focused strategy, the Company believes it has identified a more compelling application of its large-area, roll-to-roll flexible electronics manufacturing capabilities and patented process innovation. Fundamental to the successful execution of this strategy is closing the private placement and other equity programs scheduled to be approved at the Extraordinary General Meeting scheduled for 20 May 2020 ("May EGM"). Upon approval of the private placement and subsequent offering at the May EGM, the Board plans to source additional investment from U.S. based investors in order to fully fund the continued working capital requirements to execute upon the SSLB strategy. Due to the uncertain economic environment resulting from the COVID-19 pandemic and the potential supply chain and development delays that could impact Thinfilm's ability to meet its second quarter milestone of producing viable SSLB samples, successfully attracting and raising additional capital in the U.S. or abroad is not guaranteed. If the Company fails to obtain additional investment commitments by the end of July 2020, the Board will consider proposing a dissolution of the Company. Should Thinfilm enter into liquidation, the costs to close as of the end of April 2020 are estimated to be approximately USD 3 million, excluding obligations related to its debt facility and building lease obligations.

Thin Film Electronics ASA Group

Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Amounts in USD 1,000	Note	1 January - 31 March 2020	1 January - 31 March 2019	1 January - 31 December 2019
Sales revenue		491	402	701
Other income		67	379	480
Total revenue & other income		**558**	**781**	**1,181**
Operating costs	10,11	(2,634)	(11,620)	(31,942)
Depreciation and amortization		—	(1,129)	(3,949)
Impairment loss	3,4,5	—	—	(42,379)
Operating profit (loss)		**(2,076)**	**(11,968)**	**(77,089)**
Net financial items		(751)	195	(1,367)
Profit (loss) before income tax		(2,827)	(11,773)	(78,456)
Income tax expense		—	(2)	10
Profit (loss) for the period		**(2,827)**	**(11,775)**	**(78,446)**
Profit (loss) attributable to owners of the parent		**(2,827)**	**(11,775)**	**(78,446)**
Profit (loss) per share basic and diluted	7	(USD0,05)	(USD0,20)	(USD1,34)
Profit (loss) for the period		(2,827)	(11,775)	(78,446)
Other comprehensive income				
Currency translation		(267)	(200)	(637)
Total comprehensive income for the period, net of tax		**(3,094)**	**(11,975)**	**(79,083)**

Consolidated Statements of Financial Position

Amounts in USD 1,000	Note	31 March 2020	31 March 2019	31 December 2019
ASSETS	8			
Non-current assets				
Property, plant and equipment	3	—	23,296	—
Building – financial lease	5	—	12,496	—
Intangible assets	4	—	2,489	—
Other financial receivables	9	559	—	559
Total non-current assets		**559**	**38,281**	**559**
Current assets				
Inventory		1	2,065	1
Trade and other receivables	9	2,127	9,560	2,806
Cash and cash equivalents		4,565	20,045	8,872
Total current assets		**6,693**	**31,670**	**11,679**
TOTAL ASSETS		**7,252**	**69,951**	**12,238**
EQUITY				
Ordinary shares	6	18,660	18,660	18,660
Other paid-in equity		—	321,846	—
Currency translation		(14,623)	(13,920)	(14,356)
Retained earnings		(26,723)	(279,059)	(23,964)
Total equity		**(22,686)**	**47,528**	**(19,660)**
LIABILITIES	8			
Non-current liabilities				
Long-term debt	12	11,081	—	11,812
Long-term financial lease liabilities		12,994	13,978	13,244
Total non-current liabilities		**24,075**	**13,978**	**25,056**
Current liabilities				
Trade and other payables		3,744	8,446	5,454
Current portion of long-term debt	12	2,119	—	1,388
Total current liabilities		**5,863**	**8,446**	**6,842**
TOTAL EQUITY AND LIABILITIES		**7,252**	**69,951**	**12,238**

Consolidated Statements of Changes in Equity

Amounts in USD 1,000	Share capital	Other paid-in equity	Currency translation	Retained earnings	Total
Balance at 1 January 2020	18,660	—	(14,356)	(23,964)	(19,660)
Share based compensation	—	—	—	68	68
Comprehensive income	—	—	(267)	(2,827)	(3,094)
Balance at 31 March 2020	**18,660**	**—**	**(14,623)**	**(26,723)**	**(22,686)**
Balance at 1 January 2019	18,660	321,575	(13,719)	(266,806)	59,709
Share based compensation	—	271	—	—	271
Impact of change in accounting policy*	—	—	—	(477)	(477)
Comprehensive income	—	—	(200)	(11,775)	(11,975)
Balance at 31 March 2019	**18,660**	**321,846**	**(13,920)**	**(279,059)**	**47,528**
Balance at 1 January 2019	18,660	321,575	(13,719)	(266,806)	59,709
Share based compensation	—	190	—	—	190
Impact of change in accounting policy*	—	—	—	(477)	(477)
Transfer for coverage of losses	—	(321,765)	—	321,765	—
Comprehensive income	—	—	(637)	(78,446)	(79,083)
Balance at 31 December 2019	**18,660**	**—**	**(14,356)**	**(23,964)**	**(19,660)**

*=IFRS 16 implementation. See note 2 & 5

Consolidated Cash Flow Statements

Amounts in USD 1,000	Note	1 January - 31 March 2020	1 January - 31 March 2019	1 January - 31 December 2019
Cash flow from operating activities				
Profit (loss) before tax		(2,827)	(11,773)	(78,456)
Share-based payment (equity part)	6	71	271	190
Depreciation and amortization	3,4,5	—	1,129	3,949
Write down inventory, machinery and intangible assets		—	—	42,379
Loss/(gain) on sale of fixed assets		—	(12)	(241)
Taxes paid for the period		—	(23)	10
Changes in working capital and non-cash items		(1,368)	426	1,748
Net financial items		751	—	1,367
Net cash from operating activities		**(3,373)**	**(9,982)**	**(29,054)**
Cash flow from investing activities				
Purchase of property, plant and equipment	3	—	(1,764)	(3,177)
Prepayments relating to purchase of property, plant and equipment		—	(342)	(1,653)
Capitalized development expenses	4	—	(174)	(353)
Proceeds from sale of fixed assets		—	12	112
Interest received		22	39	152
Net cash from investing activities		**22**	**(2,229)**	**(4,919)**
Cash flow from financing activities				
Proceeds from debt financing		—	—	13,200
Deposits		—	—	(558)
Interest paid		(720)	—	(1,525)
Lease payments		(236)	(458)	(860)
Net cash from financing activities		**(956)**	**(458)**	**10,257**
Currency translation effects on cash and bank deposits		—	126	—
Net increase (decrease) in cash and bank deposits		**(4,307)**	**(12,543)**	**(23,716)**
Cash and bank deposits at the beginning of the period		8,872	32,588	32,588
Cash and bank deposits at the end of the period		**4,565**	**20,045**	**8,872**

Notes to the Consolidated Financial Statements

1. Information about the group

Thin Film Electronics ASA ("Thinfilm" or "the Company") was founded on 22 December 2005. Thin Film Electronics ASA Group ("Thinfilm") consists of the parent company Thinfilm ASA and the subsidiaries Thin Film Electronics AB ("Thinfilm AB"), Thin Film Electronics Inc. ("Thinfilm Inc."), Thin Film Holding ("Thinfilm Holding"), Thin Film Electronics KK ("Thinfilm KK"), Thin Film Electronics HK Limited ("Thinfilm HK"), Thin Film Electronics UK Ltd. ("Thinfilm UK"), Thin Film Electronics Co. Ltd. ("Thinfilm China"), Thin Film Electronics Singapore pte. Ltd. ("Thinfilm SING"). The group was formed on 15 February 2006, when Thinfilm ASA purchased the business and assets, including the subsidiary Thinfilm AB, from Thin Film OldCo AS ("OldCo"). The Company is in the process of dissolving some of these subsidaries in 2020.

In 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in San Jose, California R2R factory and related intectual property.

The Company is a public limited-liability company incorporated and domiciled in Norway. The address of its registered office is Fridtjof Nansens Plass 4, Oslo, Norway. The Company's shares were admitted to listing at the Oslo Axess on 30 January 2008 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTCQX International.

2. Basis of preparation, accounting policies, and resolutions

Basis of presentation

This condensed interim financial report for the first quarter of 2020 has been prepared in accordance with IAS 34 interim financial reporting. The condensed consolidated interim financial report should be read in conjunction with the consolidated annual financial statements for 2019. The IFRS accounting policies applied in this condensed consolidated interim financial report are in all materiality consistent with those applied and described in the consolidated annual financial statements for 2019.

Going concern

The financial statements of the group have been prepared under the going concern assumption. It became evident by the end of 2018 that the slower than anticipated customer adoption of NFC tags on-package would significantly delay the Company's ability to reach cash break-even. During 2019, a strategic decision was made to pivot away from the NFC business and follow an energy storage strategy that leveraged previous investments made in the San Jose, California R2R factory and related intellectual property. A significant level of restructuring occurred during 2019, in order to reduce the Company's cost structure. Per the date of this report, the group and the parent company do not have sufficient funds to support operations throughout the financial year 2020. The board of directors monitors the financial position closely and receives frequent reports and forecasts on expenditure and cash flow.

The board's authorization of a substantial restructuring of the business during 2019 resulted in an annualized savings of approximately USD 23 million year over year versus 2018. As of 30 April 2020, the Company had a cash balance of approximately USD 3.3 million, which is sufficient to fund the company into Q2 2020. The Board has called for an Extraordinary General Meeting on 20 May 2020, whereby a Private Placement of NOK 25 million and a Repair Issue of NOK 7 million are proposed for approval. This will bring the Company NOK 32 million in funding. More than NOK 25 million is already committed as of the date of this report. As part of the Private Placement, two sets of Warrants will be issued, as previously described in the Introduction of the Report from the Board of Directors.

Warrant A will bring an additional up to NOK 32 million To the Company by the end of 2020, if exercised. Warrant B will bring up to NOK 72 million during their fifteen-month term, if exercised.

In connection with the private placement, lead investors have provided a bridge loan of approximately USD 500 thousand to the company to ensure adequate cash remains available to operate until the equity financing closes. Committed equity financing and subsequent equity offerings available through July 2020 are subject to approval of the proposed resolutions at the 20 May Extraordinary General Meeting ("May EGM"). Meanwhile the Board and Management continue to work on addressing the availability of additional capital both through outside financing alternatives and the implementation of continued cost saving measures. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

To address the funding requirements of the consolidated entity, the board of directors has, since early Q1 2020, undertaken the following initiatives:

- Initiated the process to close a Private Placement and secure a bridge loan from current and new shareholders by May 2020;
- Undertaken a program to continue to monitor the consolidated entity's ongoing working capital requirements and minimum expenditure commitments; and
- Continued its focus on maintaining an appropriate level of corporate overhead that is in line with the consolidated entity's available cash resources.

As also noted in the announcement issued on 3 April 2020, the Board is mindful that its announced equity raise comes in the midst of the extraordinary global context of an expanding COVID 19 pandemic. As a consequence, the Company is now proposing to focus on raising only sufficient funds to provide adequate time to demonstrate its initial milestones. The objective is to reach key initial milestones on the other side of the pandemic surge. The two key milestones planned to be completed during the second quarter of 2020 are 1) to announce multiple battery-specific IP filings leveraging the Company's existing process technology patents and technology and 2) build the first solid-state lithium battery device using Thinfilm equipment. With the successful demonstration of these two milestones, the Company will be able to demonstrate its prototype battery devices to customers and potential partners in order to seek additional funding for its battery business according to the previously presented business plan. At that time, the Company plans to seek additional funds from the investor market, including the US market. Based on this premise, it is appropriate to prepare the financial statements on the going concern basis. However, if the consolidated entity is not able to successfully complete a fundraising as planned, significant uncertainty would exist as to whether the Company and consolidated entity will continue as going concerns.

Financial risk factors

Thinfilm is exposed to certain financial risks related to exchange rates and interest level. These are, however, insignificant compared to the business risk.

a. Market risk factors

(i) Currency risk

The Group has the majority of its operations in the USA. As of 31 March 2020, approximately 88% of the Company's cash balance was denominated in USD, in order to mitigate currency risk associated with the increased value of the USD relative to NOK. Management monitors this risk and will take the appropriate actions to address it as the situation requires. The currency risk related to the balance sheet is mostly related to the net investment in the Swedish subsidiary. Management monitors this risk but has not initiated any particular actions to reduce it.

(ii) Interest risk

Thin Film Electronics, Inc., the U.S. operating subsidiary and global headquarters of the Thin Film Electronics Group, closed an equipment term loan facility with Utica Leaseco, LLC for financing of USD 13.2 million, which funded in two tranches during the month of September 2019. The interest rate associated with this debt is fixed, and therefore, does not present the potential risk that would be associated with interest rate fluctuations.

b. Credit risk

The company has some credit risks relating to receivables. The loss on receivables has historically been low.

In connection with the relocation of Thinfilm's US headquarters in the first two quarters of 2017, a USD 1,600 thousand Letter of Credit was issued by Thin Film Electronics ASA to the new landlord of the Junction Avenue facility located in San Jose, California. In addition, the Company entered into a Tenancy Guaranty with the new landlord as additional security of the rent payments. The initial guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis by USD 500 thousand per year, commencing with the second lease year until the liability reaches zero dollars. As of 31 December 2019, the guaranty liability amounted to USD 4,000 thousand. Apart from that, Thinfilm has not issued additional material guarantees.

c. Liquidity risk

Aside from the equipment term loan facility of USD 13.2 million closed in September 2019, Thinfilm does not have any other material interest-bearing debt. In addition, the company has a continued obligation under a lease agreement signed in November 2016 relating to its U.S. headquarters in San Jose, California. The Company was unable to raise equity financing in 2019 and is not yet cash generative and operates at

a loss. There is uncertainty tied to the generation of future cash flow in connection with the Company's new business strategy. As described in Note 2. Basis of preparation, the Company is currently pursuing alternative forms of generating cash in order to meet its financial obligations. There is no assurance that the Company will be successful in raising funds. Failure to obtain future funding, when needed or on acceptable terms, would adversely affect its ability to continue as a going concern.

The report was resolved by the Board of Directors on 19 May 2020.

3. Property, plant and equipment

Amounts in USD 1,000	Tangible assets
Period ended 31 March 2020	
Net value on 1 January 2020	—
Additions	—
Disposals	—
Impairments	—
Depreciation	—
Net book value on 31 March 2020	**—**
Period ended 31 March 2019	
Net value on 1 January 2019	22,548
Additions	1,419
Exchange differences	(2)
Impairments	—
Depreciation	(669)
Net book value on 31 March 2019	**23,296**
Other receivables include USD 4,977 thousand prepayments related to investment in equipment and machinery that had not been received from the suppliers as of 31 March 2019.	
Year ended 31 December 2019	
Net value on 1 January 2019	22,548
Additions	6,187
Disposals	(571)
Exchange differences	(2)
Impairments	(25,778)
Depreciation	(2,384)
Net book value on 31 December 2019	**—**

The roll-to-roll equipment and certain sheet line tools located in the San Jose, California factory have been pledged as collateral under the Utica Leaseco LLC Master Lease Agreement executed in September 2019.

4. Intangible assets

Amounts in USD 1,000	Intangible assets
Period ended 31 March 2020	
Net value on 1 January 2020	—
Additions	—
Disposals	—
Impairment	—
Amortization	—
Net book value on 31 March 2020	**—**
Period ended 31 March 2019	
Net value on 1 January 2019	2,353
Additions	173
Exchange differences	1
Impairment	—
Amortization	(38)
Net book value on 31 March 2019	**2,489**
Year ended 31 December 2019	
Net value on 1 January 2019	2,352
Additions	354
Impairment	(2,578)
Amortization	(128)
Net book value on 31 December 2019	**—**

5. Leases

The Company entered into a lease agreement in November 2016 relating to the property building of its new US headquarter in San Jose, CA. The lease in San Jose expires in September 2028.

	Lease Laibility
Lease liability recognized at 1 January 2020	14,214
Lease payment (see note below)	(492)
Interest expense	256
Lease liability as of 31 March 2020	**13,978**

In the statement of cash flow principle portion of lease payments are included in line Lease payment with an amount of USD 236 thousand, and interest portion of the payment are included in line Interest paid with an amount of USD 256 thousand. Both of them are presented as cash flow from financing activities.

For maturity schedule of minimum lease payments, see Note 12

Right of use assets

Amounts in USD 1,000	31 March 2020	31 March 2019	31 December 2019
Net value on 1 January	—	10,376	10,376
Adjustment*	—	2,543	2,543
Impairment	—	—	(11,504)
Amortization	—	(423)	(1,415)
Net book value at end of period	**—**	**12,496**	**—**

6. Shares, warrants and subscription rights

Number of shares	
Shares at 1 January 2020	58,593,581
Shares at 31 March 2020	**58,593,581**
Shares at 1 January 2019	58,593,581
Shares at 31 December 2019	**58,593,581**

Number of warrants and subscription rights	1 January - 31 March 2020	1 January - 31 March 2019	1 January - 31 December 2019
Warrants and subscription rights opening balance	5,373,230	4,412,622	4,412,622
Grant of incentive subscription rights	132,000	18,000	5,429,856
Terminated, forfeited and expired subscription rights	(527,891)	(144,438)	(4,469,248)
Exercise of subscription rights	—	—	—
Allotment of warrants	—	—	—
Exercise and expiry of warrants	—	—	—
Warrants and subscription rights closing balance	**4,977,339**	**4,286,184**	**5,373,230**

In connection with the reverse share split resolved by the extraordinary general meeting of the Company, on 23 October 2019, the general meeting authorized the Board to issue three (3) new shares at par value in order for the Company's registered number of shares to be dividable by 20 (the reverse share split ratio). Pursuant to such board authorization, the Board on 24 October 2019 resolved the issuance of three (3) new shares to an existing shareholder, which new shares subsequently will be used in connection with the rounding up of shareholdings of shareholders, who do not have a number of shares dividable by 20. Following the issue of the new shares, the Company's share capital will be NOK 128,905,878.20 divided into 58,593,581 registered shares each with a nominal value of NOK 2.20.

The Annual General Meeting of the Company resolved on 28 May 2019 an exchange offer program whereby continuing employees and consultants holding incentive subscription rights ("Eligible Holders") under the Company's 2015, 2016, 2017 and/or 2018 subscription rights programs (the "Former Plans") were entitled to exchange such subscription rights for new subscription rights to be granted under the Company's 2019 subscription right plan. Having been given the opportunity to participate in the exchange program, Eligible Holders holding a total of 1,864,372 subscription rights under the Former Plans have notified the Company that they wish to participate in the exchange program, whereupon such Eligible Holders explicitly waived any right to claim shares under Former Plans. As a result, the Board of Directors of the Company resolved on 25 September 2019 to grant a total of 1,864,372 incentive subscription rights to nineteen Eligible Holders. The grants were made under the Company's 2019 Subscription Rights Incentive Plan, as resolved at the Annual General Meeting on 28 May 2019.

The exercise price of the subscription rights is NOK 4.67 per share.

The new subscription rights will vest and become exercisable as follows: 33.3% of the shares subject to the new subscription rights will be vested on the grant date, and the remaining 66.7% will vest in approximately equal quarterly installments over the next 3 years, with approximately 5.55% vesting each quarter on each October 15, January 15, April 15 and July 15 thereafter, subject to the Eligible Holder's continued employment or service with the Company or its subsidiaries on each such date. The subscription rights expire on 28 May 2024.

The number of shares, warrants and subscription rights have been adjusted to reflect the reserve share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

7. Profit (loss) per share

	1 January – 31 March 2020	1 January – 31 March 2019	1 January – 31 December 2019
Profit (loss) attributable to shareholders (USD 1000)	(2,827)	(11,775)	(78,446)
Weighted average basic number of shares in issue	58,593,581	58,593,581	58,593,581
Weighted average diluted number of shares	58,593,581	58,593,581	58,593,581
Profit (loss) per share, basic and diluted	**(USD0,05)**	**(USD0,20)**	**(USD1,34)**

When the period result is a loss, the loss per diluted number of shares shall not be reduced by the higher diluted number of shares, butthe diluted result per share equals the result per basic number of shares.

The diluted number of shares has been calculated by the treasury stock method. If the adjusted exercise price of subscription rights exceeds the average share price in the period, the subscription rights are not counted as being dilutive.

The weighted average basic and diluted number of shares have been adjusted to reflect the reserve share split resolved by the extraordinary general meeting of the Company on 23 October 2019.

8. Guarantees

As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017 a USD 1,600 thousand Letter of Credit has been issued by Thin Film Electronics ASA to the new landlord and is included in Company's cash balance as restricted cash. Thin Film Electronics ASA has in addition entered into a Tenancy Guaranty with the new landlord and is included in Company's cash balance. The Guaranty is given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As at 31 March 2020, the Guaranty liability amounted to USD 4,000 thousand.

9. Trade and other receivables

On 31 March 2020, trade and other receivables amounted to USD 2,127 thousand. The components of this balance are specified below.

Amounts in USD 1,000	31 March 2020	31 March 2019	31 December 2019
Accounts receivable	723	948	928
Receivables from grants	-	1,562	-
VAT-related receivables	69	179	167
Pre-payments to suppliers	1,332	6,297	1,710
Other current receivables	3	574	1
Sum	**2,127**	**9,560**	**2,806**

Other non-current financial receivables of USD 559 thousand relates to security deposit held by Utica Leaseco, LLC.

10. Related party transactions

In the period 1 January – 31 March 2020 and 2019, Thinfilm has recorded USD 27 thousand and USD 128 thousand, respectively (net of VAT) for legal services provided by law firm Ræder, in which Thinfilm's Chairman is a partner. There were no outstanding balances in Trade and other payables as of 31 March 2020.

11. Operating costs

Amounts in USD 1,000	1 January - 31 March 2020	1 January - 31 March 2019	1 January - 31 December 2019
Payroll	820	7,153	17,638
Share based remuneration	71	271	190
Services	229	1,154	4,138
Premises, supplies	962	2,036	7,094
Sales and marketing	22	515	1,059
Other expenses	530	491	1,823
Total operating costs	**2,634**	**11,620**	**31,942**

12. Current and long-term debt

In September 2019, the subsidiary in US, Thinfilm Electronics, Inc., closed an equipment term loan facility with Utica for USD 13,200 thousand secured by select fixed assets (see Note 3). The terms of the agreement were interest-only monthly payments for the first six months, followed by three months of interim payments, and thereafter a four-year amortization period during which monthly principal and interest payments are due. For the three months ended March 31, 2020, the current portion of the loan principal of USD 2,119 thousand and the long-term portion of the principal of USD 11,081 thousand is recorded as Long-term Debt in the Consolidated Statements of Financial Position.

The Company has pledged its roll-to-roll production line equipment and certain sheet-line tools as a collateral against Utica Loan.

The interest rate for the financing is at 14%. Table below disclosures principal payment obligations for the company.

The Company entered into a lease agreement in November 2016 relating to its new US headquarters in San Jose, California. The lease in San Jose expires in September 2028. The building element of the lease agreement is classified as a financial lease. The land element of the lease became classified as a financial lease from 1 January 2019, with the implementation of IFRS 16, having previously been accounted for separately as an operating lease. As a part of the relocation of Thinfilm's US headquarters in the second quarter of 2017, a USD 1,600 thousand Letter of Credit was issued by Thin Film Electronics ASA to the new landlord. The restricted cash of USD 1,600 thousand securing the Letter of Credit is included in the Company's cash and cash equivalents. Thin Film Electronics ASA, in addition, entered into a Tenancy Guaranty with the new landlord. The guaranty was given to secure payment of the lease rent. The initial Guaranty liability amounted to USD 5,000 thousand and reduces on an annual basis of USD 500 thousand per year commencing with the second lease year until the liability reaches zero dollars. As of 31 December 2019, the Guaranty liability amounted to USD 4,000 thousand.

The San Jose California lease is reflected under this caption and the table below. In addition, see Note 8.

Maturity schedule— liabilities

Amounts in USD 1,000		Principal and Interest Due						
31 March 2020		Within 1 year		1–2 Years	2–3 Years	3–4 Years	4–5 Years	Over 5 Years
	Q2	Q3	Q4					
Principal obligations due	—	682	706	3,084	3,544	5,184	—	—
Interest payments	1,136	454	430	1,461	1,000	497	—	—
Lease payments	490	490	490	1,996	2,120	2,182	2,245	9,008
Total	**1,626**	**1,626**	**1,626**	**6,541**	**6,664**	**7,863**	**2,245**	**9,008**

13. Events occuring after the balance sheet date

- In connection with the 15 April 2020 Extraordinary General Meeting, the Company conducted a reduction of paid in capital by reduction in par value of shares in accordance with the Norwegian Public Limited Companies Act to cover the losses. The implication of this is that a resolution to distribute dividends may not be adopted until three years have elapsed from the registration in the Register of Business Enterprises, unless the share capital subsequently has been increased by an amount at least equal to the reduction.
- On 14 April 2020, Thinfilm announced the filing of multiple provisional patent applications, strengthening the Company's strategy to develop and produce a new and innovative class of ultrathin, ultrasafe solid-state lithium batteries (SSLB) for wearable devices, connected sensors, and beyond. The Company also confirmed that, despite certain disruptions related to the COVID-19 pandemic, Thinfilm's technical team has adapted plans to ensure the continuity of its development efforts and mitigate potential delays. If the Company is successful in raising additional capital, management believes that it can continue to deliver samples of its SSLB products at the end of Q2, as previously communicated.
- On 15 April 2020, Thinfilm held an Extraordinary General Meeting to obtain shareholder approval for a private placement; issuance of new shares and the amendment of the Company's Articles of Association. In connection with the Private Placement, shareholder approval was also requested for the issuance of new shares and warrants in connection with a contemplated subsequent offering, and the associated amendment of the Company's Articles of Association.
- At the 15 April 2020 Extraordinary General Meeting, the Board proposed and the shareholders approved a reduction in share capital by a reduction of the par value of the shares from NOK 2.20 to NOK 0.11 per share to cover losses.
- In connection with its equity financing process, on 29 April 2020, Thinfilm announced an Extraordinary General Meeting in Thin Film Electronics ASA to be held on 20 May 2020 to obtain shareholder approval for a private placement and subsequent equity offerings. Should the proposed resolutions be approved, the Company's share capital shall be increased with NOK 24,999,999.97 from NOK 6,445,293.91 to NOK 31,445,293.88, by issuance of 227,272,727 new shares, each share having a par value of NOK 0.11, at a subscription price per share of NOK 0.11. The total subscription amount is NOK 24,999,999.97, all constituting share capital.

- In connection with the private placement, on 7 May 2020, lead investors provided a bridge loan of approximately USD 500 thousand, secured by a first priority pledge of certain intellectual property and shares of common stock in TFE Holding, owned by Thin Film Electronics ASA, to ensure adequate cash remains available to operate until the equity financing closes.
- On 15 May 2020, Management became aware that its Thin Film Electronics Hong Kong Limited entity was victim to a cybersecurity breach resulting in the loss of approximately USD 236 thousand. Thinfilm maintains both crime and cyber insurance policies that are expected to cover the loss. The Company has contacted the relevant legal authorities and has reviewed its internal controls and policies related to cybersecurity risks and incidents. Accordingly, additional controls have been implemented to mitigate future risk of cyber incidents.
- On 18 May 2020, Thin Film Electronics ASA announced the registration of a share capital increase of 5,859,357 shares. The share capital increase associated with the private placement was duly registered in the Register of Business Enterprises. Following the share capital increase, the Company's share capital is NOK 7,089,823.18 divided into 64,452,938 shares, each share having a par value of NOK 0.11.