



IMPACT COATINGS AB (PUBL), INTERIM REPORT JULY-SEPTEMBER 2018

FINANCIAL RESULTS THIRD QUARTER 2018

- Net sales amounted to SEK 5 305 thousand (6 964)
- Operating profit amounted to SEK -8 758 thousand (-4 103)
- Net income after financial items amounted to SEK -8 760 thousand (-4 898)
- Cash flow amounted to SEK 7 037 thousand (-11 719)
- Equity-to-assets ratio amounted to 62.5% (42.7)

FINANCIAL RESULTS JANUARY-SEPTEMBER 2018

- Net sales amounted to SEK 16 469 thousand (28 198)
- Operating profit amounted to SEK -28 385 thousand (-18 505)
- Net income after financial items amounted to SEK -28 406 thousand (-19 306)
- Cash flow amounted to SEK -8 427 thousand (-19 941)
- Equity-to-assets ratio amounted to 62.5% (42.7)

SIGNIFICANT EVENTS THIRD QUARTER 2018

- Orders for two coating machines from existing customers in the Decorative, Metallization and Reflective coatings segments (DMR)
- Order for one coating machine for fuel cells, which involves the re-allocation of an already-completed coating machine
- Classification of orders from China Hydrogen Energy and Huaqing Power Technology as no longer valid, following a thorough review
- Previous CEO terminated following preliminary results of independent accounting investigation
- Extraordinary general meeting of shareholders resolved to elect a new auditor

SIGNIFICANT EVENTS AFTER PERIOD-END

- Torbjörn Sandberg appointed new ordinary CEO and Rosina Gartz appointed new interim CFO
- Report from independent investigation of previous CEO confirms preliminary results and is handed over to the Swedish Economic Crime Authority

Impact Coatings develops and delivers world-leading technology for industrial PVD-coatings with a focus on fuel cell, decorative, metallization, and reflector applications. PVD is a method of, under vacuum, producing thin layers of metals and ceramics – surface coatings that maximize performance and durability. Impact Coatings markets coating equipment under the trade name INLINECOATER™ and coatings under MAXPHASE™. The company's shares trade on the Nasdaq First North exchange (Nasdaq OMX Nordic). The company's Certified Adviser is Redeye AB.

For more information visit www.impactcoatings.com.

CEO's COMMENTARY

During the third quarter, we have continued our work in structuring the business, in line with the goal of lifting Impact Coatings from a development company to one that is fully industrialized. Reaching that goal requires commercial discipline, continued technical leadership, clear processes for sales and production, and world-class quality. Considering our current state and the level of competence we have internally, I am convinced that we have a strong starting position.

We are focused on the future and have during the quarter presented the company's updated strategy as well as a stream of positive news items connected to orders, which are in line with our new direction. We are focusing now on growing revenues and becoming profitable, while we are pleased to show positive cash flow for the third quarter, which is partly based on customer pre-payments.

The updated strategy was described briefly in the prior quarterly report and in more detail during the webcast at the end of September. For a complete picture, please visit our homepage and view the webcast in its entirety.

During the quarter we disclosed two new deals with repeat customers in the Decorative, Metallization, and Reflective coatings segments (DMR). Varioplast (Germany), which already uses our coating technology, has ordered an INLINECOATER™M for delivery early 2019. We have also received an order from a well-known Swiss watch manufacturer for an INLINECOATER™D with delivery planned for the first half of 2019.

In addition, we have quickly re-allocated an already-completed coating machine for fuel cells that has been available for sale. It was produced for one of the orders from China that were early in the period determined to be no longer valid. The new customer, Henan Yuqing Power Co., Ltd. (China), has pre-paid 80% of the order value. This approach is fully in line with our enhanced focus on commercial discipline and reliable analysis of customers in new markets.

We have determined that it makes better business sense not to move a coating machine to Borit in Belgium as planned to start coating production there, which is explained in more detail below. Under our new management, discussion also continue with Oporun regarding how the relationship can best be aligned with Impact Coatings' updated strategy.

Structure and discipline in operations and in our business relationships form a cornerstone as we continue developing the company according to our updated strategy and towards new goals. I am confident in what we can accomplish during the coming years.

Torbjörn Sandberg

FINANCIAL RESULTS

Third quarter 2018

Third quarter revenue amounted to SEK 5 305 thousand (6 964) and operating profit was SEK -8 754 thousand (-4 103). Operating profit before depreciation and other operating costs amounted to SEK -6 642 thousand (-3 826). Earnings before tax amounted to SEK -8 760 thousand (-4 898). The difference in operating profit compared to the third quarter 2017 is primarily due to lower sales, higher depreciation, currency losses, and impairment of inventory.

Cash flow during the period amounted to SEK 7 037 thousand (-11 719). Cash flow from operations amounted to SEK 7 037 thousand (-7 941). Cash flow from investments amounted to SEK 0 thousand (-3 778).

Two machines that have been produced for the now invalid orders from China Hydrogen Energy and Huaqing Power Technology have been booked over time under the heading "Accrued revenue" with a total value of SEK 15 158 thousand. One unit is now used in production for fuel cell customers. The other unit has been booked as finished goods inventory and has been available for sale.

The machine that is used in fuel cell production has been re-classified to production assets with a value of SEK 7 579 thousand.

The second machine has been re-classified to inventory with a value of SEK 7 579 thousand, which does not include costs for customer specific adaptation. When the machine is sold for a value exceeding its booked value, revenue and profit from the sale will be recognized. This machine has now been ordered by Henan Yuqing Power Co., Ltd. (China).

During 2016 and 2017, SEK 15 158 thousand in total was recognized as revenue for these machines, which reflects Impact Coatings' costs and does not reflect any profit. Because the transactions in accounting terms should be viewed as capitalized costs for own account, there will be no revenue restatement for these periods.

Since both machines have been booked at a value corresponding to manufacturing cost and excluding any profit, and since both are deemed fully valued assets considering market activities and commercial demand, there are for the time being no impairments or other re-valuations planned.

The re-classifications described above have no effect on cash flow.

Provisions for deferred tax assets have, as in previous years' accounts, not been accounted for.

January - September 2018

Revenue during the period January-September amounted to SEK 16 469 thousand (28 198) and operating profit amounted to SEK -28 385 thousand (-18 505). Gross profit amounted to SEK 6 348 thousand, 38,5% of sales (8 168, 29,0%). Operating profit before depreciation and other operating costs amounted to SEK -24 645 thousand (-17 325). Earnings before tax amounted to SEK -28 406 thousand (-19 306).

Cash flow during the period amounted to SEK -8 427 thousand (-19 941). Cash flow from operations amounted to SEK -8 357 thousand (-14 824). Cash flow from investments amounted to SEK 0 thousand (-5 117). Cash flow from financing amounted to -70 thousand (0).

Provisions for deferred tax assets have, as in previous years' accounts, not been accounted for.

Financial position and liquidity

At the end of the period, liquid assets amounted to 56 959 thousand (2 206).

Equity-to-assets ratio amounted to 68,4% (83,3).

EVENTS DURING THE THIRD QUARTER

The company received three coating system orders during the period:

Varioplast GmbH (Germany) ordered an INLINECOATER™M. The machine will be used for metallization of plastic components for the automotive industry. Varioplast already uses coating technology from Impact Coatings. The order value is approximately SEK 6 million. Delivery is planned for the beginning of 2019.

An additional existing customer, a well-known Swiss watch manufacturer, ordered an INLINECOATER™D for decorative coatings of watch components. The order value is of the order SEK 7 million and delivery is planned for the first half of 2019.

Henan Yuqing Power Co., Ltd. (China) ordered a coating system, which includes an INLINECOATER™FC machine and licensing agreement. The coating system will be used for coating bipolar plates for fuel cells using Ceramic MAXPHASE™. The customer will primarily deliver fuel cell stacks to the rail transport industry and has for this application a close cooperation with well-regarded Tongji University in Shanghai. The order value is on the order of SEK 12 million and the customer has pre-paid 80% of the order value. Delivery is planned for the first half of 2019. The order involves re-allocating a coating machine for fuel cells that was completed for one of the now invalid orders from China (see below) and has therefore become available for sale.

The coating machine that was planned to be moved to Borit in Belgium will until further notice stay at Impact Coatings. According to the agreement described in the press release dated February 24, 2016, Impact Coatings intended to own the machine and receive revenues from coating production services carried out at Borit's premises. We have now jointly determined that it makes more business sense for the machine to stay at Impact Coatings. The revised approach is not yet finalized but will in any case not affect income. Impact Coatings will continue to sell coating services for Borit's production of fuel cell plates.

At the start of the period, we disclosed the result of a review carried out under Impact Coatings' new leadership regarding previously communicated orders from China Hydrogen Energy and Huaqing Power Technology. The review concluded that the likelihood of the customers' meeting their contractual obligations was sufficiently low that the orders should be considered no longer valid.

Early in the period we disclosed that previous CEO Henrik Ljungcrantz was terminated without further severance payments. The reason was an ongoing investigation by PwC, at the instruction of the board of directors, which indicated that Henrik Ljungcrantz has violated rules for expense reimbursement over several years. It was also communicated that the board would hand over the final investigation report to the Swedish Economic Crime Authority and call shareholders to an extraordinary general meeting to elect a new auditor.

On September 11, an extraordinary general meeting of shareholders was held in Stockholm. In line with the recommendation of the board of directors, PwC was elected new company auditor as of the date of the meeting.

The company's updated strategy was presented via live webcast on September 26. The webcast can be viewed in its entirety via the company's homepage, http://www.impactcoatings.com/strategy_webcast_2018.

EVENTS AFTER PERIOD END

After the period end, Torbjörn Sandberg was appointed and began as the company's ordinary CEO, after having been interim CEO since May 28, 2018. At the same time, it was announced that Rosina Gartz will join as interim CFO from October 22. She replaces Anders Nilsson, who will retire.

PwC delivered its final report regarding the investigation into expense reimbursements to former CEO Henrik Ljungcrantz. The final report confirms the preliminary results. The board of directors has submitted the report to the Swedish Economic Crime Authority for further processing and will seek to recover the expense reimbursements the investigation identified as incorrectly paid out as well as the costs for the investigation itself.

AUDIT AND ACCOUNTING POLICIES

This interim report has not been subject to auditor review.

UPCOMING FINANCIAL EVENTS

Year-end report for 2018	15 February 2019
Interim report for the first quarter 2019	25 April 2019
Annual general meeting 2019	15 May 2019

Visit also Redeye Tech Day 2018 in Stockholm on November 20 (also broadcast as a webcast), where we will present the company, our technology, markets, and the company's updated strategy.

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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 persons named above, for publication on October 26, 2018, at 8:00 a.m. CEST.

INCOME STATEMENT

<i>(All amounts in SEK 000)</i>	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017	Jan-Dec 2017
Net revenue	3 569	3 176	12 624	22 921	25 014
Capitalized work for own account	0	3 788	0	5 277	5 360
Change of work in progress	1 722	0	3 098	0	0
Other operating income	14	0	747	0	44
Total income	5 305	6 964	16 469	28 198	30 418
Raw materials	-274	-2 147	-10 121	-20 030	-23 425
Gross profit	5 031	4 817	6 348	8 168	6 993
Gross margin %	94,8	69,2	38,5	29,0	23,0
Other external cost	-7 161	-3 654	-16 048	-11 652	-14 752
Personnel cost	-4 512	-4 989	-14 945	-13 841	-20 663
Write off and depreciation of tangible and intangible assets	-642	-141	-1 546	-755	-1 216
Other operating expenses	-1 474	-136	-2 194	-425	-473
Operating profit	-8 758	-4 103	-28 385	-18 505	-30 111
Interest income and similar items	0	0	0	0	1 777
Interest expenses and similar items	-2	-795	-21	-801	-1 553
Operating profit after financial items	-8 760	-4 898	-28 406	-19 306	-29 887
Tax expenses on profit in the period	0	0	0	0	0
Net income for the period	-8 760	-4 898	-28 406	-19 306	-29 887
Earnings per share (kr)	Neg	Neg	Neg	Neg	Neg
Average shares outstanding during the period	42 551 908	32 479 180	42 551 908	32 479 180	32 479 180
Shares outstanding at period end	42 551 908	32 479 180	42 551 908	32 479 180	42 551 908 ¹

¹ Share issuance of 10 415 144 shares, subscribed December 19, 2017, and registered January 15, 2018.

BALANCE SHEET

<i>(All amounts in SEK 000)</i>	2018-09-30	2017-09-30	2017-12-31
Assets			
Long term assets			
Capitalized development expenditures	4 997	7 195	5 931
Machines and technical equipment	14 198	3 899	7 235
Inventory, tools and finished goods	0	23	0
Financial assets			
Shares in subsidiary	100	100	100
Total long term assets	19 295	11 217	13 266
Short term assets			
Raw materials	13 508	7 949	4 395
Work in progress	3 098	5 500	5 500
Finished goods	7 579	0	0
Accrued revenue	0	4 310	7 371
Other short term receivables	7 046	10 697	26 386
Cash and liquid assets			
Unrestricted cash	53 934	2 206	65 386
Restricted cash	3 025	0	0
Total short term assets	88 190	30 662	109 038
Total assets	107 485	41 879	122 304
SHAREHOLDERS EQUITY AND LIABILITIES			
Shareholder equity	73 511	22 798	101 987
Pre-payment from customers			
Paid	22 277	0	0
Invoiced but not paid	3 650	0	0
Deferred revenue	0	3 897	9 778
Short term liabilities	8 047	5 814	8 478
Short term liabilities interest bearing	0	14 268	2 061
Total shareholder equity and liabilities	107 485	46 777	122 304

CHANGES IN SHAREHOLDER EQUITY

<i>(All amounts in SEK 000)</i>	2018-09-30	2017-09-30	2017-12-31
Opening balance	101 987	37 206	37 206
Share issuance	-70	0	94 668
Net income for the period	-28 406	-19 306	-29 887
Ending balance	73 511	17 900	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 ¹

¹ Share issuance of 10 415 144 shares, subscribed December 19, 2017, and registered January 15, 2018.

² Of the opening balance of 5 500 TSEK, 4 000 TSEK related to an old R&D machine has been written down and 1 500 TSEK that will be used in future production has been reclassified.

STATEMENT OF CASH FLOWS

	Jul-Sep 2018	Jul-Sep 2017	Jan-Sep 2018	Jan-Sep 2017	Jan-Dec 2017
<i>(All amounts in SEK 000)</i>					
Operating profit after depreciation	-8 758	-4 103	-28 385	-18 505	-30 111
Financial items (net)	-2	-795	-21	-801	-1 553
Adjustments for non cash items	642	141	4 326	755	1 216
Cash flow from operations before change in working capital	-8 118	-4 757	-24 080	-18 551	-30 448
Change in working capital	15 155	-3 184	15 723	3 727	-13 353
Cash flow from operations	7 037	-7 941	-8 357	-14 824	-43 801
Cash flow from investments	0	-3 778	0	-5 117	-7 628
Cash flow from financing activities	0	0	-70	0	94 668
Cash flow for the period	7 037	-11 719	-8 427	-19 941	43 239
Liquid assets, opening balance	49 922	13 925	65 386	22 147	22 147
Liquid assets ending balance	56 959	13 925	56 959	13 925	65 386
Liquidity ratio, %	188	72	168	72	452

SUMMARY OF FINANCIAL DEVELOPMENT

The financial development of Impact Coatings AB for the period January to September 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.

<i>(All amounts in SEK 000)</i>		2018	2017	2016	2015	2014
		Jan-Sep				
Net revenue		12 624	25 014	24 201	22 496	5 966
Operating profit		-28 385	-30 111	-6 912	-12 039	-20 772
Result after financial items (net)		-28 406	-29 887	-6 917	-12 524	-20 663
Operating margin	%	Neg	Neg	Neg	Neg	Neg
Intangible assets		4 997	5 932	2 091	40	66
Tangible assets		14 198	7 235	4 664	7 087	11 526
Financial assets		100	100	100	100	100
Inventory		24 185	9 895	9 627	7 243	7 311
Pre payment from customers		25 927	0	0	0	0
Short term liabilities		7 046	33 757	17 251	5 285	2 129
Cash and liquid assets		56 959	65 386	22 147	1 956	10 260
Shareholder equity		73 511	101 987	37 206	14 551	27 075
Long term liabilities		0	0	0	0	0
Short term liabilities		8 047	20 317	18 674	7 160	4 317
Total assets		107 485	124 032	55 880	21 711	31 392
Return on assets	%	Neg	Neg	Neg	Neg	Neg
Return on equity		Neg	Neg	Neg	Neg	Neg
Equity/asset ratio		68,4	82,2	66,6	67	86,3
Debt ratio	times	0	0,02	0	0	0
Interest coverage ratio		Neg	Neg	Neg	Neg	Neg
Liquidity ratio	%	188,4	452	211	101	287
Employees		27	21	19	18	18
Investments						
Intangible assets		0	4 151 ⁸	2 077 ⁷	0	0
Tangible assets		7 575 ¹⁰	3 477	2 091 ⁶	-2 708 ⁵	5 373 ³
Financial assets		0	0	0	0	100
Earnings per share	SEK	Neg	Neg	Neg	Neg	Neg
Average shares outstanding during the period		42 551 908	32 479 180	31 193 526	30 250 288	25 167 135
Shares outstanding at period end		42 551 908	42 551 908 ⁹	32 136 764 ⁶	30 250 288	30 250 288 ⁴

³ Of the year's investments of 5 373 TSEK, 5 282 TSEK represents a re-classification from short term accruals to machines and technical equipment.

⁴ Share issuance of 10 083 429 shares subscribed June 13, 2014, and registered July 3, 2014.

⁵ This year investments include a sale of one production machine.

⁶ Share issuance of 1 886 476 shares subscribed March 23, 2016, and registered April 1, 2016.

⁷ Investment of 2 077 TSEK represents a re-classification from development expenses to intangible assets.

⁸ Investment of 4 151 TSEK represents a re-classification from development expenses to intangible assets.

⁹ Share issuance of 10 415 144 subscribed December 19, 2017, and registered January 15, 2018

¹⁰ A reclassification has been made from working capital to machines and technical equipment.

Definition of terms

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