



IMPACT COATINGS AB (PUBL), INTERIM REPORT JANUARY-MARCH 2018

SIGNIFICANT EVENTS DURING THE PERIOD

- **Coating production to Michelin's fuel cell manufacturing**
- **Delayed delivery to Huaqing Power Technology (China)**

FINANCIAL RESULTS FIRST QUARTER 2018

- **Net sales amounted to SEK 7 141 thousand (18 451)**
- **Operating profit amounted to SEK -6 102 thousand (-404)**
- **Net income after financial items amounted to SEK -6 121 thousand (-406)**
- **Cash flow amounted to SEK -3 766 thousand (-12 159)**
- **Equity-to-assets ratio amounted to 88,9% (69,3)**

CEO'S COMMENTARY

During the period, we have continued working on our intensified efforts primarily in the Chinese fuel cells market, but also in greater Asia, Europe and North America.

We see a continued strong interest in our offering and we receive increasing evidence that we have the best fuel cell coating on the market. This is based on verifications we receive from auto manufacturers that test our coatings.

Important European order

Interest is greatest in the Chinese market and it is there things are moving quickest. We see, however, an increased interest even in the European market, highlighted by the order from Michelin regarding production of Ceramic MAXPHASE™-coatings on fuel cell plates for their fuel cell manufacturing. The Michelin order is small but important, giving us tailwinds in discussions with other players in Europe as well as Asia.

We also see a high interest from the European auto industry for our coating systems for vehicle reflectors.

Long lead times

It takes time, however, for discussions and verifications to become concrete business deals. International auto manufacturers have lead times of five to seven years from the start of a new model development program to the start of production.

In the Chinese market the time is shorter, but it involves in any case a couple of years.

The market suffers at times from long lead times to produce newly constructed metal plates for fuel cells, i.e., the plates that we coat. It can take four to twelve months from drawing board to delivery. Several producers of metal plates are addressing this problem and are working to reduce the lead times.

With respect to China, it has been relatively calm during the beginning of the year. It is normally difficult to close deals in China during the start of the year. The Chinese New Year falls in the middle of our first quarter, and causes a calm period both before and after.

Due to the above factors, we have not been able to report any larger order during the quarter. As we reported in January, we have even received certain delays to the delivery of coating systems to the Chinese fuel cell manufacturer Huaqing Power Technology.

Clearer business approach

During the start of the year, we have worked on creating a clearer business approach with respect to our customers, to avoid negative surprises in new markets.

The approach entails that orders are not considered valid until pre-payment has been made, a Letter of Credit is issued, or the payment in some other way has been secured. Orders shall include only those coating systems meant for delivery near-term and for which customers have verified payment through pre-payment or where the payment is otherwise secured.

Demo center and sales initiatives

During the period, we have begun our initiatives on marketing and sales, including development of a demo center.

The planned work toward creating a representative demo center in Linköping has begun. We are building two machines, one to demonstrate coating of fuel cell plates and one for vehicle reflectors. The machines can also be delivered to customers in the event a fast turnaround is needed.

We have during the period strengthened the marketability of our offering and begun recruiting personnel to strengthen our sales capability. We have even streamlined our branding strategy and henceforth will market all of our coating machines under the product family name INLINECOATER™ and our coating processes under the product family name MAXPHASE™.

Our partner and distributor Optorun is intensifying its work to achieve the goals of our agreement. The Japanese company has during the quarter initiated a recruiting process to further strengthen the sales team and thereby increase sales of our coating systems.

With these actions and activities in place, we see a bright future ahead.

Linköping 2018-04-20
Henrik Ljungcrantz, CEO Impact Coatings

ECONOMIC DEVELOPMENT

Net sales during the period amounted to SEK 7 141 thousand (18 451). Operating expenses amounted to SEK -13 243 thousand (18 855). Operating profit before depreciation and other operating expenses amounted to SEK -6 102 thousand (-404). Operating profit before tax amounted to SEK -6 121 thousand (-406). Cash flow amounted to SEK -3 766 thousand (-12 159).

As in previous years' reporting, no provision for deferred tax assets has been made.

Financial position and liquidity

Liquid assets amounted to SEK 61 620 thousand (9 988) at the end of the period. Work in progress not yet invoiced (accrued revenue) amounted to SEK 12 983 thousand (10 280) at the end of the period. Corresponding invoiced, not completed revenue (deferred revenue) amounted to SEK 9 778 thousand (1 842).

Equity-to-assets ratio amounted to 88,9% (69,3).

Cash flow from operations during the period amounted to SEK -3 696 thousand (-12 159).

Cash flow from financing amounted to SEK -70 thousand (0). Total cash flow for the period was SEK -3 766 thousand (-12 159).

SALES AND MARKET

In conjunction with the fuel cell conference FC Expo held in Tokyo in February, we launched INLINECOATER™FC for the Asian market. The coating system is significantly improved in terms of productivity and is optimized for coating fuel cell plates in volume production. The launch will continue during the Hannover Messe to be held 23-27 April 2018.

The cooperation with Optorun continues with work ongoing for existing as well as new potential customers. With support from Impact Coatings in Sweden, customer offerings are being shaped that meet market demands of advanced coating systems.

During the recent quarter, Optorun has started the recruiting process to further strengthen the sales team in order to intensify sales of Impact Coatings coating systems, and achieve the agreed goals in the cooperation agreement. Optorun has recently completed a successful IPO and is now listed on the Japanese stock exchange.

Below we describe the status in the market segments where Impact Coatings is primarily focusing: Fuel Cells and Reflectors. The company also is working actively in Metallization/Decorative coatings and Electrical contacts.

As a step toward focusing the marketing of coating systems and coatings, partly new product names were launched during the quarter. All of the company's coating systems now fall under the product family name INLINECOATER™.

Fuel cells

Huaqing Power Technology has had to delay their start of production. As announced earlier via press release, this implies the delivery of the agreed coating system is pushed forward.

China Hydrogen Energy, to which our deliveries have been delayed, is in negotiations with a larger player that is planning to take a majority ownership stake in the company. These negotiations are ongoing, and when they are complete a new timeplan for production and delivery of Impact Coatings coating systems will be agreed.

Telos Auto, with which Impact Coatings has a cooperation agreement, is planning to migrate to metal fuel cell plates. Impact Coatings is now coating plates from Telos Auto on a testing basis for verification of Ceramic MAXPHASE™ in their fuel cell system.

Impact Coatings has delivered coated plates in accordance with a disclosed order to a leading East Asian auto manufacturer. The time plan is aggressive and all parties involved are working together to evaluate the coating as quickly as possible.

Fuel cell production for Michelin has started at Impact Coatings' facility in Linköping. The work comprises the starting phase of a process through which Michelin will be able to deliver its first fuel cell system to customers. Volumes are expected to increase over time.

Symbio FCell has also received coatings from Impact Coatings during the period.

The number of potential customers has increased following the FC Expo in Tokyo, which is the world's largest fuel cell conference. At the moment, we are following up contacts with prospective customers through their visiting Impact Coatings in Linköping, and production for evaluation of coatings is starting. Several of these potential customers need scalable production lines for coatings within the near future.

Reflectors

Impact Coatings sees a continued increasing interest from the automotive industry in our coating system for reflectors. Above all, the possibility of integrating Impact Coatings' system in the production flow is generating interest. The company is negotiating with several reflector producers, which in turn deliver to auto manufacturers.

Impact Coatings has during the period developed a new application regarding coating of radar emblems. Radar emblems are a fundamental component in an application that is integrated in cars to increase safety through avoidance of pedestrians, obstacles, or other vehicles. The radar is placed behind the emblem in the car's grill and the emblem therefore needs to have a special transparent coating. Impact Coatings has a competitive technology to coat radar emblems, and the market and customers are principally the same as for reflectors.

RESEARCH & DEVELOPMENT

Impact Coatings' strategy is to be the leading player in its chosen segments. R&D is therefore a priority.

We continue therefore our work with improving the efficiency of the coatings required for delivering world-leading niche products. Additional projects have therefore commenced to develop the next generation of coatings and coating systems.

Impact Coatings' development work is also focusing on supporting the manufacturing and "productification" of the coating machines. There is also an emphasis on supporting the sales organization through focused development and testing within the prioritized market segments, Reflectors and Fuel Cells.

PRODUCTION

The coating operations that take place in Impact Coatings' facilities in Linköping have an increased responsibility now to support sales of coating systems. It is a clear advantage to be able to deliver customer samples quickly and with high quality, support the customer's development and deliver pre-production smaller series, not least within the Fuel Cells market segment.

The company also continues to develop pure subcontracting services in the different market segments. Coating of fuel cell plates is now the largest application and is expected to increase during 2018 and 2019. Among others, production of coatings of fuel cell plates for Michelin has started during the quarter.

The coating machine being produced for Borit NV and developed under the EuroStar project Pro-FC will be ready for testing during April. The machine will first run at Impact Coatings' facilities to tune the coating processes. Afterwards, we expect the machine to be moved to Borit's own production environment during the third quarter this year.

Production of the coating machine for Xin Point is proceeding according to plan and will in June be shipped from Sweden to Xin Point in China.

Production of two demonstration machines has begun.

Linköping 2018-04-20

Henrik Ljungcrantz
CEO

AUDITOR'S REVIEW AND ACCOUNTING PRINCIPLES

This interim report has not been subject to auditor review.

UPCOMING FINANCIAL EVENTS

Annual general meeting:	17 May 2018
Interim report for the second quarter 2018:	17 August 2018
Interim report for the third quarter 2018:	26 October 2018
Year-end report for 2018:	15 February 2019

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Impact Coatings AB (publ) is required to disclose this information in accordance with EU market abuse regulations. The information was delivered, via the contact person named above, for publication on 20 April 2018, 08:00 CET.

Financial basis for quarterly report January-March 2018

Income statement

	Jan-Mar 2018	Jan-Mar 2017	Jan-Dec 2017	Jan-Mar 2016
<i>(All amounts in SEK '000)</i>				
Net revenue	6 422	18 429	25 014	10 986
Capitalized work for own account	0	0	5 360	0
Other operating income	719	22	44	413
Total income	7 141	18 451	30 418	11 399
Raw materials	-3 026	-10 457	-23 425	-3 728
Other external costs	-4 339	-4 151	-14 752	-3 232
Personnel costs	-5 065	-3 847	-20 663	-3 894
Write-offs and depreciation of tangible and intangible assets	-452	-308	-1 216	-375
Other operating expenses	-361	-92	-473	-29
Operating profit	-6 102	-404	-30 111	140
Interest income and similar items	0	0	1 777	4
Interest expense and similar items	-19	-1	-1 553	-4
Operating profit after financial items	-6 121	-406	-29 887	140
Tax expense on profits in the period	0	0	0	0
Net income for the period	-6 121	-405	-29 887	140
Earnings per share (kr)	Neg	Neg	Neg	0,01
Average shares outstanding during the period	42 551 908	32 136 764	32 479 180	30 250 288
Shares outstanding at period end	42 551 908	32 136 764	42 551 908 ²	30 250 288

¹ Tax is calculated solely for the full-year results in conjunction with closing of the annual accounts.

² Share issuance of 10 415 144 shares, subscribed 19 December 2017 and registered 15 January 2018.

Balance Sheet

	2018-03-31	2017-03-31	2017-12-31
<i>(All amounts in SEK '000)</i>			
ASSETS			
Long-term assets			
Capitalized development expenditure	5 620	2 084	5 931
Machines and technical equipment	7 094	4 339	7 235
Inventory, tools, and finished goods	0	23	0
Shares in subsidiary			
Long-term assets	100	100	100
Total long-term assets	12 814	6 546	13 266
Short-term assets			
Raw materials	5 362	4 517	4 395
Work in progress	6 197	5 500	5 500
Accrued revenue	12 983	10 280	7 371
Other short-term receivables	8 783	12 358	28 114
Cash and liquid assets	61 620	9 988	65 386
Total short-term assets	94 950	42 643	110 766
TOTAL ASSETS	107 759	49 189	124 032
SHAREHOLDER EQUITY AND LIABILITIES			
Shareholder equity	95 796	36 801	101 987
Deferred revenue	9 778	1 842	9 778
Other short-term liabilities	2 185	10 546	13 267
TOTAL SHAREHOLDER EQUITY AND LIABILITIES	107 759	49 189	124 032
³ of which interest-bearing debt	0	0	2 061
Pledged assets	0	0	8 000
Contingent liabilities	100	100	100

Changes to shareholder equity

	2018-03-31	2017-03-31	2017-12-31
<i>(All amounts in SEK '000)</i>			
Opening balance	101 987	37 206	37 206
Share issuance	0	0	94 668
Net income for the period	-6 121	-405	-29 887
Ending balance	95 796	36 801	101 987
Average shares outstanding during the period	42 551 908	32 136 764	32 479 180
Shares outstanding at period end	42 551 908	32 136 764	42 551 908 ²

² Share issuance of 10 415 144 shares, subscribed 19 December 2017 and registered 15 January 2018

Statement of Cash Flows

	Jan-Mar 2018	Jan-Mar 2017	Jan-Dec 2017
<i>(All amounts in SEK '000)</i>			
Operating profit after depreciation	-6 102	-404	-30 111
Financial items (net)	-19	-1	224
Adjustment for non-cash items	452	308	1 216
Cash flow from operations before change in working capital	-5 669	-97	-28 671
Change in working capital	1 973	-12 062	-1 5131
Cash flow from operations	-3 696	-12 159	-43 802
Cash flow from investments	0	0	-7 628
Cash flow from financing activities	-70	0	94 668
Cash flow for the period	-3 766	-12 159	43 238
Liquid assets, opening balance	65 386	22 147	22 147
Liquid assets, ending balance	61 620	9 988	65 386
Liquidity ratio period end, %	697	224	457

Summary of financial development

The financial development of Impact Coatings AB for the periods January-March 2018 and 2014 – 2017 is summarized below.

All figures related to the operating years 2014 – 2017 are based on material from previously published annual reports.

	2018	2017	2016	2015	2014
<i>(All amounts in SEK '000)</i>					
Revenue	6 422	25 014	24 201	22 496	5 966
Operating profit	-6 102	-30 111	-6 912	-12 039	-20 772
Financial items (net)	-6 121	-29 887	-6 917	-12 524	-20 663
Operating margin	%	Neg	Neg	Neg	Neg
Intangible assets	5 620	5 932	2 091	40	66
Tangible assets	7 094	7 235	4 664	7 087	11 526
Financial assets	100	100	100	100	100
Inventory	11 559	9 895	9 627	7 243	7 311
Short-term accruals	21 766	35 485	17 251	5 285	2 129
Cash and liquid assets	61 620	65 386	22 147	1 956	10 260
Shareholder equity	95 796	101 987	37 206	14 551	27 075
Long-term liabilities	0	0	0	0	0
Short-term liabilities	11 963	23 045	18 674	7 160	4 317
Total assets	107 759	124 032	55 880	21 711	31 392
Return on assets	%	Neg	Neg	Neg	Neg
Return on equity		Neg	Neg	Neg	Neg
Equity/assets ratio		88,9	85,4	66,6	67,0
Debt ratio	times	0	0,02	0	0
Interest coverage ratio		Neg	Neg	Neg	Neg
Liquidity ratio	%	697	457	196	101
Employees		21	21	19	18
Investments					
Intangible assets	0	4 151 ¹⁰	2 077 ⁹	0	0
Tangible assets	0	3 477	2 091	-2 708 ⁵	5 373 ⁴
Financial assets	0	0	0	0	100
Earnings per share		Neg	Neg	Neg	Neg
Average shares outstanding during the period		42 551 908	32 479 180 ⁸	31 193 526 ⁷	30 250 288
Shares outstanding at period end		42 551 908	42 551 908 ⁸	32 136 764 ⁷	30 250 288 ⁶

⁴ Of the year's investments of 5 373, 5 282 represents a re-classification from short-term accruals to machines and technical equipment.

⁵ Investments for the year include the sale of one production machine.

⁶ Share issuance of 10 083 429 shares, subscribed 13 June 2014 and registered 3 July 2014.

⁷ Share issuance of 1 886 476 shares, subscribed 23 March 2016 and registered 1 April 2016.

⁸ Share issuance of 10 415 144 shares, subscribed 19 December 2017 and registered 15 January 2018.

⁹ Investments of 2 077 represent a re-classification from development expense to intangible assets.

¹⁰ Investments of 4 151 represent a re-classification from development expense to intangible assets.

Definition of terms:

Operating margin	Operating profit after financial items divided by revenue
Shareholder equity	Sum total of shareholder equity, restricted reserves and non-restricted equity
Return on assets	Operating profit before interest divided by average capital employed
Return on equity	Net income after tax divided by average shareholder equity
Equity/assets ratio	Shareholder equity divided by balance sheet total
Debt ratio	Interest-bearing debts divided by shareholder equity
Interest coverage ratio	Operating profit before interest expenses divided by interest expenses
Earnings per share	Net income after tax divided by average number of shares
Liquidity ratio	Cash and short term assets excl. inventory divided by short term liabilities