thinfilm

Interim Report and Financial Statements

Fourth Quarter 2017

Contents

Highlights

- Record shipment of NFC tags in quarter; majority are Apple-compatible
- Campari America creates a magnet-based eCommerce platform with Thinfilm NFC solutions
- British American Tobacco Global Travel Retail launches NFC solution on metallized packaging
- Thinfilm expands APAC presence for NFC solutions with deployments across multiple verticals, including Mundipharma, Chef Nic, and Unseong Industries
- EAS labels fully qualified for use in fast-fashion denims; first shipments of new denim-format tags completed, ramp up expected in Q2 2018
- Partially roll-processed EAS show target readability and expected yield; completion of initial R2R equipment install expected in Q1 for EAS production

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Business Review

2017 was a banner year for Thinfilm that included 27 NFC-based in-market deployments, with most of them implemented in Q4. In total, 21 new clients throughout North America, EMEA and APAC signed contracts with the Company in Q4 across a range of categories and form factors. This activity is dramatic considering Thinfilm had only two NFC deployments in all of 2016. Most of the new Q4 customers will launch their campaigns in Q1 2018.

The volume of tags sold increased dramatically from 2016. Between EAS (Electronic Article Surveillance) and NFC (Near Field Communication) tags, deliveries rose from the millions in 2016 to multiple tens of millions in 2017, exceeding 26 million units for the year. In the NFC category, tag shipments reached seven figures in 2017, with 45% of those shipped in Q4, including Apple-compatible tag types. This represents a 500% year-over-year increase for the same quarter in 2016.

With the release of iOS 11 in the Fall of 2017, Apple extended use of NFC in iPhones beyond Apple Pay to include NFC mobile marketing applications. This change dramatically increased interest among brands globally, especially in geographies with high iPhone concentration, including the USA, western Europe, Japan, and Australia.

During Q4 2017, marketers continued experimenting with NFC mobile marketing solutions. Naturally, they usually had an initial marketing initiative in mind, such as sharing exclusive content, offering a discount, running sweepstakes, or revealing insightful product details. The tremendous advantage with this channel, however, is the real-time data available through Thinfilm's CNECT™ software platform. This data provides insights that are not available through other means and helps fill the gap between online marketing and offline behavior.

These insights include usage regarding time of day, day of week, and frequency at which customers engage with products. The data also reveals the viral nature of NFC-based campaigns as well as their longevity beyond the initial audience or planned duration. Insights also include information on distribution, including confirmation that a product has reached store shelves and how long it takes for direct mail campaigns to be canvassed. Our in-market deployments can also help monitor field representatives to ensure they are doing their jobs and implementing the program as designed. All of these insights are actionable, either to modify the existing campaign and/or optimize other marketing initiatives.

Campari America is using Thinfilm's NFC mobile marketing solution to enable consumers to purchase its spirits brands by tapping their smartphone to a 'connected' refrigerator magnet.

Deployed NFC campaigns include Campari America, BAT Global Travel Retail, a leading North American tobacco brand, a leading dietary beverage provider, and several new customers in APAC, including Mundipharma in OTC Pharma, Unseong Industries, and Chef Nic. The global distribution of customers in Q4 showed most growth in North America and APAC, as adoption of NFC mobile marketing began in several new markets.

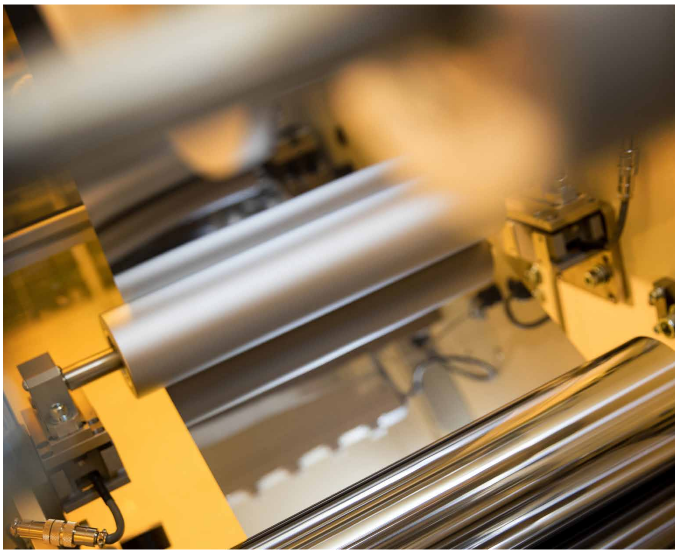
Thinfilm is responding to the growth in demand by expanding the Global Sales team, and by promoting Tauseef Bashir to Chief Sales Officer. New hires in Germany, China, North America, and Singapore during the fourth quarter, and Q1 additions in Sales Operations and Channel Sales will strengthen go-to-market activities in 2018.

An important element in Thinfilm's go-to-market strategy is the continued development of the CNECT mobile marketing platform. The pending launch of version 2.0 in Q1 will deliver improved UI, features and functionality. Customers have requested additional ways to access and analyze their data, so the platform will now feature an enhanced activity dashboard with more filtering options, as well as search and export functions. In addition, Thinfilm is making it simpler to create and manage dynamic user experiences via the Campaign Manager feature and to enhance digital tag management by simplifying association of physical objects to handle both individual, serialized, and mass-volume approaches.

EAS sales are also expected to grow substantively in 2018, after accounting for seasonal fluctuations in Q1, based on Thinfilm's unique technology that prevents reactivation. Tags are currently integrated in footwear, and has now also been qualified by our go-to-market partner and their main fast-fashion customer to be used in denim apparel. This expands the addressable market ten-fold. First shipments have already been completed and feature a new rectangular form factor more suited for denims and children's shoes, and volume deliveries for these new categories are expected to start in Q2 2018. To support the expected ramp in EAS and NFC sales, Thinfilm is making a significant investment in roll-based production facilities. The related buildout of Thinfilm's roll-to-roll manufacturing line continues on the schedule announced last quarter with regards to equipment delivery, setup, and testing. From a budget standpoint, it is now anticipated that the Company will spend approximately $2 million in additional CAPEX costs due to enhanced electrical system requirements, increased freight charges, and other factors. With all equipment related to the production of EAS front-end die currently in place and being tested, the line is expected to be fully installed for EAS production start by the end of Q1. Furthermore, NFC-related manufacturing will commence in Q3, as per plan, with full qualification of PDPS (printed dopant polysilicon) front-end die for use in NFC labels to be completed in Q4.

In an effort to reduce risk and demonstrate technical capability prior to full installation, partial process lots have been run utilizing equipment at vendor fabrication sites, with remaining steps completed per standard process on Thinfilm's sheet-based lines in San Jose. These partially roll-processed lots demonstrated expected yields for lots processed at multiple sites, and comparable electrical contact resistance and breakdown voltage to fully sheet-processed lots. This is a clear indication that the Quality factor 'Q' is likely to be met by roll-based manufacturing, when fully processed roll-based lots start in production at end-March, and represents a major technical milestone.

Further innovation regarding roll-based manufacturing using PDPS, including new ideas for significantly reducing back-end costs, were conceived and developed in late



A component of Thinfilm's new roll-to-roll production line at its Junction Avenue facility.

2017. These improvements, if successful, will likely eliminate certain steps in the back-end flow such as flip-chip attach. The ideas continue to be refined and developed in 2018, and have already resulted in a new patent application filed this year. The project's implementation results and details will be monitored closely for their potential to generate additional new patent applications. In addition, new uses of roll-based manufacturing for creating transistor arrays for use in haptics and 3D sensing are under exploration, and Thinfilm is in initial discussions with potential partners.

Beyond the executive promotions and recruitment in Sales referenced previously, Thinfilm also promoted Christian Delay to EVP Software and strengthened its management team with the hiring of John McNulty as EVP Marketing. Mr. McNulty joined Thinfilm from Marin Software, a leading cloud-based digital marketing platform, and has extensive experience with SaaS-based marketing and advertising technologies.

Activities related to other product lines, such as temperature sensors, have been suspended as the Company is currently focusing its efforts and resources on the wireless product. While the Company completed first commercial shipments of temperature sensor smart labels in Q2 2017, and completed a limited field trial in Q3, the demand for the hybrid product is less significant than the opportunity in NFC and mobile marketing, prompting a prioritization strategy by the Company. As a consequence of this decision, the Company reduced its activities at its Linköping site during Q4 2017. Xerox acquired certain Thinfilm Memory™ intellectual property (IP). In return, Thinfilm will receive an up-front payment plus an earn-out based on the existing agreed-to royalty schedule. This is not expected to impact revenues materially, but has the potential to reduce operating costs for the group and improve operational efficiency.

Campari America creates a magnet-based eCommerce platform with Thinfilm NFC solutions

Thinfilm is enabling a ground-breaking NFC mobile marketing campaign featuring a partnership between Campari America and Drizly. Campari America is the sixth largest spirits company in the USA and the Drizly app allows users to order alcohol online and have it delivered within one hour.

This campaign utilizes refrigerator magnets that, when tapped with a smartphone allow customers to reorder the specific product through Drizly. The magnet acts similarly to Amazon's Dash Buttons being implemented by a large online retailer for CPG (Consumer Packaged Goods) products. It also gives the user flexibility and control over the details of the purchase. The custom magnets have been designed for Campari America's Aperol, Appleton Estates, Campari, Wild Turkey, Espolon, and Skyy brands.

The magnets are being distributed by local retailers that are part of the Drizly network. These retailers are happy to participate since Drizly utilizes local stores to fulfill these online orders. With the at-home placement of the magnets, customers always have an easy way to reorder their favorite products with just a smartphone tap. This campaign is the first of its kind to combine product delivery and e-commerce while generating measurable results.

British American Tobacco Global Travel Retail launches on-package NFC solution on metallized packaging

British Ameican Tobacco Global Travel Retail (BAT GTR) is launching an inaugural campaign for their Dunhill brand at the Dubai International Airport, the world's largest travel retail hub. The innovative campaign includes on-carton implementation of Thinfilm NFC tags on a metallized package, and is the first of its kind.

When tapped with a smartphone, the user is guided through an interactive experience that promotes sharing both online and in-person, and encourages repeat visits.

Thinfilm expands APAC presence for NFC solutions with deployments across multiple verticals, including Mundipharma, Chef Nic, and Unseong Industries

Thinfilm continues to expand in APAC and signed eight new deals in Q4. Highlights include NFC mobile marketing campaigns with Mundipharma, celebrity chef Chef Nic, and Unseong Industries. These clients represent very different verticals, including OTC pharmaceuticals, entertainment, CPG, and consumer electronics.

Placements are occurring across Asia. All placements are on-package and are being used to deliver different experiences, including videos with exclusive content, coupons, sweepstakes, and e-commerce to make re-ordering easy.

Kilchoman Distillery Co. selects Thinfilm's NFC solutions to enhance brand and drive consumer engagement

Thinfilm announced Kilchoman Distillery Co. ("Kilchoman") as a new customer in the wine and spirits market. An award-winning producer of single-malt whisky, Kilchoman is using Thinfilm's NFC solutions to engage with and educate consumers, communicate its distinct brand story, and accelerate business growth. 'Smart' hangtags featuring NFC SpeedTap™ technology are being integrated with bottles of its two flagship whiskies – Machir Bay and Sanaig. Initially deployed in the distillery's larger European markets, SpeedTap tags allow Kilchoman to initiate one-to-one consumer engagement experiences on-premise, in-store, and at-home.

Astral Tequila introduces US's first 'smart' spirits bottle featuring NFC to fuel in-store consumer engagement

Davos Brands introduced 'smart' bottles of its award-winning spirit, Astral Tequila, to engage with consumers in-store and deliver customized digital experiences. The interactive spirits bottles leverage Thinfilm's NFC SpeedTap™ technology and are the first of their kind in the US market. Each connected bottle is equipped with a custom, NFC-enabled neck collar that consumers can tap with a smartphone to initiate exclusive content, including original video from Jonathan Goldsmith, the actor best known for his former role as "The Most Interesting Man in The World." The bottles are on shelves in retail outlets throughout California, Texas, Florida, New York, Illinois, New Jersey and Georgia.

Chilean winery deploys Thinfilm's NFC mobile marketing solution in Asian export markets

Thinfilm announced PengWine, a premium producer of 5-star Chilean wines, as a new customer in the wine and spirits industry. PengWine is planning multiple commercial deployments of Thinfilm's NFC SpeedTap™ tags throughout the Asia and Pacific region, including 'smart' interactive coasters that educate consumers and offer a chance to win prizes; 'smart' placards that tasters at wine events can tap to rate and comment on specific wines; and 'smart' on-bottle neck collars and labels that allow consumers to interact with the brand directly, regardless of the distribution channel. NFC SpeedTap tags allow PengWine to initiate consumer engagement experiences through in-store and on-premise channels, and also continue the journey at home – all through the simple tap of a smartphone. As a result, consumers can learn about PengWine's brand story, view its Maipo Valley estate in Chile, review food pairing tips, and order products through a mobile ecommerce application.

Skanem Group qualified as label conversion partner for Thinfilm's NFC tags

Thinfilm announced Skanem Group ('Skanem') as a qualified label conversion partner for its NFC SpeedTap™ and OpenSense™ tags. To achieve qualified status as a Thinfilm partner, Skanem completed a comprehensive evaluation program during which the company demonstrated its ability to establish and automate key production processes. Skanem also consistently met designated standards related to manufacturing flow, tag application, process control, in-line testing/discrimination, product quality, production yield, and transfer/security. Headquartered in Stavanger, Norway, Skanem is one of Europe's largest producers of self-adhesive labels, with 13 production sites in nine countries throughout Europe, Asia, and Africa. The company serves brands of all sizes across a range of industries, including food, beverage, personal care, homecare, automotive, industrial, and pharmaceuticals.

Shows and Events

Luxe Pack Monaco
October 2 - 4, 2017, Monaco

Thinfilm exhibited in the Connect to Luxury (C2L) digital village at Luxe Pack Monaco. Cosmetic packages from Knoll Packaging and Valmont cosmetics integrated with SpeedTap tags were demonstrated and provided as samples to visitors. In the digital village, Thinfilm conducted a workshop titled "Add Digital Experiences to Physical Products". In the primary conference hall, Thinfilm and CMSmartconnect presented the joint seminar "NFC Technology & Packaging: The Next Marketing Milestone".

Tax Free World Expo – Digital Village
October 4 – 6, 2017, Cannes, France

TFWA is the world's biggest duty free and travel retail association, organizing high-quality exhibitions and acclaimed conferences for an industry with worldwide sales of over $60 billion. TFWA Digital Village is a showcase for creative digital solutions and services appealing to the 12,000-duty free and travel retail professionals who regularly attend TFWA World Exhibition & Conference. Thinfilm demonstrated its NFC solutions for wine & spirits and luxury goods.

Spirits Strategies Congress 2017
October 31 – November 1, 2017, London, England, United Kingdom

The 4th Spirits Strategies Congress is a comprehensive conference focusing on gathering senior level decision makers from across the spirits industry in diverse commercial functions to be inspired to deliver growth. Thinfilm exhibited its NFC mobile marketing solutions for wine and spirits and delivered a presentation featuring guest speaker Mr. Alvaro Alés, Director de Marketing y Comunicación, Bodegas Barbadillo.

eBev 2017
November 1 – 3, 2017, Las Vegas, Nevada

Thinfilm had the opportunity to meet and connect with many major alcohol and non-alcoholic beverage brands, along with the best-in-class emerging brands, their retail and distribution partners, and leading global marketing agencies. Thinfilm exhibited its latest NFC mobile marketing solutions for wine, spirits, and craft beer.

Active & Intelligent Packaging Industry Association (AIPIA)
November 2 – 3, 2017, Amsterdam, The Netherlands

The mission of the AIPIA is to diminish supply chain costs, reduce waste and increase its member's profitability by the implementation of high-tech solutions in packaging. Thinfilm exhibited its NFC connected packaging solutions. Thinfilm's Matt Bright, Senior Director of Product & Technical Marketing, presented "History, Background and Future Perspectives of Near Field Communication for the Packaging Industry" at the conference. Mr. Bright also co-moderated an Idea Hackathon discussion with 30 brand, packaging, and solutions leaders entitled: "Accelerating Consumer Interaction".

IDTechEx Show! – Printed Electronics USA
November 15 – 16, 2017, Santa Clara, California

Printed Electronics USA is part of the IDTechEx Show and is one of the world's largest conferences and exhibitions focused on the commercialization of printed electronics. Thinfilm demonstrated its NFC mobile marketing solutions for applications in cosmetics, gemstones, craft beer, wine and spirits, and other consumer goods. Thinfilm's Matt Bright, Senior Director of Product & Technical Marketing, gave a presentation entitled: "Five Industrial Companies Using Low Cost, High Volume IoT".

Thinfilm Product Families

NFC Solutions

NFC SpeedTap™ Tags: NFC SpeedTap tags are wireless tags that combine the instant interactivity of Near Field Communication (NFC) with the advantages of printed electronics technology. NFC SpeedTap tags enable smartphones to communicate with everyday objects in support of B2B and B2C use cases.

NFC OpenSense™ Tags: Thinfilm's proprietary and patent-pending NFC OpenSense technology provides smartphone-centric NFC readability before and after product opening. Unique identifiers within each OpenSense tag support applications for fighting product diversion, counterfeiting, unauthorized refills, and the use of forged containers. On the consumer side, brand marketers can benefit from enhanced consumer engagement capabilities.

CNECT™ Partner Portal: CNECT is a multi-tenant cloud-based platform that allows brands to connect with consumers by enabling engagement through a direct smartphone tap of an NFC label, such as Thinfilm's SpeedTap and OpenSense tags. The platform provides a turnkey solution for managing and tracking the tags and deploying campaigns for consumer engagement, instant re-ordering, and product authentication, as part of a brand's omnichannel mobile marketing strategy. CNECT will soon be extended to manage the launch of augmented reality experiences, and has potential for use when NFC labels act as a trigger mechanism in creating blockchains.

Electronic Article Surveillance (EAS) Tags

Thinfilm EAS tags use a proprietary process to improve traditional electronic article surveillance technology by introducing a new category of thin, flexible anti-shoplifting tags. These next-generation labels are compatible with the global base of installed 8.2MHz RF EAS infrastructure.

About Thinfilm

Thin Film Electronics ASA ("Thinfilm") is a global leader in NFC mobile marketing and smart-packaging solutions using printed electronics technology. Thinfilm creates printed tags, labels, and systems that include memory, sensors, displays, and wireless communication — all at a cost-per-function unmatched by conventional electronic technologies.

Thinfilm offers end-to-end mobile marketing solutions that feature hardware, label/packaging integration services, and comprehensive cloud-based reporting and analytics. Collectively, these components deliver a powerful 1-to-1 digital marketing platform through which brands of all sizes can connect directly with consumers, all with the simple tap of a smartphone. The resulting disintermediation of search engines, online marketplaces, and social platforms empowers brands to control messaging, enhance consumer dialogue, build loyalty, increase engagement, and drive sales. Thinfilm's roadmap integrates technology from a strong and growing ecosystem of partners to bring intelligence to everyday, disposable items. Its mission is to effectively extend the traditional boundaries of the Internet of Things to fuel the Internet of Everything.

Thin Film Electronics ASA ("Thinfilm") is a publicly listed Norwegian company with global headquarters in Oslo, Norway; US headquarters in San Jose, California; and offices in Linköping, Sweden; San Francisco; London; Hamburg; Singapore; and Shanghai.

Condensed Consolidated Financial Report as of 31 December 2017

Thinfilm increased its commercial activities substantially during 2017. Total shipments of wireless products exceeded 26 million units. The Company continued its cooperation and deliveries to its EAS partner for implementation in shoes, and also qualified for use of its EAS products for anti-theft tagging in the denims category, with an expected start of shipments in H1 2018. The number of NFC customers increased steadily during the year, and Thinfilm customers had more than 25 in-market deployments of NFC SpeedTap™ labels, within various categories, including spirits, wines, craft beer, cosmetics, tobacco, nutritional supplements, secure delivery, and OTC pharmaceuticals. Operating costs increased in the year compared to 2016, as the Company prepares for continued growth in 2018, primarily because of significantly higher activity level in almost all functional areas.

Profit and Loss

Thinfilm's revenue and other income in 2017 amounted to USD 5,907 thousand, 54% higher than in 2016 (2016: USD 3,845 thousand). Excluding other income recognized in the period, total revenue was USD 5,020 thousand, an increase of USD 1,596 thousand, or 47%, compared to the preceding year (2016: USD 3,424 thousand). Sales revenue amounted to USD 2,980 thousand in the year, compared to USD 1,460 thousand in 2016, an increase of 104%, and includes product development projects, delivery of prototypes and products to strategic customers and partners, technology transfer revenue as well as product deliveries. The increase in sales revenue, year on year, is primarily due to shipment of more than 25.9 million EAS (electronic article surveillance) tags to our go-to-market partner, revenues from the Joint Development Agreement (JDA) with a global pharmaceutical company, as well as several new customers going to market with NFC based on Thinfilm's SpeedTap™ solutions. Revenue related to government grants and other funded projects amounted to USD 2,040 thousand in the period (2016: USD 1,964 thousand). This is consistent with prior year's revenues, with the 4% increase being explained by funded projects meeting defined success milestones during the year. Other income amounted to USD 887 thousand in 2017 (2016: 421 thousand). The increase in other income is primarily because of a gain on disposal of fixed assets in Q2 and Q3 that was acquired when the Company secured the Junction Avenue facility. The Company no longer receives sublease income from the previous production facility on Zanker Road.

Operating costs (excluding depreciation and amortization charges) amounted to USD 58,994 thousand in 2017, including the cost of share-based compensation of USD 1,971 thousand. The corresponding figure for 2016 was USD 42,151 thousand and USD 1,180 thousand, respectively. The increase in operating costs in 2017, compared to the same period in 2016, was USD 16,843 thousand, primarily attributable to:

1) USD 7,451 thousand higher payroll costs, mainly related to an overall increase in the number of global FTEs (full-time equivalents) to 167 as of 31 December 2017, compared to 134 one year earlier. The increase in FTEs has been most significant in the US subsidiary. This development is a result of a strengthening of the organization, primarily in the US, as focus has shifted from development to production and the development of a software solutions platform, CNECT™, for NFC mobile marketing. Developing the new roll-to-roll production line also requires additional FTEs.

2) USD 4,085 thousand higher costs for premises and supplies, as production activities increased significantly from the end of 2016, particularly at the site in San Jose, which is a front-end production facility, currently in operation 24 hours per day, 7 days per week. While the bulk of the production currently remains non-revenue generating (engineering lots used for yield, design, and product development work), the cost impact is close to that of a fully ramped facility.

While resources allocated to production related activities are increasing significantly, Thinfilm maintained a significant level of R&D activities. In the four quarters of 2017 USD 16,549 thousand were spent developing roll-to-roll printing processes, printed batteries and displays. The corresponding amount for 2016 was USD 15,410 thousand.

Investments in fixed and intangible assets amounted to USD 17,222 thousand in 2017, compared to USD 5,356 thousand in 2016. The investments in the four quarters of 2017 are mostly related to equipment for the new roll-based production line at the San Jose site and required upgrades on the Junction Avenue site. The investments in 2016 were mainly related to equipment and tools for the EAS and PDPS (printed-dopant polysilicon) line as well as improvements to the former site at Zanker Road. Per 31 December 2017, Thinfilm had also made prepayments amounting to USD 11,484 thousand relating to investments in equipment and machinery. These prepayments are recognized as other receivables since only parts of the equipment and machinery had been received from the suppliers as of 31 December 2017.

Depreciation, amortization and impairment charges in 2017 amounted to USD 6,991 thousand (2016: USD 3,176 thousand). Impairments amounted to USD 3,025 thousand and were primarily related to equipment and licenses for the memory and sensor programs that were discontinued. Net financial items in 2017 amounted to a gain of USD 374 thousand (2016: USD 2,731 thousand loss), and were mainly related to interest income. The Company operates at a loss and there is a tax loss carry forward position in the parent company and in the Swedish and American subsidiaries. While local taxes are incurred in some of the subsidiaries, the parent company in Norway has not incurred any tax costs in 2017 or the prior year. The Company has not recognized any deferred tax assets in its balance sheet relating to these tax loss carry forward positions, because this potential asset does not yet qualify for inclusion. The net result in 2017 was a loss of USD 59,581 thousand, corresponding to a basic loss per share of USD 0.07. In 2016, the loss amounted to USD 44,495 thousand, corresponding to a basic loss per share of USD 0.07.

Cash Flow

The group's cash balance increased by USD 23,915 thousand in 2017 (compared to an increase of USD 58,265 thousand in 2016). The net increase in cash balance is explained by three principal elements: 1) an outflow of USD 52,319 thousand from operating activities, 2) a USD 26,764 thousand outflow from investing activities, and 3) a USD 102,829 thousand inflow from financing activities. The USD 52,319 thousand outflow from operating activities is primarily explained by an operating loss excluding depreciation, amortization and impairment charges of USD 53,087 thousand. The USD 102,829 thousand inflow from financing activities is primarily explained by net proceeds from the private placement taking place in the fourth quarter of the year. The cash balance on 31 December 2017 amounted to USD 98,120 thousand. The cash balance on 31 December 2016 amounted to USD 74,205 thousand.

Balance Sheet

The Company's balance sheet is comprised of fixed & intangible assets, financial lease, inventory, cash, receivables, long-term financial lease liabilities, payables & accruals, and equity. Fixed assets on 31 December 2017 amounted to USD 20,522 thousand and mainly stem from machinery and equipment in San Jose, California. Other receivables include USD 11,484 thousand prepayments related to equipment and machinery that had not been received from the suppliers as of 31 December 2017. The Company has a financial lease booked in the balance sheet which amounts to USD 11,534 thousand and relates to the new US headquarters. In addition, USD 2,190 thousand in intangible assets are on the balance sheet, mainly as a result of the acquisition of assets from Kovio, Inc. in 2014.

Principal Risks

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

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

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

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

IV. The Company is not yet cash generative and there is uncertainty tied to the generation of future cash flow. The Company, is however, well capitalized based on the private placement in October 2017.

Going forward, Thinfilm foresees three important revenue sources:

1. Sales of its own designed and manufactured products, and;
2. Licensing/royalty revenue, where partners and customers pay for using the Company's intellectual property rights (IPR), and;
3. Monetization of Thinfilm's CNECT™ software platform.

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, in turn, depends on the Company's ability to attract and retain competent staff and the adequacy of Thinfilm's patenting and other IP-protection activities.

Thinfilm is exposed to certain financial risks related to fluctuation of exchange rates and interest level.

The going concern assumption has been applied when preparing this interim financial report. In Q4, the Company successfully completed a private placement securing approximately USD 110 million in gross proceeds.

On 31 December 2017, the equity amounted to USD 129,874 thousand, representing 87% of the gross balance sheet and 696% of the share capital.

Outlook

Thin Film Electronics ASA ("Thinfilm") is developing technology that is expected to be critical to the extension of the Internet of Things to ordinary objects. Thinfilm's NFC OpenSense™ and SpeedTap™ labels communicate wirelessly with appropriately configured NFC-enabled smartphones, and can be applied to consumables and other disposable objects. The inclusion of NFC in smartphones increased dramatically over the past several years. According to the NFC Forum, the number of smartphones with NFC reached 1.7 billion in 2016. Annual shipments of NFC devices are expected to exceed 2 billion by 2018. In addition, applications beyond payments are now being introduced, and most major OEM smartphone manufacturers are now members of the NFC Forum, including Samsung and Apple, where Thinfilm continues to chair the Retail Working Group.

Thinfilm's PDPS NFC labels are distinguished by their exceptional speed (less than 10 milliseconds for full read), their ability to identify whether a product's packaging is factory sealed or has been opened, its shock and impact resistance, its ability to be flexed repeatedly over curved surfaces less than 15 cm in diameter. Thinfilm also expects significant shipments of NFC Forum Type 2 tags which supplement Thinfilm's own manufacturing and provide an Apple iOS readable platform. Each label is encoded by Thinfilm with a unique identifier or URL, which prevents hacking and spoofing. Thinfilm has also built a significant partner ecosystem, including digital activation agencies such as Leo Burnett/ARC, and packaging partners such as Jones Packaging, Bedford Industries, Beneli AB, Constantia Flexibles, Skanem and Spear Europe Ltd.

Thinfilm grew shipments to customers in 2017 to over 26 million units, and expects unit volumes to continue increasing in 2018. The Company anticipates further growth in key verticals such as spirits, wines, craft beer, cosmetics, tobacco, nutritional supplements, secure delivery, and OTC pharmaceuticals.

Thinfilm plans to continue to increase production capacity, which is currently based upon sheet based manufacturing.

Thinfilm has leased a manufacturing facility, at 2581 Junction Avenue, San Jose, CA, for up to 12 years, and has made tenant improvements. The new facility features a significantly larger manufacturing clean room, and enables Thinfilm to support the Company's plans to scale current production and implement a high volume roll-to-roll manufacturing line for lower cost EAS labels by Q1 2018 and for transistor-based products in Q3 2018 – including NFC OpenSense and NFC SpeedTap labels. By accelerating the transition to roll-to-roll printed electronics manufacturing through CAPEX investments, Thinfilm expects to be prepared to support up to a billion-unit annual production volume in 2019. In parallel, the Company will look to partner with scaleup qualified, industrial companies to maintain its low CAPEX business model. Thinfilm's CNECT™ portal, which is a multi-tenant platform that integrates with Thinfilm's NFC SpeedTap™ and OpenSense™ tags, and provides users the ability to manage tags and run precisely targeted marketing campaigns, attracted significant prospective customer interest and the Company expects further growth in the 450 companies registered on the CNECT Software platform as of end January 2018.

Thin Film Electronics ASA Group

Condensed consolidated interim financial statements as of 31 December 2017 (Unaudited)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts in USD 1,000	Note	1 October - 31 December 2017	1 October - 31 December 2016	1 January - 31 December 2017	1 January - 31 December 2016
Sales revenue		275	466	2 980	1 460
Other operating revenue		815	447	2 040	1 964
Other income		91	105	887	421
Total revenue & other income		**1 182**	**1 019**	**5 907**	**3 845**
Operating costs	10, 11	(15 698)	(12 562)	(58 994)	(42 151)
Depreciation, amortization and impairment loss	3, 4, 5	(4 429)	(1 126)	(6 991)	(3 176)
Operating profit (loss)		(18 945)	(12 669)	(60 078)	(41 482)
Net financial items		(1 158)	(1 421)	374	(2 731)
Profit (loss) before income tax		(20 102)	(14 090)	(59 704)	(44 213)
Income tax expense		161	19	122	(282)
Profit (loss) for the period		(19 941)	(14 071)	(59 581)	(44 495)
Profit (loss) attributable to owners of the parent		(19 941)	(14 071)	(59 581)	(44 495)
Profit (loss) per share basic and diluted	6	(USD 0.02)	(USD 0.02)	(USD 0.07)	(USD 0.07)
Profit (loss) for the period		(19 941)	(14 071)	(59 581)	(44 495)
Other Comprehensive Income					
Currency translation		(26)	(155)	456	785
Total comprehensive income for the period, net of tax		**(19 968)**	**(14 226)**	**(59 126)**	**(43 710)**

Amounts in USD 1,000	Note	31 December 2017	31 December 2016
ASSETS	8		
Non-current assets			
Property, plant and equipment	3	20 522	9 155
Financial lease	5	11 534	12 607
Intangible assets	4	2 190	3 142
Total non-current assets		**34 246**	**24 904**
Current assets			
Inventory		709	1 086
Trade and other receivables	9	16 245	3 940
Cash and cash equivalents		98 120	74 205
Total current assets		**115 073**	**79 230**
TOTAL ASSETS		**149 319**	**104 134**
EQUITY			
Ordinary shares	6	18 660	13 877
Other paid-in equity		319 817	219 097
Currency translation		(13 520)	(13 976)
Retained earnings		(195 083)	(135 503)
Total equity		**129 874**	**83 494**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities		-	269
Long-term financial lease liabilities		12 125	12 581
Total non-current liabilities		**12 125**	**12 850**
Current liabilities			
Trade and other payables		7 320	7 789
Total current liabilities		**7 320**	**7 789**
TOTAL EQUITY AND LIABILITIES		**149 319**	**104 133**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Amounts in USD 1,000	Share capital	Other paid-in equity	Currency translation	Retained earnings	Total
Balance at 1 January 2017	13 877	219 097	(13 976)	(135 503)	83 495
Share issues	4 783	98 502	-	-	103 285
Share based compensation	-	2 220	-	-	2 220
Comprehensive income	-	-	456	(59 581)	(59 126)
Balance at 31 December 2017	**18 659**	**319 819**	**(13 520)**	**(195 084)**	**129 874**
Balance at 1 January 2016	10 466	119 950	(14 761)	(91 008)	24 645
Share issues	3 411	97 714	-	-	101 124
Share based compensation	-	1 433	-	-	1 433
Comprehensive income	-	-	785	(44 495)	(43 710)
Balance at 31 December 2016	**13 877**	**219 097**	**(13 976)**	**(135 503)**	**83 495**

Amounts in USD 1,000	Note	1 October - 31 December 2017	1 October - 31 December 2016	1 January - 31 December 2017	1 January - 31 December 2016
CASH FLOW FROM OPERATING ACTIVITIES					
Profit (loss) before tax		(20 102)	(14 090)	(59 704)	(44 213)
Share-based payment (equity part)	6	647	366	2 220	1 433
Depreciation and amortization		1 404	1 020	3 966	3 070
Write down inventory, machinery and intangible assets		3 175	134	3 175	412
Gain on sale of fixed assets		196	2	(350)	1
Taxes paid for the period		72	(8)	(38)	(118)
Changes in working capital and non-cash items		91	2 141	(1 588)	1 885
Net cash from operating activities		**(14 519)**	**(10 436)**	**(52 319)**	**(37 530)**
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of property, plant and equipment	3	(3 766)	(1 544)	(15 910)	(4 464)
Prepayments relating to purchase of property, plant and equipment		830	-	(11 484)	-
Purchases of intangible assets		-	(63)	(63)	(550)
Capitalized development expenses	4	(289)	(128)	(702)	(342)
Proceeds from sale of fixed assets		314	5	1 052	6
Interest received		121	82	343	88
Net cash from investing activities		**(2 790)**	**(1 647)**	**(26 764)**	**(5 262)**
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from issuance of shares	6	102 716	59 475	103 285	101 124
Financial lease payments		(136)	-	(456)	-
Net cash from financing activities		**102 580**	**59 475**	**102 829**	**101 124**
Currency translation effects on cash and bank deposits		-8	-310	170	-67
Net increase (decrease) in cash and bank deposits		**85 264**	**47 083**	**23 915**	**58 265**
Cash and bank deposits at the beginning of period		**12 856**	**27 122**	**74 205**	**15 940**
CASH AND BANK DEPOSITS AT THE END OF PERIOD		**98 120**	**74 205**	**98 120**	**74 205**

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" or "the Company") was founded on 22 December 2005. Thin Film Electronics ASA Group ("Thinfilm") consists of the parent company Thinfilm ASA and the subsidiaries Thin Film Electronics AB ("Thinfilm AB"), Thin Film Electronics Inc. ("Thinfilm Inc."), Thin Film Electronics KK ("Thinfilm KK"), Thin Film Electronics HK Limited ("Thinfilm HK"), Thin Film Electronics UK Ltd. ("Thinfilm UK"), Thin Film Electronics Co. Ltd. ("Thinfilm China"), Thin Film Electronics Singapore pte. Ltd. ("Thinfilm SING"). The group was formed on 15 February 2006, when Thinfilm ASA purchased the business and assets, including the subsidiary Thinfilm AB, from Thin Film OldCo AS ("OldCo").

The objectives of the Company shall be the commercialization, research, development and production of technology and products related to printed electronics components and smart systems. These objectives may be carried out in full internally, or in whole or in part externally through collaborative efforts with one or more of the Company's ecosystem partners.

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 and to the Oslo Børs on 27 February 2015. On 24 March 2015 Thinfilm's American Depository Receipts (ADRs) commenced trading in the United States on OTQX International.

NOTE 2 - BASIS OF PREPARATION, ACCOUNTING POLICIES, AND RESOLUTIONS

This condensed interim financial report for the four quarters of 2017 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 2016. The IFRS accounting policies applied in this condensed consolidated interim financial report are in all materiality consistent with those applied and described in the consolidated annual financial statements for 2016.

The going concern assumption has been applied when preparing this interim financial report. This consolidated interim financial report has not been subject to audit.

The report was resolved by the Board of Directors on 27 February 2018.

NOTE 3 - PROPERTY, PLANT, AND EQUIPMENT

Amounts in USD 1,000	Tangible assets
Year ended 31 December 2017	
Net value on 1 January 2017	9 155
Additions	16 457
Disposals	(903)
Exchange differences	315
Impairment	(1 807)
Depreciation	(2 696)
Net book value on 31 December 2017	**20 522**

Other receivables as of 31 December 2017 include USD 11,484 thousand prepayments related to equipment and machinery that had not been received from the suppliers as of 31 December 2017.

Amounts in USD 1,000	Tangible assets
Year ended 31 December 2016	
Net value on 1 January 2016	7 788
Additions	4 464
Disposals	(292)
Exchange differences	(216)
Impairment	-
Depreciation	(2 588)
Net book value on 31 December 2016	**9 155**

NOTE 4 - INTANGIBLE ASSETS

Amounts in USD 1,000	Intangible assets
Year ended 31 December 2017	
Net value on 1 January 2017	3 142
Additions	765
Disposals	(300)
Exchange differences	-
Impairment	(1 218)
Amortization	(199)
Net book value on 31 December 2017	**2 190**
Year ended 31 December 2016	
Net value on 1 January 2016	2 602
Additions	892
Exchange differences	(32)
Impairment	(106)
Amortization	(214)
Net book value on 31 December 2016	**3 142**

NOTE 5 - 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, CA. The lease in San Jose expires in September 2028. The building element of the lease agreement is classified as a financial lease as the present value of the minimum lease payments amounts to substantially all of the fair value of the leased asset. The land element of the lease has been accounted for separately as an operating lease.

Amounts in USD 1,000	**Building**
Year ended 31 December 2017	
Net value on 1 January 2017	12 607
Amortization	(1 073)
Net book value on 31 December 2017	**11 534**

Finance liabilities are payable as follows:

Amounts in USD 1,000	**Present value of minimum lease payments**
Year ended 31 December 2017	
Less than one year	1 418
Between one and five years	5 345
More than five years	6 680
Sum	**13 444**

NOTE 6 - SHARES, WARRANTS AND SUBSCRIPTION RIGHTS

Number of shares	
Shares at 1 January 2017	816 759 117
Share issue to employees, 24 February	105 000
Share issue to employees, 5 May	2 057 500
Share issue to employees, 11 August	450 000
Private Placement Tranche 1, 19 October	81 500 000
Private Placement Tranche 2, 13 November	271 000 000
Shares at 31 December 2017	**1 171 871 617**

Shares at 1 January 2016	555 374 857
Private Placement Woodford Investment Management, 19 February	120 000 000
Share issue to employees, 25 February	837 500
Share issue to employees, 11 May	3 675 000
Share issue to board members, 11 May	59 260
Share issue to employees, August 15	452 500
Share issue to employees, November 4	1 160 000
Private Placement December Tranche 1, 1 December	63 700 000
Private Placement December Tranche 1, 23 December	71 500 000
Shares at 31 December 2016	**816 759 117**

Number of warrants and subscription rights	1 January - 31 December 2017	1 January - 31 December 2016
Warrants and subscription rights opening balance	127 584 826	83 977 326
Grant of incentive subscription rights	33 550 000	16 430 000
Terminated, forfeited and expired subscription rights	(4 850 000)	(6 697 500)
Exercise of subscription rights	(2 612 500)	(6 125 000)
Allotment of warrants	-	40 000 000
Exercise and expiry of warrants	(31 250 000)	-
Warrants and subscription rights closing balance	**122 422 326**	**127 584 826**

NOTE 7 - PROFIT (LOSS) PER SHARE

	1 January - 31 December 2017	1 January - 31 December 2016
Profit (loss) attributable to shareholders (USD 1000)	(59 581)	(44 495)
Weighted average basic number of shares in issue	862 739 254	659 147 553
Weighted average diluted number of shares	863 185 627	667 346 890
Profit (loss) per share, basic and diluted	**(USD 0.07)**	**(USD 0.07)**

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.

NOTE 8 - CONTINGENT ASSETS AND LIABILITIES

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

NOTE 9 - TRADE AND OTHER RECEIVABLES

On 31 December 2017, trade and other receivables amounted to USD 16,245 thousand. The components of this balance are accounts receivable USD 1,929 thousand, receivables from grants USD 1,222 thousand, VAT-related receivables USD 382 thousand, and pre-payments to suppliers USD 12,601 thousand which primary relates to investments in equipment and machinery at the site in San Jose. Other current receivables amounted to USD 110 thousand.

NOTE 10 - RELATED PARTY TRANSACTIONS

In the period 1 January - 31 December 2017, Thinfilm has recorded USD 428 thousand (net of VAT) for legal services provided by law firm Ræder, in which Thinfilm's Chairman is a partner.

In the same period, Thinfilm has recorded USD 232 thousand (net of VAT) for services provided by Robert N. Keith, a shareholder of Thinfilm, relating to a service agreement under which he assists Thinfilm in strategic analysis and in dealing with larger, international, prospective partners.

Also, in the same period, Thinfilm has recorded USD 34 thousand (net of VAT) for R2R probe card equipment delivered by Translarity, a company in which Thinfilm board member Laura Ann Oliphant is a shareholder.

NOTE 11 - OPERATING COSTS

Amounts in USD 1,000	1 January - 31 December 2017	1 January - 31 December 2016
Payroll	28 124	20 674
Share based remuneration	1 971	1 180
Services	5 937	5 046
Premises, supplies	15 654	11 970
Sales and marketing	3 791	3 000
Other expenses	3 516	281
Total operating costs	**58 994**	**42 151**

NOTE 12 - EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In the Board meeting on 27 February 2018, the Board resolved to grant a total of 2,900,000 Employee Subscription Rights to new and existing employees, each with an exercise price of NOK 2.27.

On January 25, Thinfilm disposed of Linköping equipment with net book value of USD 442 thousand. The sale resulted in an accounting gain of USD 63 thousand.