

Interim Report

January–June 2016

Continued profitable growth and strong order book

Mkr	2016	2015	Δ %	2016	2015	Δ %
	Q2	Q2		Jan-Jun	Jan-Jun	
Revenue	83,6	68,2	23	163,1	125,4	30
Gross Profit	43,2	34,1	27	85,4	66,4	29
Gross margin (%)	51,7	50,1	3	52,4	53,0	-1
EBITDA	23,4	18,4	28	48,3	33,4	44
Operating profit/loss	22,2	16,2	38	45,7	30,4	51
Operating margin (%)	26,6	23,7	12	28,0	24,2	16
Profit/loss for the period	22,2	13,5	64	45,6	27,4	66
Earnings per share, SEK	0,52	0,32	62	1,07	0,65	66

“All in all we have made several important advances in the first half year. We have received orders both from new and existing customers while showing that we have the capacity required to deliver greater volumes in pace with our customers' wishes.”

Lars Højgård Hansen, CEO

IMPORTANT EVENTS DURING THE QUARTER

- INVISIO received an order of about SEK 100 million from the American army's modernization program TCAPS. Deliveries will be made on an ongoing basis in the period July 2016–June 2017.
- Two orders were received from the French defence forces totalling SEK 18 million, to be delivered in 2016.
- One of INVISIO's oldest army customers ordered systems for SEK 6.5 million.
- The order book at the close of the quarter was SEK 187.4 million (67.1).
- The product portfolio was extended with INVISIO V20 for users connected to a single team radio.
- The share capital in INVISIO increased due to exercise of stock options.

Continued profitable growth and strong order book

INVISIO continues to grow with good profitability. Both sales and operating profit rose in the first six months of the year compared with the corresponding period in 2015. At the same time a new order from the US army contributed to a strong order book at the close of the period.

Ongoing deliveries of the major contracts we won in connection with modernization programs at the end of 2015 contributed to sales in the first half year of SEK 163 million, corresponding to an increase of 30 per cent. For the second quarter sales increased by 23 per cent to SEK 84 million.

The positive sales trend means that the operating profit in the first half year, despite investments for the future through a number of new recruitments, increased by 51 per cent to SEK 46 million. This shows the scalability of our business model. The operating margin was 28.0 per cent.

At the close of the period the order book was SEK 187 million.

Order from TCAPS in the USA and several other important army customers

All in all, we have made several important advances in the first half year. We have received orders both from new and existing customers while showing that we have the capacity required to deliver greater volumes in pace with our customers' wishes.

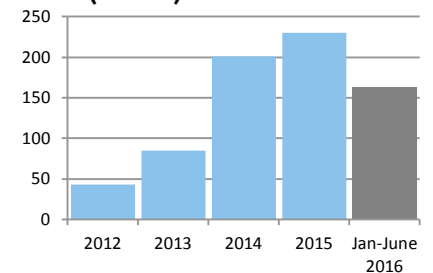
Deliveries to the armies in the United Kingdom and Australia, whose contracts we won in 2015, have progressed in accordance with our plans. In an article in the British Ministry of Defence magazine "Desider" the Ministry motivates its choice of INVISIO's system and praises INVISIO for reaching the in-service date three months ahead of schedule. You can read the full article in this report.

It is also gratifying that our good partnership with the TCAPS modernization program in the USA has continued to be strengthened. In June we received an order worth about SEK 100 million. The scope and significance of this contract continue to be great and will have a positive impact on us for a long time to come, not least as a reference for new customers.

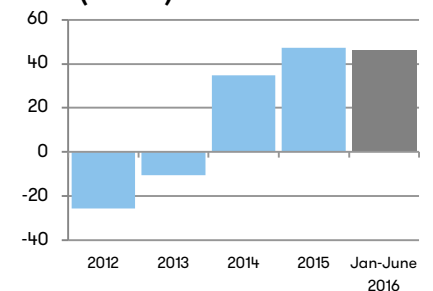
Another important order in the quarter is from one of our oldest army customers in NATO, worth more than SEK 6 million. Our long-term relations with our customers are a clear confirmation of our understanding of how defence customers work and our capacity to develop solutions that make a difference in the field.

During the period our efforts to strengthen our already strong position in France produced results. During the Euro 2016 soccer championship the security forces used our system and we received new orders from the army in the quarter. Due to our successes and future potential during the quarter we established our own sales company in Paris. France became our seventh army customer after Denmark, Sweden, the USA, Canada, the United Kingdom and Australia.

Sales (SEK m)



EBIT (SEK m)



”It is also gratifying that our good partnership with the TCAPS modernization program in the USA has continued to be strengthened. In June we received an order worth about SEK 100 million.”



Extended product portfolio and new recruitments for continued growth

We continue to maintain a high pace of innovation and presented INVISIO V20 during the quarter, a small and lightweight control unit that can be connected to a team radio. To meet customers' often mission-specific requirements we are extending our portfolio with control units in several sizes with various features. With the new INVISIO V20 we can meet customers' requirements to be able to connect either one, two or three external radio units to their equipment.

At the same time, work on our other development projects has progressed at the same high intensity. The objective is to strengthen our offer with new products in both existing and new product areas. In the first half year we have considerably augmented the R&D organisation through a number of new recruitments and started projects that should lead to more innovative and world-leading products going forward.

INVISIO's solutions are attracting intensifying interest. To utilize the potential, we have also reinforced our marketing and sales department with a number of new employees who will help to maintain a fast pace in both current and future sales activities.

Outlook

INVISIO's growth and financial position make it possible to continue investment in new markets and product development projects. By continuing to be cost aware, we are focusing on growth by strengthening our position in existing markets, establishing a foothold in new geographic markets and developing new products.

Our strategic initiatives, together with a strong order book bode well for the second half of the year, as well as the future.

Lars Højgård Hansen, CEO

”INVISIO's growth and financial position make it possible to invest in new markets and product development projects.”

From *Desider Magazine: issue 96, June 2016*

UK Ministry of Defence and Defence Equipment and Support.

NEWS

New Army hearing protection system in service ahead of schedule

The DE&S Soldier Training and Special Programmes (STSP) team have achieved a key milestone with the delivery of a new hearing protection system for the British Army three months ahead of schedule.

Provided by Surrey-based Marlborough Communications Limited, the INVISIO S10 system will further improve mission success with enhanced communications and situational awareness.

It is also more comfortable to use in operations while helping protect the hearing of personnel in high noise environments, such as in tracked vehicles or on air platforms.

The new system provides two-way, crystal clear communications in both ears when transmitting and receiving radio traffic, allowing greater situational awareness irrespective of the surrounding noise.

Major General Robert Talbot Rice, Director Land Equipment, said: "The INVISIO S10 hearing protection system will deliver a key capability for the Armed Forces, providing first rate situational awareness and better prevents hearing damage to personnel on operations whilst offering more comfort."

"Reaching the in service date three months ahead of schedule is a major milestone in the programme and the direct result of DE&S and industry's hard work."

INVISIO S10 is comprised of an in-ear hearing protection headset

and a control unit which houses the electronics for situational awareness and impulse noise protection.

Allan Aird, Head of the Command and Battlespace Management Project Team added: "The INVISIO S10 is a brand-new hearing protection and situational awareness capability for soldiers specifically in the close combat role."

"This fantastic achievement has been enabled by a close working relationship fostered between STSP,

Marlborough Communications and INVISIO.

Achieving such a key milestone so early in the programme is testament to the hard work and dedication of both teams in delivering such a key piece of equipment to the user."

The contract will also provide support for the next four years, with the option of a three year extension.

Below: SSgt Wellington Gazi, from the STSP team, wearing the new hearing protection system



Picture: David Tucker

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Reaching the in service date three months ahead of schedule is a major milestone in the programme

Major General Robert Talbot Rice

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INVISIO in brief

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

The solutions mean operational advantages and increased safety for military and security personnel. They also help to reduce the costs to individuals and society of hearing impairment.

Innovative product development

Product development is based on a good understanding of the user's work environment and specific needs. By combining different technologies and skills in acoustics, electronics, mechanics and hearing the company creates innovative and customized solutions that replace traditional methods.

Military modernization drives growth

The company's customers are mainly public agencies that are responsible for procurement for security forces and armed forces. Growth for the company's products is driven by modernization programs with high standards for new equipment. In recent years INVISIO has won substantial orders within the framework of programs requiring hearing protection and that include radio and communication solutions. The company's order book consists of long-term contracts with armies in Denmark, the USA, the United Kingdom, Canada and Australia.

Sales

Sales are primarily via a global network of partners and resellers but in some markets the company also sells directly to end customers. The products are mainly manufactured by contract manufacturers.

Uneven order flow and sales over the year

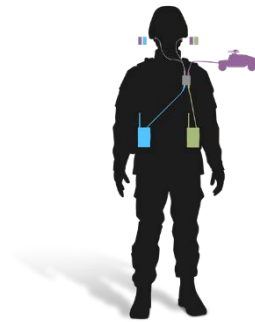
INVISIO's market is characterized by large procurements often with long lead times due to extensive processes with customer tests both in laboratories and among end users. This means that the order intake and sales for individual quarters may vary and have an effect on the full year figures.

Financial goals 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 goals INVISIO follows these strategies:

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



INVISIO's system dampens harmful noise while amplifying weak sounds and retaining the wearer's perception of sound direction.

Using the system, wearers retain situational awareness and can act in response to what is happening around them.



Hearing impairment is a common problem for people serving in the defence forces. Soldiers serving abroad are particularly affected.

Statistics show that the problems cost the American defence forces billions of dollars every year.¹

¹ Researchers evaluate true effects of hearing loss for soldiers, United States Army website, Dec 2015. The 2015 Annual Benefits Report, US Department of Veteran Affairs, Veteran Benefits Administration. Bullerskador ökar bland officerare (Hearing impairment increasing among officers), Officerstidningen, Nr 1 2014.

Net sales and profit

First half year 2016

Sales for the period January–June 2016 were SEK 163.1 million (125.4), an increase of 30 per cent in comparison with the same period in 2015. In comparable currencies sales increased by 37 per cent.

Sales in international markets are mainly in USD, EUR and GBP, which means that the company's sales and results are impacted by changes in these currencies. The company hedges large orders to compensate in the short term for any foreign exchange fluctuations.

At the close of the period the order book was SEK 187.4 million (67.1).

Gross profit was SEK 85.4 million (66.4) and the gross margin was 52.4 per cent (53.0).

Operating expenses for the first half year were SEK 39.7 million (36.0). The increase is mainly attributable to higher personnel costs due to a number of new recruitments. Last year's costs included SEK 3.2 million for listing INVISIO on Nasdaq Stockholm.

Research and development costs of SEK 3.0 million (2.0) were capitalized during the period. Operating expenses included depreciation of capitalized development costs of SEK 2.3 million (3.0).

The operating profit for the period was SEK 45.7 million (30.4) and the operating margin was 28.0 per cent (24.2).

Net financial income was SEK -0.1 million (-0.4).

Profit before tax was SEK 45.6 million (29.9) and the profit for the period was SEK 45.6 million (27.4).

Second quarter 2016

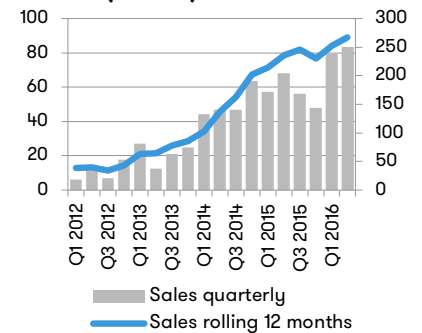
Sales for April–June 2016 were SEK 83.6 million (68.2), an increase of 23 per cent compared with the corresponding period in the previous year. After currency adjustment growth was 30 per cent.

The gross profit was SEK 43.2 million (34.1), which corresponds to a gross margin of 51.7 per cent (50.1). Gross margin may vary between the quarters depending on the product mix and the share of direct sales to end-customers.

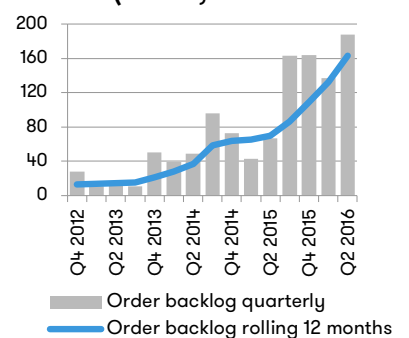
Operating expenses for the quarter were SEK 21.0 million (18.0). The increase is mainly attributable to higher personnel costs due to a number of new recruitments.

During the quarter development costs of SEK 1.8 million (1.0) were capitalized. Operating expenses include depreciation of capitalized development costs of SEK 1.1 million (2.2).

Sales per quarter and rolling 12 months (SEK m)



Sales per quarter and rolling 12 months (SEK m)



The operating profit for the quarter was SEK 22.2 million (16.2), which corresponds to an operating margin of 26.6 per cent (23.7).

Net financial items for the quarter amounted to SEK 0.0 million (-0.1).

Profit before tax was SEK 22.2 million (16.0) and the profit for the period was SEK 22.2 million (13.5).

Cash flow, investments and financial position

Investments

During the period January–June 2016 investments amounted to SEK 3.9 million (2.0), of which SEK 3.0 million (2.0) constituted capitalized development costs.

Cash flow and liquidity

Cash flow from operating activities during the period January–June 2016 was SEK 60.8 million (23.3). Inventory build-up ahead of the TCAPS order means that the inventory value is higher, but higher trade payables and reduced amounts tied up in trade receivables have positive effects on cash flow. Cash flow from investing activities amounted to SEK -3.9 million (-2.0). Cash flow from financing activities was SEK 3.1 million (-15.3) Cash flow during the period thus amounted to SEK 60.0 million (6.0).

At the end of the period, the Group's cash and cash equivalents amounted to SEK 90.8 million (33.4).

Equity

The Group's equity at the close of the period was SEK 158.6 million (77.1), which implied an equity/assets ratio of 76 per cent (66). During the period SEK 3.0 million was added to equity through exercising stock options in connection with the employee stock option program 2013/2017 Tranche 1. The employee stock option program is presented in INVISIO Communications' annual report for 2015, on page 56, Note 8.

Taxes

Capitalized deferred tax assets in the balance sheet are SEK 30.4 million, attributable to the Danish subsidiary. Deferred tax assets are reported as tax loss carry-forwards to the extent it is probable that they can be applied against future taxable profits. An individual assessment will be conducted for each subsidiary with regards to historic performance and possibilities to utilize loss carry-forwards. Danish legislation limits the yearly utilisation of loss carry-forwards, which means that the Danish subsidiary may pay tax in 2016. However, no tax has been estimated for the period January – June 2016. Total loss carry-forwards as at December 2015 were SEK 259 million, of which SEK 134 million is capitalized. All loss carry-forwards have an unlimited life.

Parent company

Net sales for the parent company during the period January–June 2016 amounted to SEK 30 thousand (30). Operating profit was SEK -3.2 million (-6.2). Profit for the period amounted to SEK -3.2 million (-6.4).

At the close of the period, the parent company's cash and cash equivalents amounted to SEK 27.1 million (2.2). Equity amounted to SEK 82.7 million (60.3), which implied an equity/assets ratio of 75 per cent (64). The number of employees in the parent company was 1 (1).

Employees

The number of employees in the Group, restated as full time positions, was 47 (34) at the close of the period. Of the employees, 34 were men (27) and 13 women (7).

Other information

Accounting policies

The interim report for the Group has been prepared in accordance with IAS 34 and the Swedish Annual Accounts Act. The parent company's accounts were prepared in accordance with RFR 2, Accounting for legal entities and the Annual Accounts Act. The accounting policies that are described in INVISIO's 2015 Annual Report have been applied.

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.

The risks that the company is mainly exposed to are market-related risks (including legislation and political decisions, global economic situations, competition, technological risks, market acceptance of new products and supplier-related circumstances), operational risks (including the ability to manage growth, customers and cooperation agreements, product liability, intellectual property, dependence on key persons and employees, as well as risks related to financial reporting) and financial risks (including interest rate risk, currency risk, financing risks and liquidity risks).

The Company estimates that no additional significant risks or uncertainties have arisen during the year, beyond those reported in this interim report and on pages 39 and 53-54 of the INVISIO 2015 Annual Report.

Review

This interim report has not been reviewed by the company's auditor.

Financial calendar

Interim Report January–September 2016	November 3, 2016
Year-end report 2016	February 24, 2017

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

Stockholm, 18 August 2016

Lars Højgård Hansen
President/CEO

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Publication

This information is information that INVISIO Communications AB (publ) is obliged to disclose pursuant to the EU Market Abuse Regulation and the Securities Market Act. The information was released for public disclosure, through the agency of the CEO, on August 18, 2016 at 8.30 CET.

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INVISIO is a Swedish company listed on Nasdaq Stockholm. The company's share is traded under the ticker symbol IVSO and has the ISIN code SE0001200015.

Consolidated statement of comprehensive income

SEK 000s	2016 Q2	2015 Q2	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Revenue	83 649	68 153	163 143	125 365	229 802
Cost of goods sold	-40 435	-34 007	-77 705	-58 948	-111 474
Gross Profit	43 214	34 146	85 438	66 417	118 328
Operating expenses*	-20 982	-17 978	-39 690	-36 029	-71 005
Operating profit/loss	22 232	16 168	45 748	30 388	47 323
Net financial items	-19	-122	-117	-449	-459
Profit/loss before tax	22 213	16 046	45 631	29 939	46 864
Income tax	-	-2 530	-	-2 530	10 224
Profit/loss for the period	22 213	13 516	45 631	27 409	57 088
Other comprehensive income					
Items that may be reclassified subsequently to the income statement					
Translation differences	3 182	-705	4 198	-2 981	-4 367
Comprehensive income for the period	25 395	12 811	49 829	24 428	52 721
(Entirely attributable to equity holders of the parent)					
*Depreciation incl. in operating expenses	-1 211	-2 214	-2 527	-3 042	-5 595
Per-share data					
Earnings per share, SEK	0,52	0,32	1,07	0,65	1,35
Earnings per share after dilution, SEK	0,50	0,31	1,03	0,63	1,30
Shareholders' equity per share, SEK	3,70	1,82	3,70	1,82	2,50
Shareholders' equity per share after dilution, SEK	3,59	1,76	3,59	1,76	2,41
Equity ratio	76%	66%	76%	66%	75%
Number of shares, thousand	42 844	42 240	42 844	42 240	42 240
Average number of shares, thousand	42 721	42 240	42 478	42 240	42 240
Average number of shares after dilution, thousand	44 138	43 798	44 138	43 798	43 920
Share price, SEK	58,25	27,50	58,25	27,50	75,75

Consolidated balance sheet

SEK 000s

Assets	2016-06-30	2015-06-30	2015-12-31
Intangible assets	18 043	17 389	16 853
Property, plant and equipment	1 413	109	600
Financial assets	1 066	756	755
Deferred tax assets	30 389	15 234	29 388
Inventories	41 259	15 395	19 937
Accounts receivable - trade	21 866	29 089	35 855
Other receivables	3 222	5 240	8 286
Cash and cash equivalents	90 786	33 439	29 367
Total assets	208 044	116 651	141 041

Shareholders' equity and liabilities	2016-06-30	2015-06-30	2015-12-31
Shareholders' equity	158 614	77 073	105 635
Liabilities to credit institutions	-	7 747	-
Accounts payable - trade	27 890	16 917	15 846
Other liabilities	21 540	14 914	19 560
Total shareholders' equity and liabilities	208 044	116 651	141 041

Changes in shareholders' equity	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Opening balance	105 635	52 375	52 375
New issues	3 076	-	-
Employee stock option program	74	270	539
Comprehensive income for the period	49 829	24 428	52 721
Closing balance	158 614	77 073	105 635

Consolidated cash flow statement

SEK 000s

	2016 Q2	2015 Q2	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Cash flow					
Operating activities					
Profit/loss before tax	22 213	16 047	45 631	29 940	46 865
Adjustments for non-cash items	1 846	2 218	3 588	2 808	4 587
Cash flow from operating activities before changes in working capital	24 059	18 265	49 219	32 748	51 452
Cash flow from changes in working capital	21 554	-9 227	11 584	-9 444	-21 530
Cash flow from operating activities	45 613	9 038	60 803	23 304	29 922
Investing activities					
Capitalization of non-current assets	-1 776	-1 030	-2 952	-2 031	-4 109
Acquisition of property, plant and equipment	-706	-	-963	-	-592
Cash flow from investing activities	-2 482	-1 030	-3 915	-2 031	-4 701
Financing activities					
New issues	3 076	-	3 076	-	-
Change in financial assets	-	-5 443	-	-15 299	-23 077
Cash flow from financing activities	3 076	-5 443	3 076	-15 299	-23 077
Cash flow for the period	46 207	2 565	59 964	5 974	2 144
Cash and cash equivalents at start of period	43 352	31 124	29 367	28 444	28 444
Translation differences in cash and cash equivalents	1 227	-250	1 455	-979	-1 221
Cash and cash equivalents at end of period	90 786	33 439	90 786	33 439	29 367

Parent Company Income Statement

SEK 000s	2016 Q2	2015 Q2	2016 Jan-Jun	2015 Jan-Jun	2015 Full year
Operating income	15	15	30	30	60
Operating expenses	-1 692	-1 944	-3 226	-6 188	-8 946
Operating loss	-1 677	-1 929	-3 196	-6 158	-8 886
Net financial items**	-1	-65	-3	-259	24 614
Profit/loss before tax	-1 678	-1 994	-3 199	-6 417	15 728
Income tax	-	-	-	-	-
Profit/loss for the period	-1 678	-1 994	-3 199	-6 417	15 728
**Of which, dividend from subsidiaries	-	-	-	-	25 000

Parent Company Balance Sheet

SEK 000s	2016-06-30	2015-06-30	2015-12-31
Assets			
Financial assets/shares in subsidiaries	83 071	82 680	82 950
Receivables from Group companies	-	-	771
Other receivables	643	475	245
Cash and cash equivalents	27 113	2 191	453
Total assets	110 827	85 346	84 419
Shareholders' equity and liabilities			
Shareholders' equity	82 680	60 316	82 729
Liabilities to credit institutions	-	6 500	-
Accounts payable - trade	116	120	89
Liabilities to Group companies	27 055	17 664	111
Other liabilities	976	746	1 490
Total shareholders' equity and liabilities	110 827	85 346	84 419
Changes in shareholders' equity			
Opening balance	82 729	66 462	66 462
New issues	3 076	-	-
Employee stock option program	74	271	539
Profit/loss for the period**	-3 199	-6 417	15 728
Closing balance	82 680	60 316	82 729
**Of which, dividend from subsidiaries	-	-	25 000