Thinfilm Electronics ASA

Annual Report 2019

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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	John Castor	Preeti Mardia	Kelly Doss	Kevin Barber
Chairman	Board Member	Board Member	Board Member	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

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

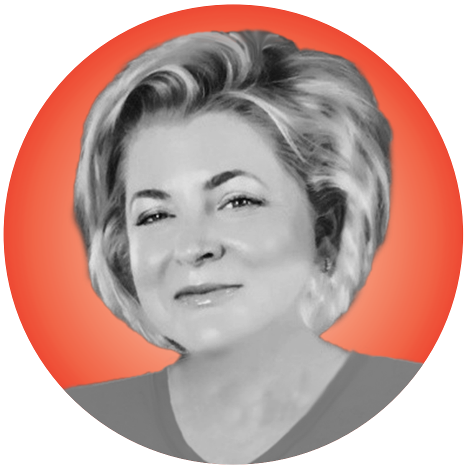
MORTEN OPSTAD has served as Chairman of the Board of the Company since 2 October 2006. He is a partner and Chairman of the Board of Directors in Advokatfirmaet Ræder AS in Oslo. He has rendered legal assistance with respect to establishing and organizing several technology and innovation companies within 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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