

Interim report

January–September 2018

Expected orders behind inventory build-up

SEK in millions	2018	2017	Δ %	2018	2017	Δ %
	Q3	Q3		Jan-Sep	Jan-Sep	
Revenue	80.9	75.5	7	258.8	247.6	5
Gross profit	47.0	42.4	11	152.4	131.2	16
Gross margin, %	58.1	56.2		58.9	53.0	
EBITDA	12.7	15.2	-17	46.1	54.6	-16
Operating profit/loss	11.6	14.3	-19	42.9	51.3	-16
Operating margin, %	14.3	18.9		16.6	20.7	
Profit/loss for the period	8.4	13.1	-35	32.2	47.4	-32
Earnings per share, SEK	0.19	0.30	-35	0.73	1.08	-32

“In many parts of the world we see continued investment in communication and safety, as well as increasing defense budgets, and we expect continuous strengthening of our position as a leading supplier. In the past quarter we have had a weaker order intake due to procurements at irregular intervals and the long lead times in the industry. The increase in inventories was to enable rapid delivery on orders we have good reason to expect.”

Lars Højgård Hansen, CEO

IMPORTANT EVENTS DURING THE QUARTER

- The order book at the close of the quarter was SEK 82.3 million (171.1).

Expected orders behind inventory build-up

In many parts of the world we see continued investment in communication and safety, as well as increasing defense budgets and we expect continuous strengthening of our position as a leading supplier. In the past quarter we have had a weaker order intake due to procurements at irregular intervals and the long lead times in the industry. The increase in inventories was to enable rapid delivery on orders we have good reason to expect.

In the nine-month period sales increased by five per cent in comparison with the corresponding period in the previous year and in the rolling twelve-month period sales increased by 15 per cent. The gross margin continued to be strong and was 58.9 per cent (53.0).

The operating profit was SEK 42.9 million (51.3), corresponding to an operating margin of 16.6 per cent (20.7). The change in the operating profit is explained by increased costs for our long-term strategic product and marketing initiatives. The initiatives are aimed at further strengthening our position as the global leading supplier of advanced communication and hearing protection solutions to defense forces and authorities responsible for security.

Third quarter sales are seven per cent higher than the comparative quarter and can be linked to existing and long-term contracts with defense forces, above all in the USA but also in Europe.

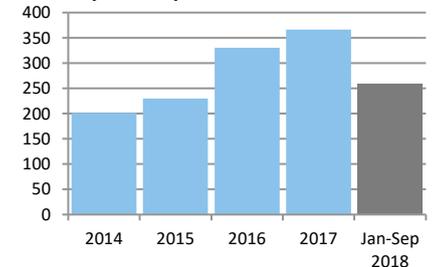
In the third quarter we received a number of small orders totaling about SEK 40 million but no major orders, which was the case in the previous year, when we won a long-term contract in the USA. The order book is considerably lower than in the last quarter but as we know, the order intake varies between quarters for us and other companies with defense customers, due to procurements at irregular intervals and long lead times. During the quarter we built up inventories to secure some expected orders.

Strong position and favorable external factors

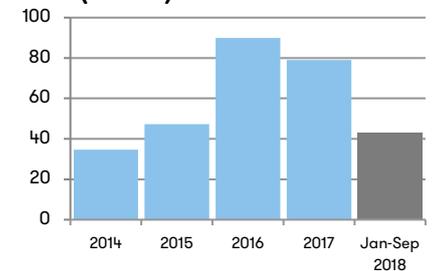
Demand for advanced communication solutions in defense and security continues to be strong and in parts of the world, including Europe and the USA, we see increasing defense budgets and greater investments in civil security than before. INVISIO holds a strong position in the market and apart from defense forces, specialist police units are showing interest in our solutions.

During the quarter the first step was taken in a public procurement by the US Marine Corps when it published an RFI*. The procurement refers to advanced communication equipment with hearing protection for between 7,000 and 65,000 soldiers. It shows that products with our features are penetrating more and more into military units, partly as a consequence of the growing importance of radio communication and the need for hearing protection. During the quarter INVISIO responded to the Marine Corps' RFI.

Sales (SEK m)



EBIT (SEK m)



Strong gross margin

Great market potential for advanced communication and hearing protection solutions



Potential for geographical expansion

Our focus is on further increasing our market share in existing markets, while addressing new geographical markets. The work in new countries has been continuing for a time and is focused on the regions already addressed by the larger radio suppliers, for example strong economies in the Middle East and South East Asia.

**Intensified marketing
in new countries**

We are already seeing the same business pattern as in the western world, which is that we can only expect greater volumes of orders after having received orders from special forces. As we know, the industry's lead times are long and transparency low, but we expect to receive the first major order in the next few quarters.

Broader product portfolio through innovative development

The foundation of our global competitiveness comprises our technical know-how, our understanding of the customer and our innovative capacity. Through our innovations, we contribute to the ongoing modernization initiatives of the defense and security industry and are gradually raising customers' requirements regarding performance, functionality and user experience.

Innovation initiatives for the future

Customers and partners are continually confirming our strong position and capacity to meet their needs through new solutions for use in demanding environments. We recently received a positive response at the major defense exposition AUSA in Washington.

Development of the new intercom system continued to plan during the quarter. The new product category is a long-term opportunity with great potential for INVISIO. The project is aimed at broadening our offer to include not only personal communication but also communication in vehicles. Before the close of 2018 we expect the first individual pilot orders.

Lars Højgård Hansen, CEO

*A Request for Information (RFI) means that ahead of a procurement written questions are sent to suppliers and industry organizations. The RFI must be made in a structured way and the questions must be linked to the knowledge needed for the coming procurement. Source: National Agency for Public Procurement.

INVISIO in brief

INVISIO develops and sells advanced communication systems with hearing protection that enable professionals in noisy and mission critical environments to communicate and work effectively. The systems consist of headsets and control units that connect for example to an external group radio or a vehicle's intercom system.

The systems give operational advantages and increased safety for military and security personnel. They also contribute to reducing the costs of hearing loss for individuals and society.

Innovative product development

Product development in the Group is based on a good understanding of the users' and units' work environment and their specific needs. By combining different technologies and skills in acoustics, electronics, mechanics and software, INVISIO creates innovative and customized solutions that are better than traditional communication systems. Manufacturing is done mainly by contract manufacturers.

New product category for communication in vehicles

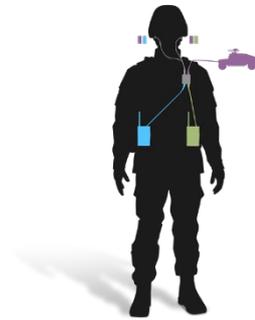
An intercom system for portable use or mounting in vehicles is currently being completed. The system has been developed for use together with INVISIO's existing communication systems and is intended to make communication simpler and more effective for users whose movements alternate between being inside and outside of vehicles. There is a more detailed description of the system on INVISIO's website and in the 2017 annual report.

Growing niche market

INVISIO's current customers are primarily in defense and police forces. At present more than 90 per cent of INVISIO's income is from military customers. Industry statistics show that globally there are about 50 million soldiers, of which about 20 million are deemed to be active. The largest number of soldiers are in countries in Asia, but their defense forces do not yet invest in advanced communication and hearing protection systems.²

Technologically mature countries with awareness of hearing protection issues, and whose soldiers have access to advanced radio communication in operations constitute INVISIO's primary target group. About two million potential users are serving in these countries' defense forces.³

The percentage of radio users is growing continually and is mainly driven by the increased operational capacity, safety and efficiency requirements of defense forces. In addition INVISIO drives growth by developing new, innovative solutions that gradually raise the industry's performance, functionality and user experience requirements.



INVISIO's solution reduces harmful noise while amplifying weak sounds and retaining the user's ability to perceive sound direction.

Users retain situational awareness and can act according to what is going on around them.



Hearing loss is a common problem for employees of the armed forces. Soldiers in war-torn areas are particularly affected.

Statistics show that the problems cost the American defense forces billions every year (USD).¹

¹Researchers evaluate true effects of hearing loss for soldiers, United States Army website, Dec 2015. | The 2016 Annual Benefits Report, US Department of Veteran Affairs, Veteran Benefits Administration.

² The Military Balance, the International Institute for Strategic Studies. 2017.

³ Countries Ranked by Military Strength (2017). Global Firepower. 2017. | The Global Information Technology Report 2015, World Economic Forum. | Democracy Index 2016, The Economist Intelligence Unit.

Current target market

Defense customers normally invest in INVISIO's systems when they modernize their communication equipment. The value of the global market for INVISIO's current products is estimated to be about SEK 20 billion. As a rule, our customers carry out procurements at four-year intervals, which means that the average annual target market for INVISIO's products is about SEK 5 billion. Consequently, there is great potential for continued growth in the target market.

The current target market does not include the coming product category for communication in vehicles. The new category broadens INVISIO's product offer to the defense and security industry and the company considers that it has the potential to make a material contribution to the company's future development. The company considers that the market for the new intercom system in the long term can be at least as great as the markets we have addressed to date with existing products.

Sales

Sales are primarily via a global network of partners and resellers, as well as from the headquarters in Copenhagen and our own sales offices in the USA, France and Italy. The business is normally conducted via procurements. The Group has long-term framework contracts with defense authorities in the USA, the UK, Canada, Australia and Denmark, among others.

Uneven order flow and sales over the year

INVISIO's market is characterized by large procurements at irregular intervals. Lead times are often long due to extensive processes with customer tests both in laboratories and among end users. This means that the order intake and sales for individual quarters may vary and have an effect on the full year figures.

Financial targets and strategies

The company's sales are to increase on average by 20 per cent per year. The operating margin must be at least 15 per cent. To achieve the financial targets INVISIO uses the following strategies:

- Increase market share in existing markets in Europe, North America and Oceania.
- Geographical expansion to emerging markets with long-term potential, including Asia and parts of the Middle East and South America.
- Product development referring to both new and further developed products for current target groups.
- Cost effectiveness in the company and in manufacturing.



Hearing and communication equipment are important components of critical operations and have been subject to modernization for a number of years, mainly in the defense forces but also in police services.

Sales and profit

January–September 2018

Sales in the period January–September 2018 amounted to SEK 258.8 million (247.6), an increase of five per cent. In comparable currencies sales increased by one per cent.

Sales on international markets are mainly in USD, EUR and GBP. INVISIO hedges large orders to offset currency fluctuations in the short term.

At the close of the period the order book amounted to SEK 82.3 million (171.1). INVISIO's market is characterized by large procurements at irregular intervals. Lead times are often long due to extensive processes with customer tests both in laboratories and among end users. This means that the order intake and sales for individual quarters may vary and have an effect on the full year figures.

Gross profit was SEK 152.4 million (131.2) and the gross margin was 58.9 per cent (53.0).

Operating expenses for the period were SEK 109.5 million (79.9). The increase refers to a larger organization and increased R&D and Marketing activities in accordance with INVISIO's growth strategy. Since last year the company has recruited nine new employees in R&D and Marketing/Sales.

During the period development costs of SEK 14.3 million (9.3) were capitalized. Operating expenses include depreciation of capitalized development costs of SEK 1.9 million (2.4).

Operating profit for the period was SEK 42.9 million (51.3) and the operating margin was 16.6 per cent (20.7).

Net financial income was SEK 0.2 million (-2.7).

Profit before tax amounted to SEK 43.0 million (48.5) and profit for the period was SEK 32.2 million (47.4). Earnings per share were SEK 0.73 (1.08).

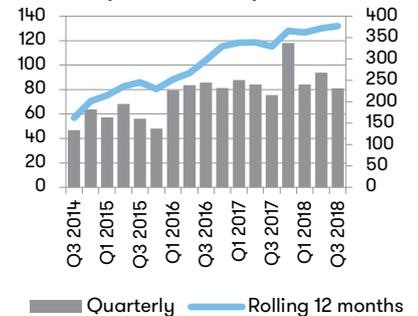
Third quarter 2018

Sales in the period July–September 2018 amounted to SEK 80.9 million (75.5), an increase of seven per cent. In comparable currencies sales increased by three per cent.

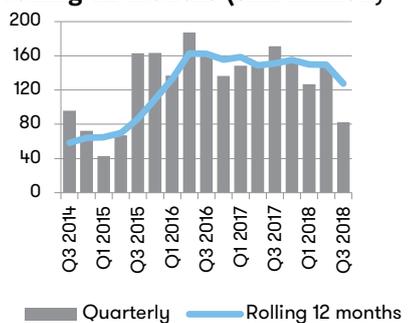
Gross profit was SEK 47.0 million (42.4) and the gross margin was 58.1 per cent (56.2). Gross margin may vary between quarters depending on the product mix and the share of direct sales to end-customers.

Operating expenses for the quarter were SEK 35.4 million (28.2). The increase refers to a larger organization and increased R&D and Marketing activities in accordance with INVISIO's growth strategy.

Sales per quarter and rolling 12 months (SEK million)



Order book per quarter and rolling 12 months (SEK million)



During the quarter development costs of SEK 5.6 million (3.5) were capitalized. Operating expenses include depreciation of capitalized development costs of SEK 0.6 million (0.6).

Operating profit for the quarter was SEK 11.6 million (14.3) and the operating margin was 14.3 per cent (18.9).

Net financial income was SEK 0.0 million (0.0).

Profit before tax amounted to SEK 11.6 million (14.3) and profit for the period was SEK 8.4 million (13.1). Earnings per share were SEK 0.19 (0.30).

Cash flow, investments and financial position

Cash flow and investments

The Group's cash flow for the period January-September 2018 was SEK -19.6 million (-32.3), of which cash flow from operating activities was SEK 21.9 million (-2.8) and cash flow from investing activities was SEK -15.1 million (-11.2). Cash flow from financing activities was SEK -26.5 million (-18.3), of which SEK 26.5 million (21.7) was dividend paid.

During the period the Group's investments amounted to SEK 15.1 million (11.2), of which SEK 14.3 million (9.3) was capitalized development costs and SEK 0.6 million (1.8) was net investment in property, plant and equipment.

During the period the inventory value increased temporarily to SEK 90.6 million (27.9). The build-up of inventories took place to ensure deliveries of expected orders.

Cash and cash equivalents and financial position

The Group's cash and cash equivalents at the close of the period amounted to SEK 97.1 million (100.7). INVISIO has sound financial strength and the Group had no loans at the close of the period.

Group equity at the close of the period amounted to SEK 276.6 million (238.6), which gave an equity/assets ratio of 79 per cent (82).

Parent company

Net income for the parent company during the period January – September 2018 amounted to SEK 0.0 million (0.0). The operating result was SEK -6.0 million (-3.8). Profit for the period amounted to SEK -4.7 million (-4.0).

At the close of the period the parent company's cash and bank balances amounted to SEK 66.8 million (30.3). Equity amounted to SEK 152.1 million (90.0), which gave an equity/assets ratio of 97 per cent (78.0). The number of employees in the parent company was 1 (1).

Employees

The number of employees in the Group, restated as full-time equivalents, was 82 (73) at the close of the period. Of the employees, 65 were men (58) and 17 women (15).

Other information

Material risks and uncertainties

INVISIO's business and earnings are affected by a number of external and internal factors. A continuous process is conducted to identify all anticipated risks and to assess how each respective risk is to be managed. Risks can be divided into market, operational, and financial risks. For a more detailed description of these risks, please refer to pages 39–40 in INVISIO's annual report for 2017.

Financial key figures, alternative performance measures and other definitions

INVISIO's financial statements include both financial key figures that are specified in current financial reporting rules, alternative key figures ("APMs") in accordance with ESMA's definition and other key figures related to the business. The alternative performance measures are regarded as relevant for an investor who wants to understand the company's results and financial position better. Definitions and reconciliation of the alternative performance measures that are not directly reconcilable with the financial statements can be found on the company's website: www.invisio.com/IR under Financial Reports. Reconciliation is against the closest comparable IFRS financial measure.

Financial instruments

The fair value of the Group's financial assets and liabilities is estimated to be equal to the book value.

Nominating Committee for the Annual General Meeting in 2019

The Nominating Committee prior to the 2019 Annual General Meeting comprises of Lilian Fossum Biner, chairing the Nominating Committee and representing Handelsbanken Fonder, Lennart Franck, representing Swedbank Robur fonder, Lage Jonason, representing himself and family and companies and Chairman of the Board Lars Röckert.

Shareholders who wish to submit proposals to the Nominating Committee can email to lilian.fossum.biner@gmail.com or send ordinary mail addressed to: The Nominating Committee, INVISIO Communications AB, P O Box 151, SE 201 21 Malmö. To enable the Nominating Committee to process proposals submitted, they should have been received by the Nominating Committee at the latest by December 31, 2018.

Annual General Meeting 2019

INVISIO's Annual General Meeting in 2019 will be held in Stockholm on May 2, 2019 at 14:00.

Shareholders wishing to have a matter considered at the Annual General Meeting can send a written request by email to ir@invisio.com or by ordinary mail addressed

to: The Board of Directors, INVISIO Communications AB, P O Box 151, SE 201 21 Malmö. Any request must have been received at least seven weeks before the Meeting in order to be included in the notice to attend and thus the agenda of the Annual General Meeting.

Financial calendar

Year-end report 2018

February 15, 2019

Interim reports and annual reports are available at www.invisio.com.

Stockholm, October 26, 2018

Lars Röckert Chairman of Board	Annika Andersson Board Member	Charlotta Falvin Board Member
Ulrika Hagdahl Board Member	Lage Jonason Board Member	Martin Krupicka Board Member
Lars Højgård Hansen President/CEO		

For further information, please contact

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Thomas Larsson, CFO
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Publication

This information is information that INVISIO Communications AB (publ) is obliged to disclose under the EU Market Abuse Regulation. The information was released for public disclosure, through the agency of the President/CEO, on October 26, 2018, at 8.30 CET.

Address

INVISIO Communications AB | P O Box 151 | SE 201 21 Malmö
INVISIO Communications AB is a Swedish limited company listed on Nasdaq Stockholm. The company's share is traded under the ticker name IVSO and the ISIN code is SE0001200015.

Auditor's report

INVISIO Communications AB corp. reg. no. 556651-0987

Introduction

We have reviewed the condensed interim financial information (interim report) of INVISIO Communications AB (publ) as of 30 September 2018 and the nine-month period then ended. The board of directors and the CEO are responsible for the preparation and presentation of the interim financial information in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express a conclusion on this interim report based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements ISRE 2410, Review of Interim Report Performed by the Independent Auditor of the Entity. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing, ISA, and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim report is not prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act, regarding the Group, and with the Swedish Annual Accounts Act, regarding the Parent Company.

Malmö, October 26, 2018

PricewaterhouseCoopers AB

Mats Åkerlund
Authorized Public Accountant

Condensed consolidated income statement and consolidated statement of comprehensive income

SEK in millions	Note	2018 Q3	2017 Q3	2018 Jan-Sep	2017 Jan-Sep	2017 Full year
Revenue	2	80.9	75.5	258.8	247.6	365.7
Cost of goods sold		-33.9	-33.1	-106.4	-116.4	-163.4
Gross profit		47.0	42.4	152.4	131.2	202.3
Operating expenses*		-35.4	-28.2	-109.5	-79.9	-123.7
Operating profit/loss		11.6	14.3	42.9	51.3	78.6
Net financial items		0.0	0.0	0.2	-2.7	-5.1
Profit/loss before tax		11.6	14.3	43.0	48.5	73.5
Income tax	3	-3.1	-1.2	-10.8	-1.2	-11.2
Profit/loss for the period		8.4	13.1	32.2	47.4	62.3
OTHER COMPREHENSIVE INCOME						
<i>Items that may subsequently be reclassified to profit and loss</i>						
Translation differences		-2.8	-2.3	10.6	-0.1	6.3
Comprehensive income for the period		5.6	10.8	42.8	47.3	68.6
<i>(Profit/loss attributable to equity holders of the parent company.)</i>						
*Depreciation incl. in operating expenses		-1.1	-0.9	-3.2	-3.4	-4.4
Per-share data						
Earnings per share, SEK		0.19	0.30	0.73	1.08	1.42
Earnings per share after dilution, SEK		0.19	0.30	0.73	1.07	1.41
Shareholders' equity per share, SEK		6.27	5.41	6.27	5.41	5.89
Shareholders' equity per share after dilution, SEK		6.20	5.41	6.20	5.41	5.89
Equity ratio, %		79	82	79	82	76
Number of shares, thousand		44,098	44,098	44,098	44,098	44,098
Average number of outstanding shares, thousand		44,098	44,098	44,098	43,808	43,881
Average number of outstanding shares after dilution, thousand		44,598	44,098	44,334	44,098	44,098
Share price at year-end, SEK		60.80	83.50	60.80	83.50	79.25

Condensed consolidated statement of financial position

SEK in millions

Assets	Note	30/09/2018	30/09/2017	31/12/2017
Capitalized development costs		41.4	24.4	27.7
Equipment		4.0	4.2	4.5
Deposits for rent, long-term		1.7	1.5	1.5
Deferred tax assets	3	19.2	34.3	25.9
Inventories		90.6	27.9	36.3
Trade receivables		78.8	93.7	121.1
Other short-term receivables		19.2	2.8	12.1
Cash and cash equivalents		97.1	100.7	113.2
Total assets		352.1	289.4	342.2

Shareholders' equity and liabilities

Shareholders' equity		276.6	238.6	259.9
Trade payables		44.9	23.7	49.7
Other short-term liabilities		30.6	27.1	32.7
Total shareholders' equity and liabilities		352.1	289.4	342.2

Condensed consolidated statement of changes in equity	2018	2017	2017
	Jan-Sep	Jan-Sep	Full year
Opening balance	259.9	209.5	209.5
New issue through exercising employee stock options	-	3.4	3.4
Employee stock option program	0.3	0.1	0.1
Dividend	-26.5	-21.7	-21.7
Comprehensive income for the period	42.8	47.3	68.6
Closing balance	276.6	238.6	259.9

Condensed consolidated statement of cash flow

SEK in millions	2018 Q3	2017 Q3	2018 Jan-Sep	2017 Jan-Sep	2017 Full year
Operating activities					
Profit/loss before tax	11.6	14.2	43.0	48.5	73.5
Adjustments for non-cash items	-1.4	0.7	2.1	4.0	7.3
Income tax paid	-0.2	0.0	-4.7	-0.6	-2.7
Cash flow from operating activities before changes in working capital	10.0	15.0	40.5	51.9	78.1
Changes in inventories	-20.8	-0.5	-52.3	-2.0	-9.5
Changes in operating receivables	-16.6	-32.8	42.9	-51.1	-86.4
Changes in operating liabilities	-3.7	-4.5	-9.2	-1.6	28.7
<i>Cash flow from changes in working capital</i>	<i>-41.1</i>	<i>-37.8</i>	<i>-18.6</i>	<i>-54.7</i>	<i>-67.2</i>
Cash flow from operating activities	-31.2	-22.8	21.9	-2.8	10.9
Investing activities					
Capitalization of development costs	-5.6	-3.5	-14.3	-9.3	-12.6
Acquisition of property, plant, and equipment	-0.2	-0.3	-0.6	-1.8	-2.4
Acquisition of financial assets	0.0	0.0	-0.1	0.0	0.0
Cash flow from investing activities	-5.8	-3.8	-15.1	-11.2	-15.0
Financing activities					
New issues through exercising employee stock options	-	-	-	3.4	3.4
Dividend	-	-	-26.5	-21.7	-21.7
Cash flow from financing activities	-	-	-26.5	-18.3	-18.3
CASH FLOW FOR THE PERIOD	-37.0	-26.6	-19.6	-32.3	-22.5
Cash and cash equivalents at start of period	134.6	128.7	113.2	133.2	133.2
Translation differences in cash and cash equivalents	-0.5	-1.5	3.6	-0.2	2.4
Cash and cash equivalents at end of period	97.1	100.7	97.1	100.7	113.2

Condensed parent company income statement

SEK in millions	2018 Q3	2017 Q3	2018 Jan-Sep	2017 Jan-Sep	2017 Full year
Revenue	0.0	0.0	0.0	0.0	0.1
Operating expenses	-1.7	-1.2	-6.1	-3.8	-5.4
Operating profit/loss	-1.7	-1.2	-6.0	-3.8	-5.4
Net financial items**	-0.2	-0.2	1.4	-0.3	94.3
Profit/loss before tax	-1.9	-1.4	-4.7	-4.0	88.9
Income tax	-	-	-	-	-
Profit/loss for the period	-1.9	-1.4	-4.7	-4.0	88.9
**Of which, dividend from subsidiaries	-	-	-	-	95.0

Condensed parent company balance sheet

SEK in millions

Assets	30/09/2018	30/09/2017	31/12/2017
Participations in Group companies	83.7	83.4	83.4
Receivables from Group companies	5.1	1.3	75.3
Other short-term receivables	0.9	0.4	0.5
Cash	66.8	30.3	28.3
Total assets	156.5	115.4	187.6
Shareholders' equity and liabilities			
Restricted shareholders' equity	65.7	65.7	65.7
Non-restricted shareholders' equity	86.4	24.3	117.2
Trade payables	0.1	0.2	0.1
Liabilities to Group companies	2.8	23.4	2.8
Other short-term liabilities	1.5	1.8	1.8
Total shareholders' equity and liabilities	156.5	115.4	187.6
Parent company changes in shareholders' equity	2018 Jan-Sep	2017 Jan-Sep	2017 Full year
Opening balance	182.9	112.3	112.3
New issues through exercising employee stock options	-	3.4	3.4
Employee stock option program	0.3	0.1	0.1
Dividend	-26.5	-21.7	-21.7
Profit/loss for the period**	-4.7	-4.0	88.9
Closing balance	152.1	90.0	182.9
**Of which, dividend from subsidiaries	-	-	95.0

Notes

Note 1. Accounting policies and valuation principles

The interim report for the Group was prepared in accordance with IAS 34, the Swedish Financial Reporting Board's Recommendation RFR 1, Supplementary Accounting Rules for Groups, and the Annual Accounts Act. The parent company's accounts were prepared in accordance with RFR2, Accounting for Legal Entities and the Swedish Annual Accounts Act. The accounting policies applied are consistent with the policies described in INVISIO's annual report for 2017 with the exception of the new standards applied from January 1, 2018.

New standards

Two new standards came into force on January 1, 2018: IFRS 9 Financial Instruments and IFRS 15 Revenue from contracts with customers. Implementation of the new standards has not had any material impact on the Group's financial statements but has resulted in new disclosures.

IFRS 9 Financial Instruments

IFRS 9 Financial instruments replaces IAS 39 Financial instruments: Recognition and measurement. The new standard brings together all aspects of financial instrument recognition (with the exception of macro hedging); classification, measurement, impairment and hedge accounting. The categories of classification of financial assets in IAS 39 are replaced by three categories, in which measurement is at fair value or amortized cost. The impairment model which in IAS 39 was based on incurred losses, is based in IFRS 9 on expected losses, which requires more timely recognition of credit losses. Hedge accounting has been improved in IFRS 9 so that the effect of how a company manages financial instrument risks is more clearly reflected in the financial statements.

The Group applies IFRS 9 retroactively as of January 1, 2018 using the practical relaxation rules specified in the standard (prospective transition method) and as the Group deems applicable. The comparative figures for 2017 have not been restated.

The transition to IFRS 9 has not impacted the valuation of the Group's financial instruments. The new impairment model means that provision for credit losses mainly referring to trade receivables will be brought forward. Provision is made for all these receivables equivalent to the credit losses expected to arise during the remaining maturity and not just for the receivables that have given objective proof of impairment loss. Credit loss reserves have not been impacted as at January 1, 2018. The financial impact of the implementation of IFRS 9 was SEK 0.

IFRS 15 Revenue from contracts with customers

IFRS 15 Revenue from contracts with customers is a comprehensive principles-based standard for revenue recognition, regardless of the type of transaction or industry, which replaces all previously issued standards and interpretations that deal with revenue recognition.

In 2017 the Group carried out an analysis of the effects of IFRS 15 for material revenue streams. No revenue streams were identified where IFRS 15 has any effect on INVISIO's financial statements. The transition to IFRS 15 was made using a retrospective approach. Implementation has not entailed any transition effects on the opening balances as at January 1 2018, nor on the closing balance as at September 30, 2017, and therefore presentation of revised comparative periods in the report is not applicable. Thus the financial impact is SEK 0.

New standards not yet applied

New standards that are compulsory for financial years starting later than January 1, 2018, are adopted by the EU and deemed relevant to the Group are set out below.

IFRS 16 Leases

In January 2016 the IASB published a new standard on leases that will replace IAS 17 Leases and associated interpretations IFRIC 4, SIC-15 and SIC-27. The standard requires that assets and liabilities referring to all leasing agreements, with some exceptions, be recognized in the balance sheet. This accounting is based on the view that the lessee has the right to use an asset for a specific period of time and at the same time an obligation to pay for this right. The accounting for the lessor will be unchanged in all material respects. The standard was adopted by the EU in October 2017 and is applicable to financial years starting on or after January 1, 2019. Early application is permitted. INVISIO will apply a simplified transition approach, which means that the comparative figures are not restated. The implementation will increase INVISIO's balance sheet total by SEK 30-35 million, mainly as a consequence of the Group's office lease contracts. Equity will not be affected. Since implementation of the standard means that lease payments will be reported instead as depreciation and interest expense, it is estimated that there will be a positive impact on EBITDA of 3-7 percentage points. The effect on EBIT is not material. For more details on current rental and leasing agreements, see Note 7 in INVISIO's annual report for 2017.

Note 2. Revenue by geographical area

	2018	2017	2018	2017	Full
SEK in millions	Q3	Q3	Jan-Sep	Jan-Sep	year
Sweden	1.3	0.8	5.2	2.7	5.7
Europe	14.1	34.4	105.6	102.5	120.4
North America	63.1	39.3	140.8	136.2	231.9
Rest of the world	2.5	1.1	7.3	6.2	7.8
Total	80.9	75.5	258.8	247.6	365.7

Note 3. Taxes

Deferred tax assets in the balance sheet, disclosed net, are SEK 19.2 million, of which SEK 27.7 million is attributable to tax loss carry forwards in the Danish subsidiary. Deferred tax assets referring to tax loss carry forwards are recognized to the extent that it is probable that they can be applied against future taxable profit. An individual assessment is made of each company with reference to historical performance and possibilities of utilizing the loss carry-forwards. Danish legislation limits the yearly utilization of loss carry-forwards, which means that the Danish subsidiary will pay tax in 2018. The Group's total loss carry-forwards as at September 30, 2018 were SEK 232.8 million, of which SEK 125.8 million are capitalized. The remaining unutilized loss carry-forwards amounted to SEK 107.0 million and refer to other companies and cannot be capitalized at present. All loss carry-forwards have an unlimited life.

Overview - eight past quarters

	2016	2017	2017	2017	2017	2018	2018	2018
SEK in millions	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenue	81.3	87.9	84.2	75.5	118.1	84.2	93.8	80.9
Cost of goods sold	-40.9	-39.7	-43.7	-33.1	-47.0	-34.0	-38.5	-33.9
Gross profit	40.4	48.2	40.5	42.4	71.1	50.1	55.3	47.0
Operating expenses	-23.5	-25.5	-26.2	-28.2	-43.8	-31.6	-42.4	-35.4
Operating profit/loss	16.9	22.7	14.3	14.3	27.3	18.5	12.8	11.6
Net financial items	0.0	0.0	-2.7	0.0	-2.4	-0.5	0.6	0.0
Profit/loss before tax	16.9	22.7	11.6	14.3	24.9	18.0	13.4	11.6
Income tax	-0.6	-	-	-1.2	-10.0	-4.2	-3.5	-3.1
Profit/loss for the period	16.3	22.7	11.6	13.1	15.0	13.8	9.9	8.4
Cash flow from operating activities	46.9	24.7	-4.7	-22.8	13.7	41.2	11.9	-31.2
Gross margin, %	49.7	54.9	48.1	56.2	60.2	59.6	58.9	58.1
Operating margin, %	20.8	25.8	17.0	18.9	23.1	22.0	13.7	14.3
Profit margin %	20.0	25.8	13.8	17.3	12.7	16.5	10.6	10.4
Equity ratio, %	80	86	81	82	76	82	77	79
Earnings per share, SEK*	0.38	0.52	0.26	0.30	0.34	0.31	0.23	0.19
Shareholders' equity per share, SEK*	4.82	5.33	5.16	5.41	5.89	6.38	6.14	6.27

* Before dilution