Alelion Energy Systems AB

Year-end Report January-December 2018

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The fourth quarter at a glance - Group

- Net turnover amounted to 41.8 (31.8) MSEK
- Order bookings increased to 37.7 (33.8) MSEK
- Operating costs increased to -69.9 (-43.5) MSEK
- Operating income amounted to -19.3 (-7.9) MSEK
- Net profit or loss dropped to -21.7 (-8.9) MSEK

The period January-December at a glance - Group

- Net turnover increased to 185.2 (137.5) MSEK
- Order bookings increased to 190.5 (146.5) MSEK
- Operating costs increased to -241.8 (-178.7) MSEK
- Operating income amounted to -31.8 (-29.2) MSEK
- Net profit or loss dropped to -36.0 (-30.7) MSEK

Significant events during this quarter

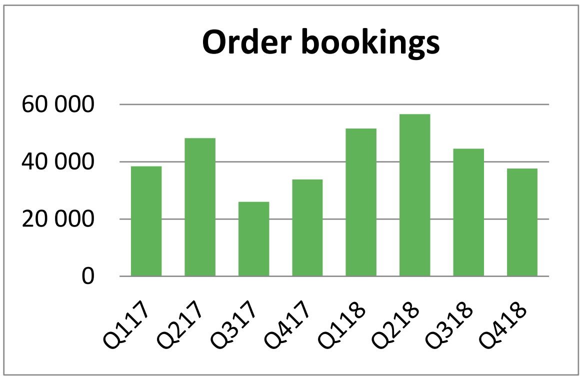
- Alelion starts working together with global vehicle manufacturer and receives order to the value of 13 MSEK
- Alelion files patent application regarding new and faster method for ensuring quality of cells for lithium-ion batteries
- The company issued corporate bonds for 50 MSEK in December. The bonds have a maturity of 6 months.
- Alelion qualifies for 1.8 MEUR conditional loan from EU body European Institute of Innovation & Technology to develop a system for intelligent energy management.

Significant events after this quarter

- The Alelion board and management have appointed Carnegie Investment Bank AB (publ) financial adviser to evaluate the capital structure and possible future funding options
- The company has not today secured funding for the coming 12-month period and the company's funds will be exhausted by the end of the first quarter 2019 if no new capital is added
- The board's overall assessment is that an equity issuance will provide the best shareholder value for the company's shareholders and have therefore begun talks with the main owners regarding both long-term funding via an equity issuance and short-term loan financing until an equity issuance is implemented. The board therefore intends to provide details regarding this funding in the coming week.

Profitability under pressure in a still growing market

In the course of the fourth quarter our net turnover and order bookings continued to increase compared with the same quarter in the previous year (+31.6 and +11.3 per cent respectively) while profit on both group and parent company levels showed weak growth above all due to increased competition and increased cost inflation. The greater and greater need to adapt to a more sustainable use of energy makes the market for Alelion's products in lithium-ion technology and systems for smart energy management one of the absolutely most promising and interesting. However in order to take full advantage of our opportunities we must strengthen our finances in the immediate future while we intensify our endeavours to increase efficiency and lower costs.



Alelion began investing in lithium-ion technology more than ten years ago and had a breakthrough thanks to the switch from lead-acid batteries to lithium-ion batteries that the company took part in promoting in the industrial truck market. Since then developments in the energy market – with an increased emphasis on renewable energy sources and more small-scale units for energy production – have gone hand in hand with increasing electrification in the vehicle sector. This in turn has led to a demand for lithium-ion energy storage but has also led to an increased demand for software systems for an optimized energy usage, an area where Alelion is well to the fore and where we have an important future competitive advantage. For Alelion this has led to increased sales as can be seen in the figures for the fourth quarter 2018 when turnover increased to 41.8 MSEK compared with 31.8 MSEK for the same quarter in the previous year (+31.6%). At the same time there was an increase in order bookings to 37.7 MSEK compared with 33.8 MSEK the previous year (+11.5%). Furthermore we see that the strategic measures in neighbouring segments will further increase the demand for the new products that we are about to launch and that we estimate we will begin serial manufacturing towards the close of 2019.

Greater competition and cost inflation: The steadily growing interest in our technology however leads to the establishment of more and more actors in the market thereby increasing competition both for customers and for the battery cells of lithium-ion that are produced. For Alelion this has meant pricing pressure and greater cost inflation. During this quarter this has burdened our profitability which in spite of more invoicing and order bookings has shown weak growth on the parent company level -15.9 MSEK compared with -8.9 MSEK in the same quarter the previous year. On the group level profit amounted to -21.3 MSEK where the negative result in the German subsidiary was -5.3 MSEK. Profitability has also been affected by the ambitious and very deliberate measures we are taking in production, markets and product development for the future.

The growing competition for customers and intermediate goods has continued for some time, as we have indicated during the two latest quarters, and this development has strengthened our conviction that we must be both faster and smarter. These insights lie behind the decision to concentrate on our own and automated production and to develop new, module based and more flexible products, but also behind our ventures in smart energy management. Here and now however we need immediate measures to improve the company's overall efficiency and competitiveness. We have identified five main areas where we see opportunities for relatively rapid improvements.

Purchasing: The rapidly rising demand for lithium-ion batteries has led not only to greater competition on the market but also to greater competition among suppliers which in turn has led to more manufacturers and increased supply. The improvement measures we have taken in purchasing will begin to give positive effects during the second half of 2019.

Temporary staff: Our employees are a great asset to the company and the extended investment made in sales has given positive results. We cannot however ignore that our running costs are high and we will therefore immediately review and lower costs for temporary staff.

Production: To become more competitive on the market it is also essential to make our production more efficient. Our new and automated production line will be the key to our success in this and we are therefore increasing our efforts to get the line in place as soon as possible so as to start up and increase our own automated production. We estimate that the automated production will be up and running towards the close of Q1 and will start contributing to lowered costs in the middle of Q2.

Products: Our new and module based Generation 3 products are also of considerable importance for our opportunities to increase our efficiency and improve our profitability. These products have been developed to minimize the challenges customised products naturally entail in focussed segments. The new products will contribute to greater flexibility, greater efficiency and considerably improved gross margin and competitiveness.

Ready for tomorrow's technology

After the recent years' investments Alelion has built an excellent starting point on the continually growing market for lithium-ion technology and for energy management steering systems. Our new products are at the very cutting edge and the same applies to our system for smart energy management, Alelion Intelligent Energy Systems, AIES. In competition against companies from all over Europe Alelion and AIES recently qualified for a conditional loan of 1.8 MEUR from InnoEnergy, a European group holding commissioned by the European Union to support entrepreneurs and businesses within sustainable energy.

Daniel Troedsson
CEO Alelion Energy Systems AB

Alelion Energy Systems AB

Alelion Energy Systems AB is a leading manufacturer of industrial energy storage systems based on lithium-ion technology. The company's focus was initially on the sector material handling and batteries for industrial trucks to replace today's lead-acid batteries and diesel engines. Lithium-ion technology is superior to lead acid technology in every aspect. A lithium-ion battery is more energy efficient, lighter, lasts longer and also contributes to considerably less environmental impact. The company has today a leading position in this market. In step with the growth of climate threat and the urgent need to convert to more sustainable energy systems and more sustainable use of energy, an increasing number of sectors have begun to explore the possibilities offered by lithium-ion technology and this is opening up new markets and segments for Alelion. Through the development of smart software based control systems new business opportunities have evolved linked to lithium-ion technology in the energy management area. Through the acquisition of German Caterva and the development of the Alelion Intelligent Energy System, AIES, Alelion is a leading company in energy management. Alelion's largest owners are Fouriertransform and Pegroco Invest.

Business Concept

Alelion develops, manufactures and sells energy storage systems based on the new generation of lithium-ion technology as well as software systems for smarter energy management.

Business Model

The need for energy storage is identified together with our customers or final users and thereafter Alelion designs an energy storage system.

Alelion purchases battery cells from suppliers in Asia. The company adds value to these through combining the cells to make cell modules with the correct capacity, performance and physical dimensions for applications and products, for example for industrial trucks. Alelion also develops Battery Management Systems (BMS) consisting of electronics and software. The purpose of a BMS system is to monitor, manage safety and maintain the battery cells and to communicate with the overall product.

Both cell modules and BMS are platforms that the Company can relatively easily and quickly use to develop energy storage systems for both new applications and products.

Alelion can in certain cases receive remuneration for development in cooperation with the customer, but most revenue is generated from sales of energy storage systems that are integrated in new industrial trucks. The development of AIES has widened the company's business within energy management and opened up for new revenue streams and a closer understanding of the customer.

Strategies

Alelion has chosen to focus initially on industrial truck manufacturers, as this sector demands complex systems requiring high levels of development and integration competence. This sector is furthermore of interest from a volume perspective. At the time of writing Alelion focuses mainly on the market for new production of industrial trucks, but as a result of increasing electrification in more and more sectors, Alelion has successively widened the customer base to also include heavy tractive vehicles and trucks.

Alelion brings customers a product that lowers electricity consumption and substantially lowers running costs. Although Alelion's immediate customers are industrial truck manufacturers (so called OEMs) Alelion also looks at potential final customers, the industrial truck users. These final customers put demands on their suppliers and a push/pull strategy increases the probability that an OEM will request lithium-ion batteries for their industrial trucks.

Alelion designs a battery that does not require maintenance or service as long as the battery is used according to instructions. The Alelion service concept means giving those in the customer's proximity full information about the solutions, most often in the OEM's own organisation. This provides the final user with the best possible and fast support as well as a cost effective and environmentally friendly solution. Focus in the future is on a "remote" service with digital access to support.

Lower environmental impact and sustainability are the most important factors besides user advantages for the final customers. Today it is just as important to show how much CO_2 equivalents are saved by converting to lithium-ion as to show the financial savings over time. For Alelion it is important to consider the environmental impacts in the entire chain, from cells to complete battery.

The financial advantages are best quantified in a comparison with lead acid batteries, the battery technology that is still standard today in the industrial truck market and the biggest competitor to energy storage systems. A comparison between these two alternatives is therefore very significant and throws light on how lithium-ion technology surpasses lead acid batteries in many respects.

Significant events during the fourth quarter

As part of an agreement with a global vehicle manufacturer Alelion has received an order for high-tension lithium-ion batteries. The agreement includes both development and products and in the first phase during 2018 and 2019 is worth 13 MSEK. This order is a significant confirmation of the standing of the company as a leading developer and manufacturer of lithium-ion batteries for different types of industrial vehicles. Previously the company has worked mainly with low-tension batteries but this order takes Alelion an important step forwards towards business with heavier vehicles, a large but also partly new segment for the company.

Together with Linköping University Alelion Energy Systems has filed a patent application for a method developed to determine the quality of single cells in a lithium-ion battery. This method can give fast and high quality measurements of impedance. The patent pending method was developed by Alelion and means a breakthrough in determining the quality of different cells in a lithium-ion battery.

The company issued corporate bonds for 50 MSEK in December. The bonds have a maturity of 6 months.

In competition with a large number of energy companies in Europe, Alelion Energy Systems has qualified for a conditional loan of in total 1.8 MEUR from the EU body European Institute of Innovation & Technology, EIT, Alelion has been granted the loan for continued development of Alelion's own system for smart energy management, Alelion Intelligent Energy System, AIES. EIT believes that Alelion's system AIES can be of great importance towards creating a more sustainable European energy system with lower carbon dioxide emissions.

Significant events after this quarter

Alelion's management and board have appointed Carnegie Investment Bank AB (publ) as financial adviser to evaluate the capital structure and possible future financing options.

The company has not today ensured financing for the coming twelve-month period and the company's funds will be exhausted by the end of the first quarter in 2019 unless new capital is added.

It is the overall assessment of the board that an equity issuance will provide the best shareholder value for the shareholders of the company and discussions with the main shareholders have begun regarding both long-term financing through an equity issuance and short term financing through loans until an equity issuance is implemented. The board therefore intends to provide details regarding this funding in the coming week.

Significant events during the year

Alelion acquired the whole portfolio of Caterva GmbH, a German liquidation company specializing in advanced technology for optimizing local energy storage. Caterva has developed a platform for plugging into and controlling local energy storage. The technology provides lower energy costs and carbon dioxide emissions and Alelion will introduce the platform for customers in large-scale industrial applications. The acquisition price amounted to 1.37 MEUR which corresponds to approximately 10% of previously invested capital. The acquisition includes a patent portfolio related to the optimization of energy storage. Access to the acquisition was on 10 May 2018.

Alelion signed a framework contract with Japanese Toyota Industries Corporation, TICO, parent company in the Toyota Industrial Group. Alelion previously supplied lithium-ion batteries to the European branch of Toyota industrial trucks, Toyota Material Handling Europe and this contract is the first step towards supplying batteries to Toyota Material Handling industrial trucks in other markets.

Alelion received an order for batteries from Kamag, the German special vehicle manufacturer. Kamag will use the batteries to electrify the powertrain for one of its heavy tractive vehicles. Within the year, Alelion will deliver a smaller batch as part of a joint development project. The remaining batteries will be delivered during 2019. The total order amount is approximately 15 MSEK.

The Alelion Energy Systems AB (publ) annual general meeting on 30 May 2018 resolved, in accordance with proposal from the board, to implement a stock options incentive scheme for employees in the company and its subsidiaries through both a share issue without consideration of at most 1,500,000 stock options with the right to subscribe for new shares in the company, and approval of transfer of the stock options. Each stock option gives the right to subscribe for a new share in the company for cash payment in accordance with a subscription price up to 15 SEK. The warrants are valid during the period starting 1 June 2021 and ending 30 June 2021.

The incentive scheme is intended to enable the company to recruit, retain and motivate employees. The board considers it essential that employees have a clear/increased owner involvement with interests in agreement with those of the shareholders. An owner involvement is expected to stimulate greater interest in operations and profit growth and to increase motivation and sense of identification with the company and its subsidiaries.

With full subscription of warrants, stock capital will increase by 30,000 SEK which will mean a watering of stock capital by 2.96 per cent of the company's current stock capital and votes.

Alelion built a factory in Gothenburg for the large-scale production of lithium-ion batteries for use in, among other things, industrial vehicles. The factory will be the first of its kind in Sweden and is financed by among others Fouriertransform AB, a venture capital company owned by the Swedish Government and the Gothenburg-based investment company Pegroco Invest AB, along with banks. This news attracted a great deal of attention in both Sweden and abroad.

After the Alelion Energy Systems AB extraordinary shareholders' meeting on 12 December 2017 had resolved to implement the 2017/2018 company employee incentive scheme, the employees have acquired 1,277,000 stock options (a sign up rate of 85.1%).

The Alelion-project for more sustainable energy utilization qualified for EU financing. The total project budget is around 1.6 MEUR, of which 0.87 MEUR are financed by Eurostar. Alelion is the sole owner of the income.

On the annual auditing of Alelion's quality management and environmental management system, the company's ISO certification was renewed without a single comment. Alelion received excellent reviews throughout and in the audit report not one weakness was reported but on the contrary a long list of strongpoints.

Following the decision made at Alelion Energy Systems AB annual general meeting on 30 May 2018 to implement an incentive scheme for employees in the company, employees have acquired 161,500 stock options (10.8%). The program was directed specifically towards employees in Germany who joined the company when the German company Caterva was acquired in bankruptcy.

Alelion has been awarded support from EU to develop systems for Alelion Intelligent Energy System, a concept and patented software for intelligent energy solutions and has been granted 60,000 EURO from the EU body European Institute of Innovation & Technology, EIT, for continued development of Alelion Intelligent Energy System, AIES. EIT believes that AIES can be of great importance in creating a more sustainable European energy system with lower carbon dioxide emissions.

Turnover and profit - Group

The net turnover in the fourth quarter amounted to 41.8 (31.8) MSEK and order bookings were 37.7 (33.8) MSEK. Net turnover increased over the period January to December to 185.2 (137.5) MSEK and order bookings increased to 190.3 (146.5) MSEK. Alelion Energy Systems GmbH accounted for 6.0 MSEK (3.2%) of the net turnover for the Group.

Compared with the third quarter net turnover increased by 26.0 per cent and order bookings dropped by 15.3 per cent.

Operating expenses for the fourth quarter amounted to 69.8 (43.5) MSEK, an increase of 30.2 per cent from the third quarter. For the period January-December expenses increased to -241.8 (-178.7) MSEK, partly as a result of becoming larger organisation with greater resources for instance in sales, R & D and support, and partly due to expenses that can be attributed to increased rate of production.

During the period January to December development expenses were activated by a total of 21.3 (11.6) MSEK and deductions were made amounting to 7.7 plus (6.1) MSEK.

Operating income for the fourth quarter was -19.3 (-7.9) MSEK and net profit -21.7 (-8.9). For the period January-December operating income was -31.8 (-29.2) MSEK and net profit -36.0 (-30.7) MSEK.

Income for this quarter was somewhat lower than for the same quarter in the previous year, which is explained by increased price pressure as a result of greater competition. In step with the growing need to convert to more sustainable energy sources, the demand for lithium-ion batteries is showing strong growth and is attracting new actors.

Alelion Energy Systems GmbH was founded as a result of the acquisition of Caterva GmbH in bankruptcy and was incorporated into the group in May 2018. Alelion Energy Systems GmbH is now undergoing an intensive development phase where totally new ground is being broken in software systems for energy management. This burdens the Group income for the quarter, but we are also working actively to roll out the new technology for our customers so as to increase sales.

Another aspect of the steadily increasing demand for lithium-ion batteries is the accompanying pressure on battery cell manufacturers. The major car manufacturers are now buying up an increasingly large part of production leading to a rising cost inflation in suppliers. To deal with this Alelion is continuing to widen the supplier base. Against the background of increasing competition and higher cost inflation Alelion has decided to take immediate measures in a number of areas to improve the company's efficiency and lower its costs.

Cash flow and financial position - Group

Cash flow from ordinary operations decreased during the fourth quarter to -17.2 (-12.2) MSEK. Prior to changes in working capital, cash flow for the quarter decreased to -16.5 (-6.3) MSEK. During the fourth quarter inventories increased by 6.9 MSEK to 57.0 MSEK and accounts receivables dropped by 4.0 MSEK to 18.5 MSEK.

Cash flow from ordinary operations improved over the year to -25.9 (-59.8) MSEK. Prior to changes in working capital, cash flow for the year decreased to -19.7 (-19.1) MSEK. During the year inventories decreased by 0.4 MSEK and accounts receivables increased by 2.5 MSEK.

Cash and cash equivalents were at the end of the period 35.7 MSEK, compared with 31.4 MSEK at the turn of the year. At the close of the quarter the company had an unused overdraft of 20 MSEK which will continue until 31 March 2019. Equity/assets ratio deteriorated to 36.1 per cent compared with 70.7 for the same period the previous year.

Seasonal effects

Operations show no clearly visible seasonal effects during the current expansion, but as Alelion's sales are influenced by final customers' willingness to invest in for instance larger projects such as new stock it is probable that order bookings will vary from quarter to quarter.

Operational and financial targets follow-up

When Alelion was listed on the stock market in May 2016 a number of operational and financial targets were presented in the prospect. The company reported the degree of fulfilment for those targets that applied to 2016 in a separate press release published 19 January 2017 while targets for 2017 were followed up in the end report for 2017. In the follow-up for 2017 it was stated that the company had not reached the target for a positive cash flow in the third quarter 2017. It was further stated that the company had reached 2 of 4 operational targets (That at least 50 per cent of sales in 2017 would be to other end customers than Swedish home furnishing companies and to Reach out to new segments). A fifth operational target was no longer considered relevant. In the report for 2017 the company expressed the intention to follow up the targets yearly in retrospect in conjunction with end reports.

Targets for 2018

One of the published financial targets was for 2018 and related to reaching a turnover of 500 MSEK and an EBIT of 10 per cent, targets that Alelion has not reached. The reasons are several but concern above all changes in the industrial truck market regarding less complex battery systems and an increased cost inflation. In the industrial truck segment competition has clearly risen bringing with it fewer deliveries and lower prices than anticipated to big customers. We continue to see the industrial truck segment as an important segment for Alelion and we are specifically investing to continue to be competitive in this segment, particularly in those areas with high demands.

The increasing competition among suppliers has also had a negative effect on our profitability and in turn on our operating margin. As regards profitability there is an additional factor – the increased competition for what are central components for us. These are battery cells of lithium-ion that against the background of the rapidly increasing electrification in the vehicle segment are now fiercely sought-after on the world market. When a large part of the vehicle business tries to adapt in a short space of time to more sustainable use of energy with the help of electrification, availability of and demand for lithium-ion cells are naturally impacted. We have for some time understood and acted on this and in 2019 we are launching a new generation of products that allow switching to new cells when other more competitive alternatives become available. In addition we are closely monitoring the developments in the aggressive research being made into battery cells where we both expect and are prepared for changes, something we see as an important competitive advantage.

The Group

The group comprises the parent company Alelion Energy Systems AB along with the subsidiaries Alelion Energy Systems GmbH and Alelion Crew AB. Alelion Energy Systems GmbH was founded as a result of the acquisition of Caterva GmbH and was incorporated into the group in May 2018. Alelion Crew AB conducts no operational business, but holds the stock options in reserve.

Shares and stock options

The company's share (ALELIO, ISIN code: SE0008348072) is traded on Nasdaq First North Stockholm. Share capital amounted to 982,565 SEK on 31 December 2018 distributed over 49,128,250 shares with a quota value of 0.02 SEK.

The company has two incentive schemes

1. After the extraordinary shareholders' meeting on 12 December 2017 resolved to implement an incentive scheme in 2017/2018 for company employees, employees have acquired 1,277,000 stock options (a sign up rate of 85.1%).

   As was resolved at the meeting 1,500,000 stock options for the newly formed subsidiary Alelion Crew AB were issued and employees acquired 1,277,000 stock options under the following main conditions:

   Each option gives the right to subscribe for one new share in the company during the period 1 January 2021 up to and including 29 January 2021 for cash payment of 15 SEK. Acquisition of an option (participation in the incentive scheme) presupposes the employee at both the point in time when the option is offered and when it is acquired is a permanent member of staff and has neither resigned nor been dismissed. Options have been acquired for cash payment equivalent to the market value of the options at the time of the transaction according to the Black & Sholes formula, set on 20 December 2017 at 0.11 SEK per option by an independent valuer.

   Total dilution from this programme can be no more than 3%.

2. After the general shareholders' meeting on 30 May 2018 resolved to implement an incentive scheme 2018 for company employees, employees have acquired 161,500 stock options (a sign up rate of 10.8%).

   As was resolved at the meeting 1,500,000 stock options for the subsidiary Alelion Crew AB were issued where employees acquired 161,500 stock options under the following main conditions:

   Each option gives the right to subscribe for one new share in the company during the period 1 June 2021 up to and including 30 June 2021 for cash payment of 15 SEK. Acquisition of an option (participation in the incentive scheme) presupposes the employee at both the point in time when the option is offered and when it is acquired is a permanent member of staff and has neither resigned nor been dismissed. Options have been acquired for cash payment equivalent to the market value of the options at the time of the transaction according to the Black & Sholes formula, set on 30 July 2018 at 1.72 SEK per option by an independent valuer.

   Total dilution from this programme can be no more than 0.32%.

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Transactions with related parties

Fouriertransform AB has issued a parent company warranty in favour of a supplier, in order to gain benefit from more competitive supply and payment conditions. Furthermore Fouriertransform AB and Pegroco Invest AB have issued a warranty in favour of banks. The two second biggest owners, Pegroco Invest AB and Sammaj AB share the risk for the parent company warranty with Fouriertransform AB in accordance with the agreement concerning this. The parent company warranties are however under condition that Alelion reimburses Fouriertransform AB, Pegroco Invest AB and Sammaj AB for the risk exposure to which they are subjected in consequence of the warranty to the supplier. Reimbursement amounts to respectively 3% and 4%.

Anticipated future development

Alelion's overall goal is to retain its strong position and expand with the help of the fast growing demand for lithium-ion technology for different types of energy storage. From the start Alelion has distinguished itself as an innovative and visionary manufacturer using advanced technology and with a genuine understanding of customers' businesses and needs. From this starting point Alelion has been at the forefront of increased electrification using lithium-ion technology and has been a driving force behind the transformation of the industrial truck industry that the changeover from lead acid batteries to lithium-ion batteries involves. In pace with increased electrification and the need for more sustainable energy systems, more and more sectors and industries have become aware of the possibilities lithium-ion technology can open up. Alelion is in an excellent position to take full advantage of these developments. Besides long experience and high technological expertise, the Company is to set up Sweden's first factory for large-scale production of lithium-ion batteries for vehicles. Through acquiring German Caterva the Company now has a broader offer for customers and has moved into software for optimizing energy handling. This will lead to greater customer value and new business opportunities as interest in lithium-ion based energy storage is now growing in more and more areas. The Company gives no official forecasts.

Capital requirement

To grow in step with the market and to take advantage of the excellent commercial opportunities offered, Alelion will continue to be in need of capital. Increased production in our own factory, recruitment requirements in both sales, development and production puts pressure on working capital and therefore Carnegie Investment Bank AB has been contracted as financial adviser to evaluate the capital structure and possible future financing options.

Financing

At the time of publication of this report the company lacks the liquid assets and cash flow to continue operating over the coming 12 months. It is the opinion of the board that the company's funds will be exhausted by the close of the first quarter in 2019 unless new capital is added. In order to secure continued operations and repayment of outstanding current liabilities a new financial solution must be put in place.

It is the overall assessment of the board that an equity issuance will provide the best shareholder value for the shareholders of the company and discussions with the main shareholders have begun regarding both long-term financing through an equity issuance and short term financing through loans until an equity issuance is implemented. The board therefore intends to provide details regarding this funding in the coming week.

Even if the above measures are assessed as sufficient to ensure financing for 2019, this financing is not guaranteed. As financing is not guaranteed for the coming twelve-month period we must inform that there are essential uncertainties regarding the company's financing situation that may lead to considerable doubt as to the company's ability to continue with planned operations. Against the background of the above planned measures to ensure financing this report has been compiled based on the assumption of continued operating as it is the assessment of the management and the board that there are a number of alternatives to obtain financing.

Calendar 2019

26-04-2019	Annual Report 2018
23-05-2019	First-quarter Report January-March 2019
31-05-2019	Annual General Meeting 2019
28-08-2019	Six-month Report January-June 2019
20-11-2019	Third-quarter Report January-September 2019

Risks

The board and management make regular assessments of the risks that can affect both the valuation of the Company's assets and liabilities as well as the Company's profitability. It should be noted that the chief business of the Company is producing and commercialising new technology. Development is thereby subject to technical, financial and regulatory risks. For additional information see the section on risks in the Annual Report 2017.

Accounting and valuation principles

Alelion Energy Systems AB third-quarter report has been prepared in compliance with BFNAR 2012:1 (K3) and the Annual Accounts Act.

The more important accounting principles applied to the group are stated below. Otherwise the same accounting principles and calculating methods have been applied as in the annual report for 2017 for the parent company and the group.

Consolidated financial statement

Alelion Energy Systems AB establishes a consolidated financial statement. Any company where Alelion Energy Systems holds the majority of the votes at the general meeting and any company where Alelion Energy Systems by agreement has control are classified as subsidiaries and are consolidated in the consolidated financial statement. The subsidiaries are included in the consolidated financial statement as from the day on which the control is transferred to the group. They are excluded from the consolidated financial statement as from the day on which the control is terminated.

The consolidated financial statement has been prepared according to the acquisition method. The date of acquisition is the date on which control is acquired. Identifiable assets and liabilities are valued initially at real value at the time of acquisition. The minority's part of the acquired net assets is valued at real value. Goodwill consists of the difference between the acquired identifiable net assets at the time of acquisition and the acquisition value including the value of the minority interest, and is valued initially at the acquisition value.

Dealings between group companies are eliminated altogether.

Subsidiaries in other countries prepare their annual reports in the currency of the respective countries. On consolidation the items in these companies' balance sheets and income statements are converted at the closing rate respective the spot rate for the date of the respective transaction. The exchange differences that arise are presented in accumulated exchange differences in the Group's equity.

Foreign currency

When currency hedging is not applied, items concerning monetary assets and liabilities in foreign currency are valued at closing day spot rate. Transactions in foreign currency are converted according to the spot rate for the day of the transaction.

Intangible fixed assets

Intangible fixed assets are reported at acquisition value less accumulated depreciation and amortization. In the consolidated report the activation model for internally generated intangible assets is used.

Depreciation is made linearly over the estimated useful life. The depreciation period for internally generated intangible assets amounts to five years. One group company holds patents with depreciation over ten years.

Auditors' review

This annual report has not been subject to a review by the Company's auditors.

Declaration from the CEO

The CEO declares that this interim report is a fair review of the Company's operations, position and income and the report describes critical risks and uncertainties the Company faces.

Mölndal, Sweden 13 February 2019

Daniel Troedsson
CEO

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The information in this press release contains insider information such as Alelion Energy Systems AB (publ) is obligated to disclose pursuant to the EU market securities act. The information was provided by the above persons for public disclosure on 13 February 2019.

Income statement - Group

Income statement (TSEK)	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Net turnover	41 825	31 779	185 153	137 457
Capitalised work on own account	7 227	3 540	21 276	11 571
Other operating income	1 522	276	3 507	506
Total income	**50 574**	**35 595**	**209 936**	**149 534**
Operating expenses				
Raw materials and consumables	-36 824	-26 850	-144 785	-123 360
Personnel expenses	-11 377	-6 456	-39 611	-21 275
Other external expenses	-15 163	-8 134	-41 200	-26 383
Depreciation and amortization of tangible and intangible fixed assets	-3 186	-2 082	-11 080	-7 297
Other operating expenses	-3 293	0	-5 107	-406
Total operating expenses	**-69 844**	**-43 522**	**-241 783**	**-178 721**
Operating income	**-19 269**	**-7 928**	**-31 847**	**-29 188**
Income from financial items				
Other interest income and similar items	10	8	73	26
Interest expenses and similar income items	-2 488	-995	-4 212	-1 532
Total income from financial items	-2 478	-987	-4 139	-1 507
Income after financial items	-21 747	-8 914	-35 986	-30 694
Taxes on year's income	0	0	0	0
Net income	-21 747	-8 914	-35 986	-30 694

Earnings per share, SEK	-0.44	-0.20	-0.73	-0.66
Average number of shares	49 128 250	43 494 806	49 128 250	46 311 528
Number of shares at the end of the period	49 128 250	43 494 806	49 128 250	49 128 250

Balance Sheet – Group

Balance sheet Assets (TSEK)	31-12-2018	31-12-2017
Fixed assets		
Intangible fixed assets		
Balanced costs for development work	43 112	29 574
Patents, licences and similar rights	10 926	0
Goodwill	3 087	
	-	
Tangible fixed assets		
Fixtures, tools and installations	10 371	5 219
Improvements leasehold	716	79
On-going construction	11 300	0
	-	-
Total fixed assets	79 513	34 872
Current assets		
Inventories etc.		
Raw materials and consumables	57 349	58 370
Payment in advance to suppliers	616	0
	57 964	58 370
Current receivables		
Accounts receivables	18 488	16 027
Current tax assets	300	390
Other short-term receivables	4 448	1 410
Prepayments and accrued income	1 435	1 077
	24 670	18 904
Cash and bank	35 721	39 479
Total current assets	118 356	116 753
Total assets	197 869	151 625

Balance sheet - Group

Balance sheet Equity and liabilities (TSEK)	31-12-2018	31-12-2017
Equity		
Share capital	983	983
Other contributed capital	279 685	279 685
Other equity including year's income	-209 223	-173 466
Non-current liabilities		
Liabilities to credit institutions	30 889	2 075
Total non-current liabilities	30 889	2 075
Provisions		
Provisions relating to guarantees	10 630	5 399
Current liabilities		
Utilized overdraft facility	0	8 034
Liabilities to credit institutions	46 766	1 186
Liabilities to suppliers	26 299	16 728
Other current liabilities	1 059	827
Prepayments and accrued income	10 782	10 174
Total current liabilities	84 905	36 949
Total equity and liabilities	197 869	151 625

Cash flow statement - Group

	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Operating activities				
Operating income	-18 367	-8 363	-31 847	-28 941
Adjustment for items not included in cash flow	4 368	3 016	16 310	11 307
Interest received	10	8	73	26
Interest paid	-2 488	-995	-4 212	-1 532
Income tax paid	0	0	0	0
Cash flow from operating activities before change in working capital	-16 477	-6 334	-19 676	-19 140
Cash flow from change in working capital				
Decrease/increase in inventories	-6 876	-9 870	406	-36 381
Decrease/increase in accounts receivables	3 982	-1 130	-2 460	-14 393
Decrease/increase in operating receivables	-2 680	-632	-14 606	-366
Decrease/increase in trade payables	10 016	4 396	9 571	3 477
Decrease/increase in operating liabilities	-5 194	1 417	839	7 036
Cash flow from operating activities	-17 229	-12 153	-25 926	-59 767
Investment				
Investment in tangible and intangible assets	-10 093	-4 008	-44 421	-14 478
Cash flow from investment	-10 093	-4 008	-44 421	-14 478
Financing activities				
Liabilities to credit institutions	45 284	-156	74 394	-156
New issue of shares and stock options	0	39 434	272	39 434
Issue and transaction expenses	0	-1 281	0	-1 281
Cash flow from financing activities	45 284	37 997	74 667	37 997
Cash flow for the period				
Cash and cash equivalents at the beginning of the period	18 663	9 174	31 445	67 940
Cash and cash equivalents at the end of the period	35 721	31 445	35 721	31 445
Currency change in cash and cash equivalents	-903	435	-43	-247
Change in cash and cash equivalents	17 058	22 272	4 276	-36 494

Change in equity - Group

TSEK	Jan-Dec 2018	Whole year 2017
Opening equity	107 202	99 602
Profit or loss for the period	-35 986	-30 694
Stock options DB	272	140
Conversion difference foreign currency DB	-43	
New issue including issue expenses	0	38 154
Closing equity	71 445	107 202

Quarterly data - Group

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017	Q1 2017
Net turnover, TSEK	41 825	33 205	53 685	56 563	31 779	26 309	53 613	25 756
Operating income, TSEK	-19 269	-14 597	1 033	731	-7 928	-6 748	-6 390	-8 122
Operating margin	-46.1%	-44.0%	1.9%	1.3%	-24.9%	-25.6%	-11.9%	-31.7%
Net income, TSEK	-21 747	-15 679	982	203	-8 914	-7 025	-6 489	-8 266
Net margin	-52.0%	-47.2%	1.8%	0.4%	-28.1%	-26.7%	-12.1%	-32.3%
Order bookings	37 656	44 516	56 531	51 606	33 847	25 941	48 256	38 451
Return on equity	neg.	neg.	0.64%	0.19%	neg.	neg.	neg.	neg.
Equity/assets ratio	36.1%	54.4%	57.1%	75.8%	74.7%	72.2%	69.7%	80.7%
Earnings per share, SEK	-0.44	-0.32	0.01	0.01	-0.19	-0.16	-0.15	-0.19
Equity per share, SEK	1.46	1.83	2.13	2.19	2.18	1.79	1.95	2.10
Average number of shares	49 128 250	49 128 250	49 128 250	49 128 250	46 311 528	43 494 806	43 494 806	43 494 806

Key ratios - Group

TSEK unless otherwise stated	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Operating margin	-46.1%	-24.9%	-17.2%	-21.2%
Net margin	-52.0%	-28.1%	-19.4%	-22.3%
Return on equity	-26.91%	-9.64%	-40.15%	-29.68%
Equity/assets ratio	36.1%	70.7%	36.1%	70.7%
Earnings per share, SEK	-0.44	-0.20	-0.73	-0.66
Equity per share, SEK	1.46	2.46	1.46	2.18
Cash flow per share, SEK	-0.35	-0.28	-0.53	-1.22
Average number of shares	49 128 250	43 494 806	49 128 250	46 311 528
Number of shares at end of period	49 128 250	43 494 806	49 128 250	49 128 250
Average number of employees	49	25	47	23

Income statement – Parent company

Income statement (TSEK)	Oct-Dec 2018	Oct-Dec 2017	Jan-Dec 2018	Jan-Dec 2017
Net turnover	41 031	31 779	179 146	137 457
Capitalised work on own account	6 185	3 540	20 256	11 571
Other operating income	1 315	276	2 995	506
Total income	**48 532**	**35 595**	**202 397**	**149 534**
Operating expenses				
Raw materials and consumables	-35 447	-26 850	-141 175	-123 360
Personnel expenses	-8 115	-6 456	-28 966	-21 275
Other external expenses	-15 163	-8 134	-41 200	-26 383
Depreciation and amortization of tangible and intangible fixed assets	-3 029	-2 082	-10 568	-7 297
Other operating expenses	-1 006	0	-139	-406
Total operating expenses	**-62 760**	**-43 522**	**-222 047**	**-178 721**
Operating income	**-14 228**	**-7 928**	**-19 650**	**-29 188**
Income from financial items				
Other interest income and similar income items	309	8	620	26
Interest expenses and similar items	-2 488	-995	-4 212	-1 532
Total income from financial items	-2 179	-987	-3 593	-1 507
Income after financial items	-16 407	-8 914	-23 243	-30 694
Taxes on year's income	0	0	0	0
Net income	-16 407	-8 914	-23 243	-30 694

Earnings per share, SEK	-0.33	-0.20	-0.47	-0.66
Average number of shares	49 128 250	43 494 806	49 128 250	46 311 528
Number of shares at the end of the period	49 128 250	43 494 806	49 128 250	49 128 250

Balance sheet – Parent company

Assets (TSEK)	31-12-2018	31-12-2017
Fixed assets		
Intangible fixed assets		
Balanced costs for development work	42 088	29 574
Patents, licences and similar rights	10 498	0
Goodwill	3 087	
Tangible fixed assets		
Fixtures, tools and installations	8 078	5 219
Improvements leasehold	716	79
On-going construction	11 300	0
Financial fixed assets		
Shares in subsidiaries	302	50
Receivables subsidiaries	17 081	140
Total fixed assets	**93 150**	**35 062**
Current assets		
Inventories etc.		
Raw materials and consumables	56 424	58 370
Payment in advance to suppliers	616	0
	57 039	58 370
Current receivables		
Accounts receivables	17 309	16 027
Current tax assets	300	390
Other short-term receivables	3 813	1 410
Prepayments and accrued income	1 065	1 077
	22 487	18 904
Cash and bank	33 905	39 289
Total current assets	**113 431**	**116 563**
Total assets	**206 582**	**151 625**

Balance sheet – Parent company

Equity and liabilities (TSEK)	31-12-2018	31-12-2017
-		
Equity		
Restricted equity capital		
Stock capital	983	983
Development fund	35 256	20 010
Total restricted equity capital	36 239	20 992
	-	-
Unrestricted equity capital		
Capital surplus	244 429	259 675
Profit or loss brought forward	-173 193	-142 772
Profit or loss for the period	-23 243	-30 694
	47 993	86 209
Total equity capital	84 232	107 202
Non-current liabilities		
Liabilities to credit institutions	30 889	2 075
Total non-current liabilities	30 889	2 075
Provisions		
Provisions relating to guarantees	10 630	5 399
Current liabilities		
Utilized overdraft facility	0	8 034
Liabilities to credit institutions	46 766	1 186
Liabilities to suppliers	25 941	16 728
Other current liabilities	931	827
Prepayments and accrued income	7 193	10 174
Total current liabilities	80 831	36 949
	-	-
Total equity and liabilities	206 582	151 625

Definitions of financial terms and key ratios

Return on equity	Result after taxes in percentage of average equity
Equity per share	Equity divided by number of shares at the end of the period
Average number of shares	Total number of shares at the beginning of the period and at the end of the period divided by two
Cash flow per share	Cash flow from the operating activities after change of working capital divided by the number of shares at the end of the period
Average number of employees	Average number of employees during the fiscal year, converted into full-time employment
Net margin	Profit after tax as a percentage of turnover
Earnings per share	Profit after tax divided by average number of shares
Operating margin	Operating income as a percentage of turnover
Equity/assets ratio	Equity as a percentage of balance sheet total

Glossary

Battery	An electrochemical device that creates electricity through controlled chemical reactions between different substances
Lead acid battery	The most common type of battery widely found in cars where anode and cathode normally consist of lead and carbon dioxide
BMS – Battery Management System	An electronic system monitoring and managing lithium-ion cells
Energy storage system	A "smart" battery, where the battery cell is integrated with software to create a device that both stores energy and ensures that the battery cells have optimal conditions, along with a computer configured for the application to communicate with the overall system
Energy density	The amount of energy per unit of volume in a substance
Industrial truck	A term used in materials management that includes all vehicles manufactured to fulfil logistical tasks and manage warehousing
Lithium-ion battery	**Battery based on the most recent lithium-ion technology, that can store twice as much energy per weight and unit of volume as other types of battery. Anode and cathode are made of lithium and a metallic oxide, usually iron, nickel, cadmium or aluminium.**
OEM	Original Equipment Manufacturer, a company that manufactures final products for sale to the market, such as industrial truck manufacturers

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