

INTERIM REPORT JUL-SEP 2018



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Interim Report for July-September 2018

Important events in July-September 2018

- PowerCell gets additional order for S3 fuel cell stacks from Tier 1 supplier
- Autostack Industrie in dialogue with suppliers for the scaling-up of production of automotive fuel cells
- PowerCell signs MOU with Siemens regarding development of marine systems based on fuel cells
- PowerCell has made changes to its Management Group and brought in high-profile names
- PowerCell receives order for engineering services from leading European vehicle manufacturer

Financial highlights

All numbers in TSEK	2018	2017	2018	2017
	Jul-Sep	Jul-Sep	Jan-Sep	Jan-Sep
Net sales	11 091	10 929	32 411	20 865
Operating profit	-10 688	-12 745	-48 784	-46 627
Profit after tax	-10 842	-12 746	-49 241	-46 630
Operating cash flow	-35 054	-25 118	-70 951	-33 386

Important events after period end

- PowerCell gets a repeat order from a global automotive OEM
- PowerCell and Semcon in cooperation around automated manufacturing of fuel cells
- PowerCell inaugurated one of the world's most powerful fuel cell laboratories
- German research institute Fraunhofer to install fuel cell stacks from PowerCell for power supply

The CEO's comments

A world that needs to change!

In the third quarter we saw a continued increase in interest for PowerCell's technology and products and a higher number of request for quotes. The sales for the quarter showed a modest increase compared to the same period last year (+1 %), but this is more a reflection of the fluctuations between the quarters in a less mature market, than of the overall market performance. For the first nine months sales increased by a healthy 55 percent compared to the same period last year.

The growing concern for the climate leads to an increased number of market segments examining the possibilities to reduce emissions of carbon dioxide using fuel cells and hydrogen. One such segment is the marine segment, where we signed an MOU during the quarter with the German industrial company Siemens AG regarding the development of fuel cell-based drive and power generating systems for marine applications.

The operating income for the quarter was negative with -10 MSEK, which nevertheless is a clear improvement compared to last year (-13 MSEK) and a step in the right direction, but more work is needed to reach profitability. PowerCell is in a phase where our unique technology and products step by step are commercialized and where production is gradually transitioning from semi-manual assembly to initial industrialization. In this respect our development is mirroring that of our customers, who are also gradually transitioning from testing and prototypes to industrialization and small-scale production. This obviously creates fluctuations in sales as our customers vary their orders from single fuel cells stacks to orders for fuel cell systems and engineering services.

Fluctuations and inventory build-up

China is a good illustration of these kind of fluctuations. We note a high interest in China for evaluating the fuel cell technology, not the least driven by political decisions and governmental initiatives. Nevertheless, it is obvious that the path from testing a prototype to a full solution that meets governmental licensing requirements and is ready for mass production, is a challenging one. This is a generally valid remark for China, but it is particularly true when it comes to our customer Wuhan Tiger. The company signed a purchasing contract with us in March 2017 comprising fuel cell stacks and fuel cell systems at a total value of MSEK 200, with deliveries during 2018 and 2019. In conjunction with the signing, Wuhan Tiger put an order for and received 28 fuel cell stacks, and last summer the company took delivery of an additional 16 fuel cell stacks. Earlier this year the company got an approval for a fuel cell bus prototype from the Chinese authorities, but it is increasingly evident that the development is not proceeding at the pace that both Wuhan Tiger and we had reasons to expect when the contract was signed. We continue to hold discussions about additional deliveries, but our visibility on what share of the original order will be honored is limited.

The fluctuations in orders also affects our inventories and our cashflow. During the third quarter our operating cashflow was negative with 25 MSEK, driven by accrued payments by Austostack Industrie and by increased inventories. The lower than expected deliveries to Wuhan Tiger contribute to this.

An increasingly attractive technology

Over the last year we have experienced a strong increase in interest for fuel cells and our technology. What not long ago was viewed as futuristic and somewhat utopian, is now deemed as truly promising and necessary technologies as it is increasingly evident that we won't be able to make the changes needed using old and inefficient technology. Customers like Nikola Motors and Kalmar have realized this and work closely together with us to explore the opportunities to replace fossil fuels through electrification and the use of hydrogen and fuel cells. In both these cases we are making good progress and the projects are developing according to plan. The same can be said about Autostack Industrie, ASI, a project partly sponsored by the German Government and where

PowerCell is a partner together with the German auto manufacturers BMW, Daimler, Ford and Volkswagen. ASI is currently preparing for the start of phase 2, aiming at the launch of a fully commercialized fuel cell product for automotive applications after 2020. In addition to that PowerCell are involved in a number of EU funded hydrogen and fuel cell projects that are also progressing according to plan.

A world that needs to change

How urgent it is to change the course and to leave fossil fuels behind, became painfully evident in early October when the Intergovernmental Panel on Climate Change, IPCC, released its latest report on the climate change. IPCC's conclusion is that the world has just over a decade to get climate change under control – after that it might be impossible to reverse the escalating development. Ten years. Those who think that the financial crisis, Obama's first presidential election win or the summer Olympics in Beijing, happened not that long ago, will come to the chilling realization how short of time we have. The coming ten years will literally be a struggle for survival – both for the society and for the companies that are bogged down in old technology and old business models. The development will face us with a choice equally clear as brutal: change or go under.

At PowerCell we are convinced that our products offer a good chance to successfully address this significant challenge. Our view is based on our unwavering belief in our technology and our hands-on experience of what it is capable of, but also on the increasing interest for our products that we meet from a steadily growing number of customers around the world. PowerCell has a history of working close together with our customers in developing solutions where our technology can have as much environmental impact as possible. Our close relationships with our customers have improved our technology and our products and paved the way for entries into new markets and segments. The developments over the last couple of years have made fuel cells a widely accepted technology for the transition to truly sustainable energy solutions for a wide range of applications: everything from cars, heavy duty commercial vehicles and marine applications to stationary power generation, housing and even airplanes are now viewed as promising candidates for the fuel cell technology.

One of these segments is the marine segment where we took an important step in the middle of August when we signed an MOU with the German industrial company Siemens AG regarding the joint development of fuel cell-based drive and power systems for commercial shipping. Shortly after we made a joint appearance with Siemens at SMM, the world's largest shipbuilding and marine industry trade held in Hamburg, where sustainability was the key topic this year.

More companies need to come to the same understanding as Siemens – that old ways of working will not be enough and that going forward we must abandon old and doomed technologies. Both for their own sake and for the sake of this planet.

Per Wasen

CEO, PowerCell Sweden AB

Financial report July-September 2018

Revenues and profits

Sales for the period July to September 2018 amounted to TSEK 11,091 (10,929¹). The modest increase in sales compared to the corresponding quarter last year, is more a reflection of the fluctuations between the quarters in a less mature market, than of the overall market performance. Year to date sales increased with 55 percent compared to the same period last year.

Other operating income, which mainly consists of governmental project subsidies, amounted to TSEK 3,884 (2,285) for the period.

The operating result was TSEK -10,688 (-12,745) for the period July to September. The result continues to be affected negatively by the increased cost for selling and administration, a deliberate decision crucial for the ongoing industrialization and commercialization phase.

Cash Flow

The operating cash flow for the period was TSEK -35,054 (-25,118), driven by accrued payments by Austostack Industrie and by an increase in inventories not matched by demand. The lower than anticipated deliveries to Wuhan Tiger have contributed to this.

Financing

On-going cooperation projects resulted in governmental project subsidies, financed by the Swedish Energy Agency and the EU, at a total amount of approximately MSEK 60 from which payments in the period July to September have been received at TSEK 0 (2,668).

Accounting principles

The interim report has been prepared in accordance with the Annual Accounts Act and the Swedish Accounting Standards Board BFNAR 2012: 1 Annual Report and consolidated financial statements (K3). The accounting policies are more fully described in the company's annual report for the fiscal year 2017.

¹ Figures between brackets relates to the same period of the fiscal year 2017.

Significant risks in brief

Operational risks

PowerCell is through its business activities, exposed to risks and uncertainties. The company's activities have so far been mainly product development. The company has also delivered a number of products, which are currently being evaluated by customers. Risks are associated with the progress of the development activities and that this process doesn't suffer from major delays, increased costs or other difficulties. Risks are also associated with customer reviews precipitating as desired, and that the company's sales can begin on a larger scale within the time frame that the board has assessed as probable.

Financial risks

The company is financed by external capital in the form of equity and loans and will remain so until the sales of the products will start on a larger scale. With increasing sales, the company will be exposed to currency risks as the majority of the revenues and costs are expected to be received and paid in currencies other than Swedish Kronor.

Market-related risks

The company's products are based on fuel cell technology, which is relatively new in a commercial context. This may mean, even though the company's products' performance and business surpass competing technologies, that customers are replacing their systems at a slower pace than expected.

Transactions with related parties

No transaction with related parties has occurred during the period.

Long-term incentive programs

The company implemented a stock option program for senior executives in June. The program comprises 273 624 options where each warrant gives the right to subscribe to one new share at the subscription price SEK 33.21 during the period May 1, 2020 to May 31 2020. The dilution from the program amounts to a maximum of 0.5 percent.

The share

The share is listed on First North at Nasdaq Stockholm (PCELL, ISIN code: SE 000 642 5815, LEI code 54930075IJ7TGOK3VC02).

The share capital of PowerCell amounts per September 30, 2018 to SEK 1,141,113.82 and is divided into 51,868,810 shares with a par value of SEK 0.022.

Ownership per September 30, 2018*

	No. of shares	Ownership
Midroc New Technology	7 695 220	14.8%
Fouriertransform	7 695 220	14.8%
Finindus	5 444 736	10.5%
Avanza Pension	3 823 470	7.4%
Other	27 210 164	52.5%
Total	51 868 810	100,0%

* Source: Euroclear

Upcoming reports

- Full year 2018, February 27, 2019
- Interim Report Q1, May 6, 2019
- Interim Report Q2, August 22, 2019

Gothenburg, November 1, 2018

Magnus Jonsson
Chairman of the Board

Göran Linder
Director of the Board

Dirk De Boever
Director of the Board

André Martin
Director of the Board

Åsa Severed
Director of the Board

Mattias Silfversparre
Director of the Board

Hasse Johansson
Director of the Board

Per Wassén
CEO

The company's auditor has not audited this report.

INCOME STATEMENT	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep
Net sales	11 091	10 929	32 411	20 865
Cost of goods/services sold	-6 080	-7 548	-22 238	-13 677
Gross profit/loss	5 011	3 381	10 173	7 188
Selling and administrative expenses	-6 395	-4 147	-21 489	-11 104
Research and development costs	-13 053	-14 179	-47 707	-50 080
Other operating income	3 884	2 285	11 307	7 569
Other operating costs	-135	-85	-1 068	-200
Operating profit/loss	-10 688	-12 745	-48 784	-46 627
<i>Financial items</i>				
Interest expenses	-154	-1	-457	-3
Profit/Loss after financial items	-10 842	-12 746	-49 241	-46 630
Tax on profit for the year	-	-	-	-
NET PROFIT/LOSS	-10 842	-12 746	-49 241	-46 630

BALANCE SHEET, TSEK	2018 Sep-30	2017 Sep-30	2017 Dec-31
ASSETS			
Intangible assets	1 217	762	967
Fixed assets	30 136	16 007	20 644
Financial assets	3 561	1 858	1 858
Total non-current assets	34 914	18 627	23 469
Inventories, etc.	28 540	7 969	6 508
Short-term receivables	28 977	14 093	26 286
Cash and bank balances	130 272	237 700	217 809
Total current assets	187 788	259 762	250 603
Total assets	222 702	278 389	274 072
LIABILITIES AND EQUITY			
Share capital	1 141	1 133	1 137
Other restricted equity	599	762	725
Unrestricted equity	187 141	249 182	253 723
Year loss	-49 241	-46 630	-66 704
Total equity	139 641	204 447	188 881
Pensions provisions and similar commitments	-	165	-
Long-term liabilities	39 854	39 854	39 854
Short-term liabilities	43 208	33 923	45 337
Total liabilities	83 062	73 942	85 191
Total equity and liabilities	222 702	278 389	274 072

CASH FLOW STATEMENT, TSEK	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep
Operating activities				
Operating profit/loss	-10 688	-12 745	-48 784	-46 627
Adjustment for non-cash items	1 744	1 417	5 142	4 087
Interest paid	-1	-1	-4	-3
Income tax paid/received	-233	-205	-833	-606
Changes in working capital				
Change in inventories	-15 994	833	-22 032	-4 605
Change in operating receivables	549	2 149	-3 460	-529
Change in operating liabilities	-10 431	-16 566	-980	14 897
Cash flow from operating activities	-35 054	-25 118	-70 951	-33 386
Investment activities				
Investments in non-current assets	-475	-1 458	-14 884	-2 933
Investments in subsidiary and associated companies	-	-	-1 702	-1 624
Cash flow from investing activities	-475	-1 458	-16 586	-4 557
Financing activities				
Amortization	-	-133	-	-133
New share issue	-	-	-	214 572
Cash flow from financing activities	-	-133	-	214 439
The period's cash flow	-35 529	-26 709	-87 537	176 496
Cash and cash equivalents at beginning of period	165 801	264 409	217 809	61 204
Cash and cash equivalents at end of period	130 272	237 700	130 272	237 700
<i>Adjustment for non-cash items</i>				
Depreciation	1 744	1 584	5 142	4 593
Other items not affecting cash flow	-	-167	-	-506

CHANGES IN EQUITY, TSEK

	<i>Restricted equity</i>			<i>Unrestricted equity</i>		<i>Total equity</i>
	Share capital	Ongoing new share issue	Fund development expenses	Share premium reserve	Other un-restricted equity	
2017-01-01	985	-	736	327 064	-292 280	36 505
Capitalization of development expenses	-	-	80	-	-80	-
Dissolvement of development expenses	-	-	-95	-	95	-
Rights issue	148	-	-	214 424	-	214 572
Excercise of warrants	4	4	-	4 500	-	4 508
Net loss for the year	-	-	-	-	-66 704	-66 704
2017-12-31	1 137	4	721	545 988	-358 969	188 881
2018-01-01	1 137	4	721	545 988	-358 969	188 881
Dissolvement of development expenses	-	-	-122	-	122	-
Registration of new shares through warrants	4	-4	-	-	-	-
Net loss for the period	-	-	-	-	-49 241	-49 241
2018-09-30	1 141	-	599	545 988	-408 088	139 640

KEY FIGURES	2018 Jul-Sep	2017 Jul-Sep	2018 Jan-Sep	2017 Jan-Sep
Profitability (%)				
Return on average total capital	neg.	neg.	neg.	neg.
Return on average equity	neg.	neg.	neg.	neg.
Capital structure				
Solidity	63%	73%	63%	73%
Data per share (SEK)				
Outstanding shares	51 868 810	51 500 810	51 868 810	51 500 810
Average of outstanding shares	51 868 810	51 500 810	51 868 810	48 412 601
Earnings per share	-0,2	-0,2	-0,9	-0,9
Earnings per share after full dilution	-0,2	-0,2	-0,9	-0,9
Dividend per share	-	-	-	-

Definitions

Return on assets

Profit after tax in relation to average total capital

Return on equity

Profit after tax in relation to average equity

Solidity

Equity in relation to total assets

Earnings per share

Profit after tax in relation to the number of shares

Dividend per share

The dividend per entitled share

PowerCell Sweden AB in brief

PowerCell Sweden AB (publ) develops and produces fuel cell stacks and systems for stationary and mobile applications with a world class energy density. The fuel cells are powered by hydrogen, pure or reformed, and produce electricity and heat with no emissions other than water. As the stacks and systems are compact, modular and scalable, they are easily adjusted to any customer need.

PowerCell was founded in 2008 as an industrial spinout from the Volvo Group. The share (PCELL) is since 2014 subject to trade at Nasdaq First North Stockholm with G&W Fondkommission as Certified Adviser.

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The English version is an in house-translation. In case of any discrepancy, the Swedish text will prevail.