

Thin Film Electronics ASA

Interim report and financial statements
for the fourth quarter 2012



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BUSINESS REVIEW

The fourth quarter of 2012 marked a strong finish to a significant year for Thinfilm. A major industry milestone was attained by Thinfilm's demonstration of the world's first printed integrated electronic system and the company accelerated its commercial momentum by securing an agreement for supply of components to one of the largest toy makers in the world.

Highlights:

► **Successfully demonstrated first printed integrated system with rewritable memory:** Completion of printed

temperature sensor prototype marked the achievement of a major technical milestone and broadened customer interest to new markets and applications.

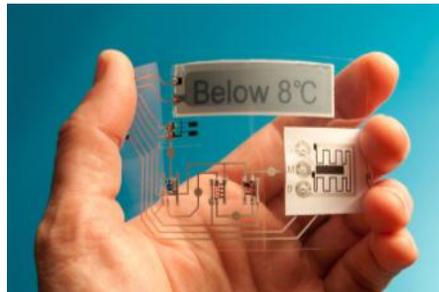
► **Secured commercial agreement in toys & games:** Entered into commercial agreement with Hasbro, Inc. ("Hasbro"), a Fortune 600 toy manufacturer, for supply of printed electronics components.

► **International awards and recognition:** In October, Thinfilm won the World Technology Award in Materials and placed as runner-up in Wall Street Journal's 2012 Innovation Award. In the same month, named by GigaOm as one of the most innovative companies in mobile.

► **Complete manufacturing supply chain established:** Increased commercial delivery capacity substantially by establishing high-volume processes for conversion and labeling of printed memory tags (subsequent manufacturing steps to printing and testing).

The fourth quarter of 2012 marked a strong finish to a significant year for Thinfilm in commercializing printed memory and integrated systems; Major technical achievements and continued strong commercial momentum.

In December 2012, Thinfilm demonstrated the world's first printed integrated electronic system with rewritable memory. The temperature sensor prototype combined printed memory, sensor and logic to detect when critical temperature thresholds have been exceeded and then recorded the data digitally for later retrieval and display. Such low-cost temperature tags can deliver item-level tracking of quality data for goods such as pharmaceuticals and perishable foods. Raghu Das, head of IDTechEx, a leading consultancy in printed electronics, cited the Thinfilm temperature sensor as "a significant commercial breakthrough for the printed electronics industry." The proof-of-concept demonstration triggered substantial interest across a range of industries. "The prototype was developed according to



FIRST PRINTED INTEGRATED SYSTEM:
Thinfilm temperature sensor prototype was demonstrated in December 2012.

the original plan and delivered on time. This achievement demonstrates the strength and competence of our technical staff and partner ecosystem, and validates our product roadmap," says Davor Sutija, Thinfilm CEO.

Also in December 2012, Thinfilm announced a commercial agreement with Hasbro, one of the largest toy makers in the world, for supply of printed electronics components. "This commercial agreement underscores the attractiveness and competitiveness of Thinfilm's technology in cost-focused industries such as toys and games," says Jennifer Ernst, EVP Global Sales and Business Development. The agreement with Hasbro also includes a limited exclusive consulting relationship.

In October, Thinfilm won the World Technology Award in Materials and placed as runner-up in Wall Street Journal's 2012 Innovation Award. In the same month, the company was named by GigaOm as one of the 15 companies most likely to radically transform mobile in the years ahead.

During fourth quarter of 2012, Thinfilm established a complete manufacturing supply chain for its stand-alone printed memory tags. By adding high-volume processes for conversion and labeling to the already existing and preceding manufacturing steps (printing and testing), Thinfilm increased its commercial delivery capacity for printed memories substantially. "This extension of our supply chain is an important accomplishment. It reduces cost and risk of large memory deliveries to prospective customers, and it will accelerate time to market for the printed integrated

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systems and smart tags that Thinfilm currently is developing," says Torggrim Takle, Thinfilm CFO.

Thinfilm continued to strengthen its internal capabilities during the fourth quarter of 2012. Thinfilm increased staff by approximately 20% during the quarter (mainly technical staff to accelerate development of printed integrated systems), and expanded the laboratory facilities in Sweden, including commissioning of a 1000m² class 100 cleanroom for high-definition printing. Thinfilm is in the process of provisioning pilot scale gravure printing equipment with capacity to handle initial commercial orders.

Notable events in 2012:

News and announcements:

- Thinfilm Demonstrates First Integrated Printed Electronic System with Rewritable Memory, 20 December 2012
- Hasbro and Thinfilm enter into Commercial Agreement, 19 December 2012
- Thinfilm Consortium Receives €1.4M in Eurostars Funding to Commercialize Display Logic for Integrated Printed Systems, 6 November 2012
- Thinfilm Wins World Technology Award, 24 October 2012
- Thinfilm Named Runner-up for WallStreet Journal Technology Innovation Award, 16 October 2012
- Thinfilm Named Finalist for 2012 WorldTechnology Award, 8 October 2012
- PARC increases its shareholding in Thinfilm, 21 September 2012
- Thinfilm Printed Memory Selected for FlexTech Program on Sensors for Medical Devices, 22 August 2012
- Bemis Selects Thin Film Electronics to Develop Intelligent Packaging Platform, 10 July 2012
- Thinfilm Files Patent for Printable Protection for Memory Devices, 19 June 2012
- Thinfilm Extends Relationship with PARC to Accelerate Delivery of Integrated Printed Electronic Systems, 5 June 2012

- ▶ Thinfilm Receives Contract for Parts Identification using Printed Memory, 12 April 2012
- ▶ Thinfilm Wins IDTechEx Product Development Award for World's First Printed Addressable Memory, 4 April 2012
- ▶ Successful completion of private placement, 13 March 2012
- ▶ Thinfilm Receives First Order for Scalable Array Printed Memory, 6 March 2012
- ▶ First Public Application Featuring Thinfilm Memory, 2 March 2012
- ▶ Thinfilm, PARC Win FlexTech Alliance Innovation Award for Printed Addressable Memory, 9 February 2012
- ▶ Thinfilm and PST Sensors to jointly develop printed temperature tags to monitor food and other perishable goods, 24 January 2012
- ▶ Thinfilm builds out ecosystem for printed electronic systems, 24 January 2012

Conferences and trade shows:

- ▶ Thinfilm presented and exhibited at FlexTech Alliance conference, 29 January - 1 February 2013 in Phoenix, US
- ▶ Thinfilm presented and exhibited at PE USA conference 5-6 December 2012 in California, US
- ▶ Thinfilm presented and exhibited at Semicon Europa conference 9-11 October 2012 in Dresden, Germany
- ▶ Thinfilm presented and exhibited at the OE-A conference LOPE-C 19-21 June 2012 in Munich, Germany
- ▶ Thinfilm presented and exhibited at the IDTechEx conference Printed Electronics Europe 3-4 April 2012 in Berlin

- ▶ Thinfilm presented and organized a separate session at the FlexTech Alliance conference, 6-9 February 2012 in Phoenix
- ▶ Thinfilm presented at Semicon, 7 February 2012 in Seoul

About Thinfilm and printed electronics

Thin Film Electronics ASA ("Thinfilm") is a leader in the development of printed electronics. The first to commercialize printed rewritable memory, Thinfilm is creating printed system products that will include memory, sensing, display and wireless communication — at a cost-per-functionality unmatched by any other electronic technology.

Thinfilm's roadmap of system products integrates technology from a strong and growing ecosystem of partners to enable the Internet of Things by bringing intelligence to disposable goods. Company headquarters are in Oslo, Norway, with product development in Linköping, Sweden, sales offices in San Francisco, USA, and Tokyo, Japan, and manufacturing in Pyongtaek, South Korea.

Thinfilm's technology and know-how bring low cost electronics to the trillions of disposable products and items that we use every day. These are applications for which printed electronics have unique and sustainable cost-functionality advantages.

Low-cost smart tags will ultimately transform how we live our lives and the way we interact with the physical world. According to industry analyst group IDTechEx, the Printed Electronics market is expected to grow to more than USD 50 billion in market value over the next ten

years. Logic and memory is expected to be one of the largest segments in this market.

Printed RFID tags are predicted to gain market share. According to IDTechEx, the number of printed and chipless RFID tags sold globally will rise from 12 million currently to over 200 billion in 2021. Thinfilm foresees a gradual shift beyond RFID towards ubiquitous smart tags that can both store information and communicate with external data sources, smart phones, and other devices in their surroundings.

Thinfilm's proprietary rewritable memory technology, paired with the Company's strategic development program with PARC, a Xerox Company for logic, give the Company a unique position in the development of printed smart tags. Eventually, the physical and virtual world will intersect by enabling all objects to communicate with the online web, known as the "Internet of Things" (IoT). This is our Memory Everywhere™ vision.

In contrast to traditional semiconductor processes, using printing reduces the number of process steps, manufacturing costs and environmental impact of manufacturing electronic memory and logic. Commercial applications of printed electronics include e-paper, electronic readers, and organic light-emitting diode (OLED) displays. Sensors, batteries, and photovoltaic energy sources are also in development, and together with Thinfilm's memory technology they will open the door to new products and applications.

CONDENSED CONSOLIDATED FINANCIAL REPORT AS AT 31 DECEMBER 2012

Thinfilm's revenue in 2012 amounted to NOK 3.8 million, an increase of NOK 2.0 million compared to 2011 (NOK 1.8 million). Sales revenue amounted to approximately NOK 1.9 million in 2012 (2011: NOK 0.1 million), while revenue related to government grants and other funded projects amounted to NOK 1.8 million over the same period (2011: NOK 1.7 million). The third and fourth quarter of 2012 marked the initial recognition of considerable sales revenue (NOK 0.7 million and NOK 1.2 million, respectively), mainly related to technology access fees and delivery of prototypes and product development projects to strategic customers and partners.

Other operating costs (i.e., all operating costs excluding depreciation and impairment charge) in 2012 amounted to NOK 50.0 million, including the notional cost of share based compensation of NOK 5.6

million. The corresponding figures for 2011 were NOK 40.0 million and NOK 4.0 million, respectively. Thinfilm had a project qualified for the Skattefunn scheme in 2012, and the net contribution of NOK 1.1 million was credited against cost in the fourth quarter (2011: NOK 1.1 million). Excluding share based compensation and other non-cash costs in 2012, the underlying cost increase was NOK 8.4 million compared to 2011. This increase is largely explained by higher payroll costs and laboratory costs (NOK 5.9 million and NOK 1.1 million higher than the same period last year, respectively). Thinfilm has strengthened its technical staff significantly during 2012, and there were 23 full-time employees in the group at the end of the year (compared to 14 full-time employees at the end of 2011). In addition, Thinfilm expanded its laboratory facilities during 2012,

including commissioning of a 1000m² class 100 printing facility.

Investments amounted to approximately NOK 1.9 million in 2012 (2011: NOK 0.9 million), mainly related to small-scale printing equipment. Depreciation amounted to NOK 0.5 million in 2012, compared to NOK 0.3 million in 2011. Thinfilm is in the process of establishing an in-house printing facility to accelerate its development roadmap and plan for early customer deliveries, which includes provisioning of high-definition gravure printing machines. During the fourth quarter of 2012, previously recognized investments in 2012 of approximately NOK 1.7 million were reversed as the machine/equipment had not yet been delivered at 31 December 2012. Thinfilm expects this delivery to take place during the first quarter of 2013. Following the above, the investment level is expected to increase substantially going forward.

Net financial items in 2012 amounted to a gain of approximately NOK 0.3 million, mainly related to interest income on cash

deposit, partly offset by net exchange losses related to variations in SEK and USD. In 2011, net financial items amounted to a loss of approximately NOK 0.1 million.

The company operates at a loss and there is a tax loss carry forward position also in the Swedish subsidiary, such that the group has not incurred any tax costs in 2012 or the year before. The company has not recognized these deferred tax assets in its balance sheet, because this potential asset does not yet qualify for inclusion.

The net result of 2012 was a loss of NOK 46.4 million, corresponding to a loss of NOK 0.14 per basic share. In 2011, the loss amounted to NOK 38.7 million corresponding to a similar loss of NOK 0.14 per basic share (as the number of shares has increased over the period).

The group's cash balance increased by NOK 25.5 million in 2012 (compared to a decrease of NOK 10.7 million in 2011), largely explained by two principal elements; (i) operating activities resulted in a cash outflow of NOK 39.5 million (2011: NOK 31.6 million) and (ii) proceeds from issuance of shares of NOK 66.4 million (2011: NOK 21.7 million) related to the private placement completed 12 March 2012 and the exercise of Warrants B during the period 1-12 October 2012.

The cash balance on 31 December 2012 amounted to NOK 32.8 million, while net of receivables and payables amounted to NOK 27.4 million (including share-based liability of NOK 2.6 million, i.e., provisions for employer's tax expense associated with exercise of subscription rights). The cash balance on 31 December 2011 amounted to NOK 7.3 million, while net of receivables and payables amounted to NOK 3.0 million.

The company's balance sheet comprises essentially cash, receivables, payables and accruals, and net equity. The intangible property rights in form of patents and know-how, have not yet been capitalized.

Principal risks

It is the duty of the board to present the principal risks of Thinfilm and its business. Thinfilm does not have any significant assets or liabilities with risk. Thinfilm does not own financial instruments, nor financial assets or liabilities, and has limited financial risks related to currency and interest rates.

The Company's predominant risk is mainly related to market and business risks, which may be summarized in the following points: (i) Many of Thinfilm's intended markets are still immature, (ii) to some extent, Thinfilm is dependent on continued collaboration with existing technology, material, and manufacturing partners, and (iii) product development risks related to eventual cost vs. functionality competi-

tiveness of the products Thinfilm is currently developing.

Going forward, Thinfilm foresees two important revenue sources: (i) Sales of its own manufactured products and (ii) licensing/royalty revenue, where partners and customers pay for the right to use the Company's intellectual property rights (IPR). Thinfilm's ability to earn revenue partly depends on continued successful technology and product development as well as the Company's ability to legally protect its IPR. This is, in turn, dependent on the Company's ability to attract and retain competent staff and the adequacy of Thinfilm's patenting and other IPR-protection activities.

On 12 March 2012, Thinfilm accomplished a private placement of 25,000,000 new shares in the Company at a price of NOK 1.80 per share, thereby raising NOK 45 million in new capital. At the annual general meeting 2012 it was resolved to issue one warrant for every two shares subscribed for and issued in this private placement, i.e., a total of 12,500,000 warrants. The warrant has a term until 22 March 2013, with a short exercise period at the end of the term, and an exercise price per share of NOK 2.20. Thus, the potential gross proceeds from this warrant round are NOK 27.5 million. The board takes for its basis that the outstanding warrants will be exercised.

During the period 1-12 October 2012, Thinfilm received notice of exercise of 23,064,000 Warrants B (100% of the outstanding exercisable Warrants B), thereby raising approximately NOK 23.1 million in new capital.

The going concern assumption has been applied when preparing this preliminary financial report. The Board has formed a judgment that, as of the date of approving the financial statements, the Company has adequate resources to fund operations into 2014 if the outstanding warrants from the March 2012 placement are exercised.

Following the successful demonstration of the world's first printed integrated system with rewritable memory in December 2012 (temperature sensor prototype), Thinfilm continues to see heightened interest from prospective customers, strategic, licensing and other collaboration partners. Thinfilm is in ongoing discussions with various parties, and both the board and management are very optimistic that Thinfilm will be able to enter into additional commercial relationships in the near future.

At 31 December 2012, the equity amounted to approximately NOK 30.2 million, representing 75 per cent of the gross balance sheet and 77 per cent of the share capital.

Outlook

Thinfilm concentrates its effort around three main areas: (i) Commercializing stand-alone memory, (ii) developing integrated systems and smart tags, and (iii) building an ecosystem of partners and alliances to complete the Company's technology offerings and extend market potential.

Thinfilm has a unique and cost-competitive stand-alone memory product, and will continue to work towards large-scale commercialization of single-line and passive array memories for both toys and games and other applications. Addressable Thinfilm Memory products will allow integration to create fully printed systems, such as wireless ID tags, sensor tags, and disposable price labels. Thinfilm has established partnerships for display, sensor, and battery technology, and demonstrated the world's first prototype of a printed temperature sensor tag with rewritable memory in December 2012. Additional functionality will be added to this sensor platform during 2013 (commercialization expected end 2014), followed by the development of other integrated systems and smart tags in subsequent years.

Demand for RF tags is expected from adoption of standard EPC RFID (Electronic Product Code™ radio-frequency identification) in open supply chains. The use of RFID in the transit ticketing, and people identification is also forecasted to grow significantly. In parallel to the embracement of item-level ID tagging, near field communication (NFC)-enabled phones will put an RFID-compatible reader in people's pockets, purses, and backpacks. Applications for consumer mass markets will likely include location tags, advertising, and smart packaging. Successful demonstrations of such proto-types and products are expected to gain significant interest from prospective customers and partners, as well as from established companies offering competing products based on conventional technologies.

Thinfilm continues to see significant interest in the Company and its technology from various parties, and will continue to pursue commercial and strategic relationships for the development and commercialization of printed integrated systems and smart tags (e.g., strategic, financial, technology, manufacturing, licensing, distribution, and market access partnerships).

Oslo, 28 February 2013
The board of directors of
Thin Film Electronics ASA

Thin Film Electronics ASA Group

Condensed consolidated interim financial statements 31 December 2012 (Unaudited)

Consolidated statements of comprehensive income

| <i>Amounts in NOK 1000</i> | Note | 1 October - 31 December, 2012 | 1 October - 31 December, 2011 | 1 January - 31 December, 2012 | 1 January - 31 December, 2011 |
|--|-------------|--|--|--|--|
| Sales revenue | | 1 191 | 10 | 1 949 | 102 |
| Other operating revenue | | 1 019 | 269 | 1 824 | 1 661 |
| Total revenue | | 2 210 | 279 | 3 773 | 1 762 |
| Operating costs | 8 | (12 973) | (11 120) | (49 991) | (40 016) |
| Depreciation and impairment charge | 3 | (215) | (106) | (507) | (313) |
| Operating profit (loss) | | (10 978) | (10 947) | (46 725) | (38 566) |
| Net financial items | | 101 | (116) | 320 | (125) |
| Profit (loss) before income tax | | (10 877) | (11 063) | (46 405) | (38 691) |
| Income tax expense | | 0 | 0 | 0 | 0 |
| Profit (loss) for the period | | (10 877) | (11 063) | (46 405) | (38 691) |
| | | | | | |
| Profit (loss) per share basic and diluted | 5 | (NOK 0.03) | (NOK 0.04) | (NOK 0.14) | (NOK 0.14) |
| | | | | | |
| Profit (loss) for the period | | (10 877) | (11 063) | (46 405) | (38 691) |
| Currency translation | | (68) | 55 | (37) | (9) |
| Total comprehensive income for the period, net of tax | | (10 945) | (11 008) | (46 442) | (38 700) |

Consolidated statements of financial position

| <i>Amounts in NOK 1000</i> | Note | 31 December, 2012 | 31 December, 2011 |
|-------------------------------------|-------------|--------------------------|--------------------------|
| ASSETS | 6 | | |
| <u>Non-current assets</u> | | | |
| Property, plant and equipment | 3 | 2 732 | 1 338 |
| <u>Current assets</u> | | | |
| Trade and other receivables | 7 | 4 399 | 3 027 |
| Cash and cash equivalents | | 32 850 | 7 339 |
| Total current assets | | 37 249 | 10 366 |
| TOTAL ASSETS | | 39 981 | 11 704 |
| | | | |
| EQUITY AND LIABILITIES | | | |
| <u>Equity</u> | | | |
| Ordinary shares | 4 | 38 918 | 33 500 |
| Share premium | | 103 876 | 41 405 |
| Other paid-in equity | | 13 628 | 9 258 |
| Currency translation | | 67 | 104 |
| Retained earnings | | (126 339) | (79 934) |
| Total equity | | 30 150 | 4 332 |
| <u>Liabilities</u> | 6 | | |
| Trade and other payables | | 9 831 | 7 372 |
| Total liabilities | | 9 831 | 7 372 |
| TOTAL EQUITY AND LIABILITIES | | 39 981 | 11 704 |

Consolidated statements of changes in equity

| <i>Amounts in NOK 1000</i> | Note | Share capital | Share Premium | Other paid-in equity | Currency translation | Retained earnings | Total |
|--|------|---------------|----------------|----------------------|----------------------|-------------------|---------------|
| Balance at 1 January 2012 | | 33 500 | 41 405 | 9 258 | 104 | (79 934) | 4 332 |
| Share issue to employees 28 February | | 30 | 204 | | | | 235 |
| Private placement 12 March | | 2 750 | 40 336 | | | | 43 086 |
| Share issue 10 May, board remuneration | | 9 | | | | | 9 |
| Share issue 20 September, PARC | | 84 | 1 378 | | | | 1 462 |
| Share based compensation | 4 | | | 4 369 | | | 4 369 |
| Warrants B exercise 1-12 October | | 2 537 | 20 501 | | | | 23 038 |
| Share issue to employee 8 November | | 8 | 52 | | | | 60 |
| Comprehensive income | | | | | (37) | (46 405) | (46 442) |
| Balance at 31 December 2012 | | 38 918 | 103 876 | 13 628 | 67 | (126 339) | 30 150 |
| Balance at 1 January 2011 | | 30 649 | 19 233 | 6 247 | 113 | (41 243) | 14 999 |
| Share issue 23 March, PARC | | 183 | 2 528 | | | | 2 711 |
| Share based compensation | 4 | | | 3 012 | | | 3 012 |
| Reversal of charges in a prior period | | | 602 | | | | 602 |
| Share issue 11 May, board remuneration | | 7 | | | | | 7 |
| Share issue to employees 23 May | | 83 | 728 | | | | 810 |
| Warrants A exercise 3-14 October | | 2 579 | 18 313 | | | | 20 892 |
| Comprehensive income | | | | | (9) | (38 691) | (38 700) |
| Balance at 31 December 2011 | | 33 500 | 41 405 | 9 258 | 104 | (79 934) | 4 332 |

Consolidated cash flow statements

| <i>Amounts in NOK 1000</i> | Note | 1 October - 31 December, 2012 | 1 October - 31 December, 2011 | 1 January - 31 December, 2012 | 1 January - 31 December, 2011 |
|--|------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| CASH FLOW FROM OPERATING ACTIVITIES | | | | | |
| Operating profit (loss) | | (10 978) | (10 947) | (46 725) | (38 566) |
| Share based payment | 4 | 1 110 | 922 | 4 369 | 3 012 |
| Depreciation and impairment | 3 | 215 | 106 | 507 | 313 |
| Changes in working capital and non-cash items | | 2 082 | 1 318 | 2 375 | 3 739 |
| Interest paid | | - | (79) | - | (79) |
| Net cash from (used) on operating activities | | (7 570) | (8 681) | (39 473) | (31 581) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | | | |
| Purchase of property, plant and equipment | 3 | (1 217) | (33) | (1 901) | (879) |
| Interest received | | 146 | 14 | 469 | 37 |
| Net cash from (used) on investing activities | | (1 071) | (19) | (1 432) | (842) |
| CASH FLOW FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from issuance of shares | 4 | 23 098 | 20 892 | 66 427 | 21 709 |
| Proceeds from short term loan (repayment) | | - | (6 050) | - | - |
| Net cash from (used) on financing activities | | 23 098 | 14 842 | 66 427 | 21 709 |
| Currency translation effects on cash and bank deposits | | (12) | 11 | (11) | (0) |
| Net increase (decrease) in cash and bank deposits | | 14 445 | 6 152 | 25 511 | (10 715) |
| Cash and bank deposits at the beginning of the period | | 18 405 | 1 187 | 7 339 | 18 054 |
| CASH AND BANK DEPOSITS AT THE END OF THE PERIOD | | 32 850 | 7 339 | 32 850 | 7 339 |

The group had no bank draft facilities at 31 December 2012.

During the fourth quarter of 2012, previously recognized investments in 2012 of approximately NOK 1.7 million were reversed as the machine/equipment had not yet been delivered to Thinfilm at 31 December 2012 (i.e., the investments do not yet qualify for inclusion). Thinfilm expects this delivery to take place during the first quarter of 2013.

The notes on the following pages are an integral part of this condensed interim financial report

Notes to the consolidated financial statements

Note 1 Information about the group

Thin Film Electronics ASA ("Thinfilm ASA" or "the company") was founded on 22 December 2005. Thin Film Electronics ASA group ("Thinfilm") consists of the parent company Thinfilm ASA and the subsidiaries Thin Film Electronics AB ("Thinfilm AB") and Thin Film Electronics Inc. ("Thinfilm Inc."). The group was formed on 15 February 2006 when Thinfilm ASA purchased the business and assets, including the subsidiary Thinfilm AB, from Thin Film OldCo AS ("OldCo"). Thinfilm Inc. was incorporated in US during April 2011. The accounting year corresponds to the calendar year. Thinfilm AB is held 100 per cent and has been consolidated from

15 February 2006. Thinfilm Inc. is held 100 per cent and has been consolidated from 1 May 2011.

The purpose of Thinfilm ASA is research, development, production and commercialization of technology and products of physical storage of information, as well as related activities including participation in other companies.

The Company is a public limited liability company incorporated and domiciled in Norway. The address of its registered office is Henrik Ibsens gate 100, Oslo, Norway. The company's shares were admitted to listing at the Oslo Axess on 30 January 2008.

Note 2 Basis of preparation, accounting policies, resolutions

This condensed preliminary financial report for 2012 has been prepared in accordance with IAS 34 'Interim financial reporting'. The condensed consolidated interim financial report should be read in conjunction with the consolidated annual financial statements for 2011.

The IFRS accounting policies applied in this condensed consolidated preliminary financial report are consistent with those applied and described in the consolidated annual financial statements for 2011.

The going concern assumption has been applied when preparing this preliminary financial report. The Board has formed a judgment that, as of the date of approving the financial statements, the Company has adequate resources to fund operations into 2014 if the outstanding warrants from the March 2012 placement are exercised.

On 12 March 2012, Thinfilm accomplished a private placement of 25,000,000 new shares in the Company at a price of NOK 1.80

per share, thereby raising NOK 45 million in new capital.

At the annual general meeting 2012 it was resolved to issue one warrant for every two shares subscribed for and issued in this private placement, i.e., a total of 12,500,000 warrants. The warrant would have a term until 22 March 2013, with a short exercise period at the end of the term, and an exercise price per share of NOK 2.20. Thus, the potential gross proceeds from this warrant round are NOK 27.5 million. The board takes for its basis that the outstanding warrants will be exercised.

During the period 1-12 October 2012, Thinfilm received notice of exercise of 23,064,000 Warrants B (100% of the outstanding exercisable Warrants B), thereby raising approximately NOK 23.1 million in new capital.

This consolidated interim financial report has not been subject to audit. The report was resolved by the board of directors on 28 February 2013.

Note 3 Property, plant and equipment

| <i>Amounts in NOK 1000</i> | Tangible assets |
|---|------------------------|
| Year ended 31 December 2012 | |
| Net book value on 1 January 2012 | 1 338 |
| Additions | 1 901 |
| Disposals | 0 |
| Depreciation, impairment and other movements | (507) |
| Net book value on 31 December 2012 | 2 732 |
| | |
| Year ended 31 December 2011 | |
| Net book value on 1 January 2011 | 759 |
| Additions | 879 |
| Disposals | 0 |
| Depreciation, impairment and other movements | (300) |
| Net book value on 31 December 2011 | 1 338 |

Note 4 Shares, warrants and subscription rights

| <i>Number of shares</i> | Number of shares |
|--|-------------------------|
| Shares on 1 January 2012 | 304 544 086 |
| Share issue to employees 28 February | 275 000 |
| Private placement 12 March | 25 000 000 |
| Share issue 10 May, board remuneration | 78 000 |
| Share issue 20 September, PARC | 765 306 |
| Warrants B exercise 1-12 October | 23 064 000 |
| Share issue to employee 8 November | 75 000 |
| Shares on 31 December 2012 | 353 801 392 |
| Shares on 1 January 2011 | 278 626 406 |
| Share issue 23 March | 1 663 680 |
| Share issue 11 May, board remuneration | 60 000 |
| Share issue to employees 23 May | 750 000 |
| Warrants A exercise 3-14 October | 23 444 000 |
| Shares on 31 December 2011 | 304 544 086 |

765,306 shares were issued on 20 September 2012 in a private placement to PARC, a Xerox company. The subscription price was NOK 1.911 per share, and the amount paid was a set-off of receivables related to the extended collaboration agreement between PARC and Thinfilm.

| <i>Number of warrants and subscription rights</i> | 1 January - 31 December, 2012 | 1 January - 31 December, 2011 |
|---|--|--|
| Warrants and subscription rights opening balance | 40 603 306 | 12 540 417 |
| Grant of incentive subscription rights | 6 500 000 | 7 700 000 |
| Terminated, forfeited and expired subscription rights | (1 089 306) | (1 951 111) |
| Exercise of subscription rights | (350 000) | (750 000) |
| Allotment of warrants | 12 500 000 | 46 628 000 |
| Exercise and expiry of warrants | (23 064 000) | (23 564 000) |
| Warrants and subscription rights closing balance | 35 100 000 | 40 603 306 |

Note 5 Profit (loss) per share

| | 1 January - 31 December, 2012 | 1 January - 31 December, 2011 |
|---|--|--|
| Profit (loss) attributable to shareholders (NOK 1000) | (46 405) | (38 691) |
| Weighted average basic number of shares in issue | 330 116 095 | 284 578 310 |
| Weighted average diluted number of shares | 336 230 619 | 296 445 637 |
| Profit (loss) per share, basic and diluted | (NOK 0.14) | (NOK 0.14) |

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 exercise price of subscription rights exceeds the average share price in the period, the subscription rights are not counted as being dilutive.

Note 6 Contingent assets and liabilities

Thinfilm does not have any contingent assets or liabilities. Thinfilm has not issued any guarantees.

Note 7 Trade and other receivables

During the fourth quarter of 2012, previously recognized investments in 2012 of approximately NOK 1.7 million were reversed as the machine/equipment had not yet been delivered to Thinfilm at 31 December 2012. These investments were reclassified as prepayment to supplier, and thus constitute NOK 1.7 million of the total trade and other receivables balance of NOK 4.4 million at 31 December 2012.

Note 8 Related party transactions

In the period 1 January - 31 December 2012, Thinfilm has recorded NOK 1232 thousand for legal services provided by law firm Ræder, in which Thinfilm's chairman is a partner, and NOK 53 thousand for production planning consulting services provided by Glenne Invest AS, a company controlled by Thinfilm's board member Rita Glenne. John Markus Lervik, who at the date of this report controls about 8 per cent of the shares in Thinfilm, has charged NOK 910 thousand plus expenses for services provided 1 January - 31 December 2012.

All figures stated above are net of VAT.

Note 9 Events occurring after the balance sheet date

Between 31 December 2012 and the presentation of this condensed consolidated financial information, no events having any material impact on the result of 2012 or the value of Thinfilm's assets and liabilities at 31 December 2012 have occurred.