

BUSINESS REVIEW

In the first quarter, Thinfilm passed its first milestone towards creating integrated systems and introduced the OBA demo game powered by printed rewritable memory.

Highlights:

► **Thinfilm & PARC extend**

commercialization engagement:

Products that include Thinfilm Addressable Memory™ will make it possible for PARC to commercialize its printed transistor technology.

► **The OBA demo game launched:**

Demonstrates Thinfilm's rewritable memories for use in interactive toys and games.

► **Thinfilm wins new product**

innovation award: Frost & Sullivan presented the 2010 Global New Product Innovation Award in Printed Electronic Memories to Thinfilm.



THE OBA DEMO GAME: *Thinfilm's unique printed electronic memories enable interactive games and card-based online monetization.*

In January Thin Film Electronics ASA ("Thinfilm") completed the design of the world's first printed rewritable memory array with logic circuitry, the Thinfilm Addressable Memory™. This marked the first milestone towards creating integrated printed systems.

The design allows compact higher-density printed memories, and enables integration with other printed elements, such as sensors, power sources, and eventually, also antennas.

"We are moving the printed electronics industry beyond components and devices, to full-featured printed electronic systems. Thinfilm Addressable Memory meets the need for creating ubiquitous low-cost tags and disposable printed system," says Davor Sutija, Thinfilm CEO.

Thinfilm & PARC extend commercialization engagement

Addressable memory combines Thinfilm's memory technology with transistor technology developed by PARC, a Xerox Company.

"Activities with PARC have generated significant interest from both prospective customers and technology companies to link printed components, such as electrochromic displays, thin-film batteries, and sensors with Thinfilm memory," Sutija continues.

Thinfilm and PARC have now entered the next phase of their co-innovation en-

gagement where products with Thinfilm addressable memory will be a key avenue for PARC to commercialize its technology. Thinfilm has licensed the right to use PARC background IP related to printing transistors to create unique printed memory applications.

"Thinfilm's focus is shifting towards addressable memories and systems that include these as enablers for fully-printed, disposable devices," explains Sutija.

Thinfilm and PARC's mutual goal is to demonstrate printed addressable memory prototypes by the end of this year. Transfer to production is expected in 2012.

"While our goal is to leverage relationships with strategic partners, it is clear that Thinfilm has the opportunity to develop an expanded roadmap that integrates these components together into complete systems," says Sutija.

The OBA demo game launched

"Cost-sensitive consumer applications are the right proving ground for Printed Electronics. Thinfilm is meeting this challenge

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by delivering prototyping design services to toy manufacturers and engineering quantities of memory labels and memory-enhanced cards," he continues.

The OBA demo game was launched in February. In the OBA reference game the Oba inhabitants evolve and mature their capabilities and powers through acquiring eggs on each game level. Cards with Thinfilm Memory store game status.

Thinfilm's current product offering is Thinfilm Memory™, a 20-bit non-volatile rewritable memory printed in a high-volume roll-to-roll process, and the Thinfilm Memory Controller.

Thinfilm has seen significant interest from the toys and games market, and is also experiencing growing interest from other industries.

"This traction, including discussions of specific toy prototypes, accelerated with the recent launches of the Thinfilm Memory Controller and the OBA game," concludes Sutija.

Thinfilm wins new product innovation award

In March Frost & Sullivan presented the 2010 Global New Product Innovation Award in Printed Electronic Memories to Thin Film Electronics ASA ("Thinfilm"). "A key competitive feature of the technology is that it is fully printable in high volume roll-to-roll machines," stated Frost & Sullivan, and remarked that there is a strong demand for nonvolatile memory products for use in low-cost and low-power flexible electronics applications.

Notable events in 2011:

News and announcements:

- ▶ Thinfilm & PARC extend printed electronics commercialization engagement, 4 April 2011
- ▶ PARC, a Xerox company, takes minority stake in Thinfilm, 24 March 2011
- ▶ Thinfilm Appoints Top Scientists to Technology Council, 9 March 2011
- ▶ Thinfilm wins Frost & Sullivan's new product innovation award, 2 March 2011
- ▶ Thinfilm launches demo game powered by printed memories, 10 February 2011
- ▶ Thinfilm addressable memory design completed, 18 January 2011

Organizational updates:

- ▶ Jennifer Ernst was appointed Vice President, North America, 3 March 2011
- ▶ Torgrim Takle was appointed Chief Financial Officer, 10 January 2011

Conferences and trade shows:

- ▶ Thinfilm presented and exhibited at the IDTechEx conference Printed Electronics Europe 5-6 April 2011 in Düsseldorf
- ▶ Thinfilm presented at the IPI conference, Exploiting Printed Electronics Technologies, 23 March 2011 in London
- ▶ Thinfilm presented and exhibited at the Engage Conference and Expo 2011 15-16 February 15-16 2011 in New York
- ▶ Thinfilm presented at the Flexible Electronics and Displays Conference, 7-10 February 2011 in Phoenix, AZ

About Thinfilm and printed electronics

Thin Film Electronics ASA ("Thinfilm") is a publicly-listed Norwegian technology company with its head office in Oslo and product development in Linköping, Sweden. Thinfilm is a pioneer in the field of Printed Electronics, and provides fully-printed non-volatile, rewritable memory for applications in toys & games, logistics, sensor, and ID systems.

The Printed Electronics market is expected to grow to more than USD 50 billion in market value over the next ten years, according to industry analyst group IDTechEx. IDTechEx predicts that logic, including addressable memory, will be one of the largest segments in this market.

Printed RFID tags are predicted to rapidly gain market share over the coming years. According to IDTechEx, the numbers of printed and chipless RFID tags sold globally will rise from 12 million in 2011 to 209 billion in 2021.

The demand for low cost tags is expected to be driven by retailers' adoption of standard EPC RFID tags in open supply chains. Governments will also drive the RFID boom. The public sector is the largest customer for RFID today, and in the future the use of RFID in transit ticketing, people identification and animal tagging is forecasted to grow.

In parallel to the embracement of item level ID tagging, NFC enabled phones will put an RFID-compatible reader in people's pockets, purses, and backpacks. Major

communication device companies are targeting RF applications for consumer mass markets. Examples of these applications are location tags, advertising and smart packaging.

Using printing to manufacture electronic memory makes it possible to reduce the number of process steps, dramatically reduce manufacturing costs, as well as the environmental impact compared to traditional semiconductor processes. Commercial applications of printed electronics include e-paper, electronic readers, and organic light emitting (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.

Memory is an essential part of most electronics. Memory is required for identification, tracking status and history, and is used whenever information is stored. Thinfilm's non-volatile ferroelectric polymer memory technology is well suited for application with other printed electronics devices because power consumption during read and write is negligible, and as it is permanent, no connection to external power is required for data detainment. Also, the current required to write information is so small that operation would be limited by the battery's lifetime and not its capacity.

CONDENSED CONSOLIDATED FINANCIAL REPORT AS AT 31 MARCH 2011

Thinfilm's revenue in the first quarter of 2011 was NOK 36 thousand, mainly related to product development projects provided to strategic customers and partners. In the first quarter of 2010, revenue amounted to NOK 44 thousand and related to administrative services (not product revenues).

Other operating costs (i.e., all operating costs excluding depreciation and impairment charge) in the quarter was NOK 12.4 million. The corresponding figure for the first quarter 2010 was NOK 6.2 million. The increase is explained by three principal elements. Firstly, Thinfilm incurred up-front licensing and project costs of approximately NOK 3.5 million in the quarter (no similar licensing and project costs were incurred in the first quarter of 2010). These costs were

related to the extended collaboration and licensing agreement between PARC, a Xerox company, and Thinfilm. The up-front licensing costs provide Thinfilm with a term-limited fully paid license (after phase two) for the exclusive use of certain PARC background IP, for the purpose of creating addressable memory and integrated systems containing addressable memory. Secondly, higher manning level and payroll costs because of an increase in marketing and product development activities. At the end of the quarter, there were nine full-time employees in the group (compared to five full-time employees at the end of the first quarter 2010). Lastly, the notional cost of subscription rights (share based compensation) was NOK 2.3 million in the quarter,

an increase of NOK 1.2 million compared to first quarter 2010. This increase is mainly explained by higher employer contribution costs/provisions (related to the subscription rights plan) as the Company's share price has increased compared to first quarter 2010.

Net financial items, mainly exchange gains/losses related to variations in SEK, amounted to a loss of NOK 20 thousand in the quarter. Interest income is insignificant.

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 the first quarter of 2011. 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 in the first quarter was a loss of NOK 12.4 million, corresponding to a loss of NOK 0.04 per basic share. In the

first quarter of 2010, the loss amounted to NOK 6.2 million corresponding to a similar loss of NOK 0.04 per basic share (as the number of shares has increased over the period).

The group's cash balance decreased by NOK 7.5 million in the quarter, where the cash balance on 31 March 2011 amounted to NOK 10.6 million. The corresponding numbers for the first quarter of 2010 were NOK 5.0 million and NOK 4.8 million, respectively. The available liquidity is deemed to be adequate until third quarter 2011, when additional funding will be required.

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 business risk, which may be summarized in the following points: (i) Thinfilm has had minimal revenue to date. (ii) Thinfilm's business plan assumes revenue from products which the company launched in late 2010 and is expected to develop in 2011. (iii) Revenue

from the company's products depend among other things on market factors which are not controlled by Thinfilm. (iv) Thinfilm's intended market is immature and undergoing rapid technological change.

The board has proposed to the annual general meeting 2011 an issue of two warrants for each share issued in the private placement in October 2010. There will be two lots of 23,314,000 warrants per lot, at an exercise price of NOK 0.90 and 1.00, exercisable in October 2011 and October 2012 respectively. The board has proposed to allow an early exercise of the warrants at its sole discretion, and believes the outstanding warrants will provide sufficient funding for the current year, and well into 2012.

At 31 March 2011, the equity amounted to NOK 6.8 million, corresponding to 22 per cent of the share capital.

Outlook

Thinfilm foresees a developing shift towards ubiquitous memory where people and devices can store and retrieve information through portable devices and communicate both with external data sources, and also with memory-enabled objects and sensors in their surroundings (e.g., smart tags). This is our Memory Everywhere™

vision.

Thinfilm concentrates its research and development activities on addressable memories and printed systems. Together with PARC, a Xerox Company, Thinfilm is prototyping addressable array memories that include printed transistors. These prototypes will be ready during 2011. Transfer to production is expected in 2012.

Addressable Thinfilm Memory products will allow integration to create fully printed systems, such as ID tags, sensor tags, and disposable price labels.

Thinfilm's technology staff will continue to improve the production process, provide technical sales support, and aid commercialization efforts with manufacturing partners. They will also work directly with toy and game inventors to integrate printed memories into specific designs

Business development activities will focus on existing toys and games opportunities and new applications and markets.

*Oslo, 9 May 2011
The board of directors of
Thin Film Electronics ASA*

Thin Film Electronics ASA Group

condensed consolidated interim financial statements 31 March 2011 (Unaudited)

Consolidated statements of comprehensive income

<i>Amounts in NOK 1000</i>	Note	1 January - 31 March , 2011	1 January - 31 March , 2010	1 January - 31 December, 2010
Sales revenue		36	0	0
Other operating revenue		0	44	63
Total revenue		36	44	63
Other operating costs	7	(12 382)	(6 167)	(24 678)
Depreciation and impairment charge	3	(54)	(17)	(71)
Operating profit (loss)		(12 400)	(6 140)	(24 686)
Net financial items		(20)	(45)	(207)
Profit (loss) before income tax		(12 420)	(6 185)	(24 893)
Income tax expense		0	0	0
Profit (loss) for the period		(12 420)	(6 185)	(24 893)
Profit (loss) per share basic and diluted	5	(NOK 0.04)	(NOK 0.04)	(NOK 0.12)
Profit (loss) for the period		(12 420)	(6 185)	(24 893)
Currency translation		17	39	160
Total comprehensive income for the period, net of tax		(12 403)	(6 146)	(24 733)

Consolidated statements of financial position

<i>Amounts in NOK 1000</i>	Note	31 March , 2011	31 March , 2010	31 December, 2010
ASSETS	6			
<u>Non-current assets</u>				
Property, plant and equipment	3	930	154	759
<u>Current assets</u>				
Trade and other receivables		1 827	216	1 829
Cash and cash equivalents		10 568	4 844	18 054
Total current assets		12 395	5 060	19 883
TOTAL ASSETS		13 325	5 214	20 642

EQUITY AND LIABILITIES

<u>Equity</u>				
Ordinary shares	4	30 832	16 018	30 649
Share premium		21 762	4 064	19 233
Other paid-in equity		7 761	3 405	6 247
Currency translation		130	(8)	113
Retained earnings		(53 663)	(22 535)	(41 243)
Total equity		6 822	944	14 999
<u>Liabilities</u>	6			
Trade and other payables		6 503	4 270	5 643
TOTAL EQUITY AND LIABILITIES		13 325	5 214	20 642

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 2011		30 649	19 233	6 247	113	(41 243)	14 999
Share issue 23 March		183	2 528				2 711
Share based compensation	4			912			912
Reversal of charges in a prior period				602			602
Comprehensive income					17	(12 420)	(12 403)
Balance at 31 March 2011		30 832	21 762	7 761	130	(53 663)	6 822
Balance at 1 January 2010		16 018	4 064	2 464	(47)	(16 350)	6 149
Share based compensation	4			941			941
Comprehensive income					39	(6 185)	(6 146)
Balance at 31 March 2010		16 018	4 064	3 405	(8)	(22 535)	944
Balance at 1 January 2010		16 018	4 064	2 464	(47)	(16 350)	6 149
Share issue 7 May, board remuneration		32					32
Warrant exercises 31 May and 6 November		12 034	(277)				11 757
Private placement 1 October		2 565	15 446				18 011
Share based compensation	4			3 783			3 783
Comprehensive income					160	(24 893)	24 733
Balance at 31 December 2010		30 649	19 233	6 247	113	(41 243)	14 999

Consolidated cash flow statements

<i>Amounts in NOK 1000</i>	Note	1 January - 31 March , 2011	1 January - 31 March , 2010	1 January - 31 December, 2010
CASH FLOW FROM OPERATING ACTIVITIES				
Operating profit (loss)		(12 400)	(6 140)	(24 686)
Gain on sale of fixed assets		-	-	-
Share based payment	4	912	941	3 783
Depreciation and impairment	3	54	17	71
Changes in working capital and non-cash items		4 159	161	(186)
Interest paid		-	1	(2)
Net cash from (used) on operating activities		(7 275)	(5 019)	(21 020)
CASH FLOW FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment	3	(225)	-	(650)
Sale of fixed assets		-	-	-
Interest received		10	2	12
Net cash from (used) on investing activities		(215)	2	(638)
CASH FLOW FROM FINANCING ACTIVITIES				
Proceeds from issuance of shares	4	-	-	29 800
Net cash from (used) on financing activities		-	0	29 800
Currency translation effects on cash and bank deposits		4	17	69
Net increase (decrease) in cash and bank deposits		(7 486)	(5 000)	8 210
Cash and bank deposits at the beginning of the period		18 054	9 844	9 844
CASH AND BANK DEPOSITS AT THE END OF THE PERIOD		10 568	4 884	18 054

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. The Thinfilm Group was formed on 15 February 2006 when the company purchased the business and assets, including the subsidiary Thin Film Electronics AB ("Thinfilm AB"), from Thin Film OldCo AS ("OldCo"). The accounting year corresponds to the calendar year. Thinfilm AB is held 100 per cent and has been consolidated from 15 February 2006.

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 interim financial report for the first quarter of 2011 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 2010.

The IFRS accounting policies applied in this condensed consolidated interim financial report are consistent with those applied and described in the consolidated annual financial statements for 2009.

The going concern assumption has been applied when preparing this interim financial report. The board points out that until the company enters the commercial stage, there is significant uncertainty attached to this assumption. Thinfilm does not earn recurring revenue. The company has limited working capital. There were limited

assets readily available for sale to cover future expenses. The board points out that it has proposed to the annual general meeting 2011 an issue of two warrants for each share issued to in the private placement in October 2010. There will be two lots of 23,314,000 warrants per lot, at an exercise price of NOK 0.90 and 1.00, exercisable in October 2011 and October 2012, respectively. However, the board has proposed to allow an early exercise of the warrants at its sole discretion. The board takes for its basis that the warrants will be exercised.

This consolidated interim financial report has not been subject to audit. The report was resolved by the board of directors on 9 May 2011.

Note 3: Property, plant and equipment

Amounts in NOK 1000

Tangible

Three months ended 31 March 2011

Net book value on 1 January 2011	759
Additions	225
Disposals	0
Depreciation, impairment and other movements	(54)
Net book value on 31 March 2011	930

Three months ended 31 March 2010

Net book value on 1 January 2010	168
Additions	0
Disposals	0
Depreciation, impairment and other movements	(14)
Net book value on 31 March 2010	154

Year ended 31 December 2010

Net book value on 1 January 2010	168
Additions	650
Disposals	0
Depreciation, impairment and other movements	(59)
Net book value on 31 December 2010	759

Note 4: Shares, warrants and subscription rights

<i>Number of shares</i>	Number of shares
Shares on January 1 2011	278 626 406
Share issue 23 March 2011	1 663 680
Shares on 31 March 2011	280 290 086
Shares on 1 January 2010	145 622 654
Shares on 31 March 2010	145 622 654
Shares on 1 January 2010	145 622 654
Share issue 7 May, board remuneration	288 500
Warrants exercised 31 May and 6 November	90 120 870
Share issue 1 October 2010	23 314 000
Warrants exercised 1 September - 6 November 2010	19 280 382
Shares on 31 December 2010	278 626 406

1,663,680 shares were issued on 23 March 2011 in a private placement to PARC, a Xerox company. The subscription price was NOK 1.674 per share, and the amount paid was a set-off of receivables related to the collaboration and licencing agreement between PARC and Thinfilm.

<i>Number of warrants and subscription rights</i>	1 January - 31 March , 2011	1 January - 31 March , 2010	1 January - 31 December, 2010
Warrants and subscription rights opening balance	12 540 417	115 607 212	115 607 212
Grant of incentive subscription rights	2 000 000	1 000 000	7 400 000
Terminated and expired subscription rights	-	-	(781 250)
Exercise and expiry of warrants	-	-	(109 685 545)
Warrants and subscription rights	14 540 417	116 607 212	12 540 417

Note 5: Profit (loss) per share

	1 January - 31 March , 2011	1 January - 31 March , 2010	1 January - 31 December, 2010
Profit (loss) attributable to shareholders (NOK 1000)	(12 420)	(6 185)	(24 893)
Weighted average basic number of shares in issue	278 775 950	145 622 654	206 644 974
Weighted average diluted number of shares	283 346 702	245 549 377	255 516 923
Profit (loss) per share, basic and diluted	(NOK 0.04)	(NOK 0.04)	(NOK 0.12)

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: Related party transactions

In the period 1 January - 31 March 2011, Thinfilm has recorded NOK 210 thousand for legal services provided by law firm Ræder, in which Thinfilm's chairman is a partner. John Markus Lervik, who at the date of this report controls about 9 per cent of the shares in Thinfilm, has charged NOK 263 thousand plus expenses for services provided January 1– March 31 2011

Note 8: Events occurring after the balance sheet date

Between 31 March 2011 and the presentation of this condensed consolidated financial information, no events having any material impact on the result for the first quarter 2011 or the value of Thinfilm's assets and liabilities at 31 March 2011 have occurred.