

Interim Report for Image Systems AB (publ) January – June 2017

Low invoicing but strong order intake

Second quarter 2017

- Revenue amounted to MSEK 31.6 (34.2).
- The operating result EBITDA amounted to MSEK –1.3 (1.8).
- The operating result was MSEK –3.2 (0.2).
- The result after taxes was MSEK –3.3 (0.0).
- Earnings per share amounted to SEK –0.09 (0.00).
- Order bookings amounted to MSEK 41.1 (30.7).
- The order backlog amounted to MSK 43.8 (32.9).
- The gross margin was 63 (77) percent.

First six months of 2017

- Revenue amounted to MSEK 60.6 (54.2).
- The operating result EBITDA amounted to MSEK EBITDA amounted to MSEK –1.1 (–2.4).
- The operating result was MSEK –4.7 (–5.6).
- The result after taxes was MSEK till –4,9 (–6,0).
- Earnings per share amounted to SEK –0.13 (–0.16).
- Order bookings amounted to MSEK 72.6 (63.6).
- The order backlog amounted to MSK 43.8 (32.9).
- The gross margin was 65 (70) percent

Events after the end of the period under review

- Motion Analysis obtains an order from its American partner, Specialised Imaging, in the approximate amount of MSEK 1.3.

President's statement

The improved economic situation, especially in the sawmill industry, is reflected in the Group's order bookings, which were significantly higher during the second quarter than last year. RemaSawco obtained an order for MSEK 6 from Trinity Korbel Inc. in the U.S. This can be seen as evidence of a real breakthrough in the American market. The gross margin was slightly lower as a consequence of

success in our efforts to sell total solutions, which means a higher proportion of hardware in the interest of reaching a broader total market. Efforts were made during the first six months of the year to lower group-wide costs. This has resulted in savings of approximately 25 percent.

RemaSawco

Order bookings were strong with a breakthrough in North America and favourable market conditions in Scandinavia. We are now seeing that sawmills are standing strong globally and we are expecting strong sales during coming quarters. Revenue was slightly lower, but we are expecting an improvement before year-end. We are actively working on internationalisation of the business area with expectations of repeating the export successes in North America and in other international markets.

Motion Analysis

Order bookings were strong for Motion Analysis as well, across all geographic markets. Revenue for the quarter was slightly lower, but for the first six months revenue was a bit higher. During the second quarter Motion Analysis obtained the first system orders for DIC, which means that our efforts to start selling systems is beginning to bear fruit. Market demand remains stable and high.

Net revenue and result

Second quarter

Order bookings amounted to MSEK 41.1 (30.7) and the order backlog as of 30 June was MSEK 43.8 (32.9). Net revenue amounted to MSEK 31.6 (34.2).

The gross margin was 63 (77) percent. The lower gross margin is due to increased sales of products with a higher proportion of purchased hardware.

The operating result before depreciation EBITDA amounted to MSEK –1.3 (1.8). Depreciation and amortisation according to plan was charged to earnings in the amount of MSEK 1.9 (1.6). MSEK 1.6 (1.6) of the amount was amortisation of surplus consolidation values. The result after taxes was MSEK –3.3 (0.0).

Revenue and operating profit result before depreciation, amortization and impairment charges are reported by business area on page 4.

Image Systems is a Swedish high-technology company and a leading supplier of products and services in high resolution image processing. By continually challenging the market's concepts and instead offer new and more effective solutions, we help our customers to achieve greater success in their business. The Company caters to a large number of industries and operations are conducted in the two business areas RemaSawco and Motion Analysis. Image Systems has approximately 70 employees at offices in Linköping, Nyköping, Västerås and Sundsvall, as well as in Norway. In 2016 consolidated revenue amounted to MSEK 124. The Company's share is listed on Nasdaq Stockholm Stock Exchange Small Cap list and is traded under the symbol IS. For additional information, visit our website www.imagesystems.se

First six months

Order bookings increased by MSEK 9.0 to MSEK 72.6 (63.6). The order backlog as of 30 June was MSEK 43.8 (32.9), an increase by MSEK 10.9. Net revenue increased by MSEK 6.4, to MSEK 60.6 (54.2).

The gross margin was 65 (70) percent. The slightly lower gross margin is due to a higher proportion of sales of products with purchased hardware.

The operating result, EBITDA, amounted to MSEK –1.1 (–2.4). Depreciation and amortisation according to plan was charged to earnings in the amount of MSEK 3.6 (3.2), of which amortisation of surplus consolidation values was MSEK 3.2 (3.2). The result after taxes amounted to MSEK –4.9 (–6.0). Revenue and operating profit result before depreciation, amortization and impairment charges are reported by business area on page 4.

Capital expenditures and financial position

The Group's investments in non-current assets amounted to MSEK 3.8 (2.2), of which MSEK 3.0 (2.1) refers to capitalised development costs. Available cash and cash equivalents, including the unutilized portion of a committed credit facility, stood at MSEK 6.3 as of 30 June (7.6). The equity ratio as of 30 June 2017 was 59 (62) percent. The operative cash flow amounted to MSEK –1.6 (–1.9). The net debt to equity ratio was 0.2 (0.1).

Research and development

RemaSawco

RemaSawco is in an intensive development phase of AIS, a system that combines modern optical 3D measurement with an X-ray measuring frame and integration of measuring data with other sawmill systems. AIS is within the framework of digital sawmill of the future, where RemaSawco together with Moelven, Schneider Electric, Vinnova and other stakeholders lead this development.

Motion Analysis

Motion Analysis' main development efforts during 2017 are focused on developing a new technology platform to enable the company to continue to offer the best products, and to compete forcefully in the new segments where the business area is now active. Continuous customization work is conducted in parallel with its own development.

Parent Company

The Parent Company's net revenue amounted to MSEK 1.2 (0.2) and the result after taxes was MSEK –3.0 (–4.0). Investments in non-current assets amounted to MSEK 0.0 (0.0). As of 30 June 2017

the Parent Company's available cash and cash equivalents amounted to MSEK 0.0 (0.4). The Parent Company's equity amounted to MSEK 51.8 as of 30 June (56.3) and the equity ratio was 78 (80) percent.

Personnel

The average number of employees was 68 (70).

Number of shares outstanding

The number of shares outstanding as of 30 June 2017 was 38,231,922.

Events after the end of the period under review

Motion Analysis has obtained an order in the approximate amount of MSEK 1.3 for its TrackEye software from its American partner Specialised Imaging Inc. The end customer is American military testing sites and the order will be delivered during the third quarter of 2017.

Accounting policies

Image Systems applies International Financial Reporting Standards (IFRS) as adopted by EU. This Interim Report for the Image Systems Group has been compiled in accordance with IAS 34 Interim financial reporting and the Swedish Annual Accounts Act. Information pursuant to IAS 34 interim Financial Reporting is provided in notes as well as elsewhere in the interim report. The new and amended standards to be applied from 1 January 2017 had no material impact on the Group's financial reports.

In all other respects accounting policies and calculation methods are unchanged relative to those applied for the 2016 Annual Report. The work with evaluating the effects of IFRS 15 is ongoing.

The Interim Report for the Parent Company Image Systems AB is compiled in accordance with the Swedish Annual Accounts Act and recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board.

Image Systems applies ESMA's (European Securities and Markets Authority) guidelines for alternative key financial indicators. Definitions of key financial indicators are found on page 7 and relevant reconciliations are found on page 9.

Risks and uncertainty factors

The Group's principal risk and uncertainty factors include business risks associated with contracts with customers and suppliers, as well as other factors in the surrounding world, such as the risk of changes in foreign currency exchange rates.

A report of the Group's significant financial and business risks will be found in the Board of Director Report and under Note 3 in the Annual Report for 2016. No other significant risks are deemed to have been added during the period.

This report has not been subject to review by the auditors.

Affirmation of the Board of Directors

The undersigned confirm that the interim report provides a fair picture of the Parent Company's and the Group's operations, financial position and results and describes significant risks and uncertainty factors facing the Parent Company and the companies in the Group.

Linköping, 25 August 2017

Board of Directors

Thomas Wernhoff
Chairman

Ulrika Hagdahl
Director

Örjan Johansson
Director

Jan Swedin
Director

Johan Friberg
President

Reporting schedule:

Interim Report July-September 2017 27 October 2017
Year-end Report 2017 8 February 2018

The information in this year-end report is such that Image Systems AB is obliged to publish in accordance with EU's Market Abuse Regulation and the Swedish Securities Markets Act. The information herein was provided for publication at 1:00 p.m. (CET), 25 August 2017.

Interim reports will be available to the public at the Company's website www.imagesystems.se

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Summary Consolidated Income Statements

MSEK	April-June 2017	April-June 2016	Jan-June 2017	Jan-June 2016	Full year 2016
Revenue	31.6	34.2	60.6	54.2	123.9
Raw materials and supplies	-11.6	-11.8	-21.2	-16.4	-43.6
Other external costs	-5.7	-5.4	-10.3	-10.0	-21.5
Personnel costs	-15.5	-15.4	-30.0	-30.4	-57.6
Depreciation and amortisation of and impairment charges against tangible non-current assets	-1.9	-1.6	-3.6	-3.2	-6.4
Other operating revenue	-	0.2	-	0.2	0.2
Other operating costs	-0.1	-	-0.2	-	-
Operating result	-3.2	0.2	-4.7	-5.6	-5.0
Net finance items	-0.1	-0.2	-0.2	-0.4	-0.4
Result before taxes	-3.3	0.0	-4.9	-6.0	-5.4
Taxes	-	-	-	-	-
Result for the period	-3.3	0.0	-4.9	-6.0	-5.4
Of which attributable to the Parent Company's equity holders	-3.3	0.0	-4.9	-6.0	-5.4
Earnings per share ¹⁾	-0.09	0.00	-0.13	-0.16	-0.14
Earnings per share after dilution ¹⁾	-0.09	0.00	-0.13	-0.16	-0.14
Average number of shares outstanding	38,231,922	38,231,922	38,231,922	38,231,922	38,231,922
Average number of shares outstanding, after dilution	38,231,922	38,231,922	38,231,922	38,231,922	38,231,922

Summary Consolidated Report of Comprehensive Result

Result for the period	-3.3	0.0	-4.9	-6.0	-5.4
Other comprehensive result					
Translation differences	0.3	0.0	0.3	0.0	0.1
Taxes related to other comprehensive result	-	-	-	-	-
Total other comprehensive result	0.3	0.0	0.3	0.0	0.1
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	-3.0	0.0	-4.6	-6.0	-5.3
Of which attributable to the Parent Company's equity holders	-3.0	0.0	-4.6	-6.0	-5.3

¹⁾ Calculated based on the average number of shares outstanding.

Group	April-June 2017	April-June 2016	Jan-June 2017	Jan-June 2016	Full year 2016
Revenue by segment (business area)					
RemaSawco	26.4	28.3	48.7	42.6	99.8
Motion Analysis	5.2	5.9	11.9	11.4	23.7
Parent Company and consolidation items	-	-	-	0.2	0.4
Total	31.6	34.2	60.6	54.2	123.9
EBITDA					
RemaSawco	0.1	2.5	-0.3	-1.2	4.5
Motion Analysis	0.1	1.3	2.1	2.6	5.8
Parent Company and consolidation items	-1.5	-2.0	-2.9	-3.8	-8.9
EBITDA total	-1.3	1.8	-1.1	-2.4	1.4
Depreciation and amortisation of and impairment charges against tangible non-current assets	-1.9	-1.6	-3.6	-3.2	-6.4
Operating result	-3.2	0.2	-4.7	-5.6	-5.0
Net finance items	-0.1	-0.2	-0.2	-0.4	-0.4
Result before taxes	-3.3	0.0	-4.9	-6.0	-5.4
Taxes	-	-	-	-	-
Result for the period	-3.3	0.0	-4.9	-6.0	-5.4

Summary Consolidated Balance Sheets

MSEK	30 June 2017	30 June 2016	31 December 2016
Non-current assets			
Intangible non-current assets	47.4	49.7	48.0
Tangible non-current assets	1.0	0.2	0.6
Total non-current assets	48.4	49.9	48.6
Current assets			
Inventories	7.6	6.4	8.9
Trade receivables	18.1	19.6	28.7
Other short-term receivables	22.1	22.4	22.4
Cash and cash equivalents	0.9	1.2	1.1
Total current assets	48.7	49.6	61.1
TOTAL ASSETS	97.1	99.5	109.7
Equity (attributable in its entirety to the Parent Company's equity holders)	57.2	61.1	61.8
Current liabilities			
Loans from credit institutions	10.1	6.1	8.7
Debenture loan	-	3.2	-
Trade payables	12.6	12.0	20.9
Other current liabilities	17.2	17.1	18.3
Total current liabilities	39.9	38.4	47.9
STOTAL EQUITY AND LIABILITIES	97.1	99.5	109.7

Summary Report of Changes in Consolidated Equity

	30 June 2017	30 June 2016	Full year 2016
Opening equity according to the balance sheet	61.8	67.1	67.1
Result for the year	-4.9	-6.0	-5.4
Other comprehensive result for the year	0.3	0.0	0.1
Total comprehensive result for the period	-4.6	-6.0	-5.3
Closing equity according to the balance sheet	57.2	61.1	61.8

Summary Consolidated Cash Flow Statements

MSEK	April-June 2017	April-June 2016	Jan-June 2017	Jan-June 2016	Full year 2016
Cash flow from operating activities					
Before changes in working capital	-1.2	1.6	-1.1	-2.7	1.1
Changes in working capital					
Increase (-)/Decrease (+) in inventories	1.4	0.7	1.3	0.6	-2.1
Increase (-)/Decrease (+) in receivables	-2.1	-12.0	11.0	-1.4	-11.1
Increase (+)/Decrease (-) in current liabilities	1.5	8.1	-9.0	3.8	13.9
Total change in working capital	0.8	-3.2	3.3	3.0	0.7
Cash flow from operating activities	-0.4	-1.6	2.2	0.3	1.8
Investment activities					
Acquisition of subsidiary	-0.3	-	-0.3	-	-
Acquisition of intangible non-current assets	-1.9	-0.8	-3.0	-2.1	-3.8
Acquisition of tangible non-current assets	-0.1	-0.1	-0.5	-0.1	-0.6
Cash flow from investment activities	-2.3	-0.9	-3.8	-2.2	-4.4
Operative cash flow	-2.7	-2.5	-1.6	-1.9	-2.6
Financing activities					
Increase (+) in loans	2.7	-	1.4	-	5.1
Decrease (-) in loans	-	-0.2	-	0.0	-4.5
Cash flow from financing activities	2.7	-0.2	1.4	0.0	0.6
Cash flow for the period	0.0	-2.7	-0.2	-1.9	-2.0
Cash and cash equivalents at beginning of period	0.9	3.9	1.1	3.1	3.1
Translation difference in cash and cash equivalents	0.0	0.0	0.0	0.0	0.0
Cash and cash equivalents at end of period	0.9	1.2	0.9	1.2	1.1

Key financial indicators

Group	April-June	April-June	Jan-June	Jan-June	Full year
	2017	2016	2017	2016	2016
Order bookings, MSEK	41.1	30.7	72.6	63.6	127.6
Order backlog, MSEK	43.8	32.9	43.8	32.9	29.3
Gross margin, %	63	77	65	70	65
Interest margin, %	neg	0.6	neg	neg	neg
Profit margin, %	neg	neg	neg	neg	neg
Return on capital employed, %	neg	neg	neg	neg	neg
Return on equity, %	neg	neg	neg	neg	neg
Equity ratio, %	59	62	59	62	56
Debt equity ratio	0.2	0.1	0.2	0.1	0.1
Net investments in non-current assets, MSEK	2.3	0.9	3.8	2.2	4.4
Depreciation and impairment of non-current assets, MSEK	1.9	1.6	3.6	3.2	6.4
Average number of employees	68	68	68	70	68
Number of shares outstanding at end of period, million	38.23	38.23	38.23	38.23	38.23
Average number of shares outstanding, million	38.23	38.23	38.23	38.23	38.23
Earnings per share ¹⁾ , SEK	-0.09	0.00	-0.13	-0.16	-0.14
Cash flow per share ¹⁾ , SEK	-0.07	-0.06	-0.04	-0.05	-0.07
Equity per share ²⁾ , SEK	1.50	1.60	1.50	1.60	1.62

¹⁾ Calculated based on average number of shares outstanding.

²⁾ Calculated based on number of shares outstanding at end of period.

Quarterly Survey

Group	2017		2016		2015					
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Order bookings, MSEK	41.1	31.5	33.9	30.1	30.7	32.9	17.0	18.0	42.3	42.7
Revenue, MSEK	31.6	29.0	46.0	23.7	34.2	20.0	37.5	29.8	33.5	24.7
Gross margin, %	63	67	59	65	65	77	68	59	64	74
Operating result before depreciation, amortisation and interest (EBITDA), MSEK	-1.3	0.2	5.5	-1.7	1.8	-4.2	5.7	1.8	1.8	0.3
Operating result (EBIT), MSEK	-3.2	-1.5	3.9	-3.3	0.2	-5.8	4.1	0.2	0.2	-1.3
Operating margin, %	neg	neg	8.5	neg	0.6	neg	10.9	0.7	0.6	neg
Return on equity, %	neg	neg	6.7	neg	0.0	neg	6.0	neg	neg	neg
Equity ratio, %	59	62	56	61	62	67	66	66	56	14
Earnings per share, SEK	-0.09	-0.04	0.11	-0.09	0.00	-0.16	0.10	-0.01	-0.02	-0.29
Cash flow per share, SEK	-0.07	0.03	-0.01	-0.01	-0.06	0.02	-0.20	0.12	-0.60	-0.46
Equity per share, SEK	1.50	1.57	1.61	1.50	1.59	1.59	1.75	1.66	1.67	1.51
Average number of shares outstanding, million	38.23	38.23	38.23	38.23	38.23	38.23	38.23	38.23	18.62	8.82

Definitions

Performance measure

EBITDA

Operating result plus depreciation, amortisation and interest on tangible and intangible assets

Margins

Operating margin, %

Operating result relative to net revenue.

Profit margin, %

Result before taxes relative to net revenue.

Profitability

Return on average capital employed, %

Operating result, plus interest income, relative to average capital employed. Capital employed refers to balance sheet total, less non-interest-bearing liabilities.

Return on average equity, %

Result for the period relative to average equity.

Capital structure

Equity ratio, %

Equity at end of period relative to balance sheet total.

Net debt equity ratio

Interest-bearing liabilities at end of period, less cash and cash equivalents, relative to equity.

Other

Net investments in non-current assets, MSEK

Net investments both in tangible and intangible non-current assets, as well as financial non-current assets during the period.

Direct costs for research and development, MSEK

Costs for research and development during the period.

Average number of employees

Average number of employees during the period.

Per-share data

Number of shares outstanding at end of period, million

Number of shares outstanding at end of period.

Average number of shares outstanding, million

Average number of shares outstanding during the period.

Earnings per share, SEK

Result after taxes, divided by average number of shares outstanding.

Cash flow per share, SEK

Operative cash flow divided by average number of shares outstanding.

Equity per share, SEK

Equity divided by the number of shares outstanding at the end of the period.

Parent Company Summary Income Statements

MSEK	April-June 2017	April-June 2016	Jan-June 2017	Jan-June 2016	Full year 2016
Revenue	0.6	0.0	1.2	0.2	0.4
Other external costs	-1.0	-0.9	-1.7	-1.7	-4.5
Personnel costs	-1.2	-1.2	-2.5	-2.3	-4.8
Other operating costs	-	-	-	-	-
Operating result	-1.6	-2.1	-3.0	-3.8	-8.9
Result from Group companies	-	-	-	-	-
Net finance items	-	-0.1	-	-0.2	-0.2
Result before taxes	-1.6	-2.2	-3.0	-4.0	-9.1
Year-end allocations	-	-	-	-	3.6
Taxes	-	-	-	-	-
Result for the period	-1.6	-2.2	-3.0	-4.0	-5.5

Summary Parent Company Report of Comprehensive Result

Result for the period	-1.6	-2.2	-3.0	-4.0	-5.5
Other comprehensive result	-	-	-	-	-
Total other comprehensive result	-	-	-	-	-
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	-1.6	-2.2	-3.0	-4.0	-5.5

Summary Parent Company Balance Sheets

MSEK	30 June 2017	30 June 2016	31 December 2016
Non-current assets			
Financial non-current assets	56.1	56.1	56.1
Total non-current assets	56.1	56.1	56.1
Current assets			
Trade receivables	0.4	0.2	0.4
Due from Group companies	3.8	7.2	3.6
Other short-term receivables	4.8	6.2	5.4
Cash and cash equivalents	0.9	0.4	0.0
Total current assets	9.9	14.0	9.4
TOTAL ASSETS	66.0	70.1	65.5
Equity	51.8	56.3	54.8
Current liabilities			
Debenture loan	-	2.6	-
Trade payables	0.4	0.4	0.8
Due to Group companies	11.6	8.2	7.2
Other current liabilities	2.2	2.6	2.7
Total current liabilities	14.2	13.8	10.7
TOTAL EQUITY AND LIABILITIES	66.0	70.1	65.5

Report of Changes in Parent Company Equity

MSEK	30 June 2017	30 June 2016	31 December 2016
Opening equity according to the balance sheet	54.8	60.3	60.3
Result for the period	-3.0	-4.0	-5.5
Other comprehensive result for the period	-	-	-
Total comprehensive result	-3.0	-4.0	-5.5
Closing equity according to the balance sheet	51.8	56.3	54.8

Summary Parent Company Cash Flow Statements

MSEK	April-June 2017	April-June 2016	Jan-June 2017	Jan-June 2016	Full year 2016
Cash flow from operating activities before changes in working capital	-1.6	-2.2	-3.0	-4.0	-5.5
Changes in working capital					
Increase (-) /Decrease (+) in receivables	-	-0.1	-0.4	-0.4	0.2
Decrease (-) in current liabilities	-0.6	-1.0	-0.9	-0.8	-0.6
Total changes in working capital	-0.6	-1.1	-1.3	-1.2	-0.4
Cash flow from operating activities	-2.2	-3.3	-4.3	-5.2	-5.9
Investment activities					
Loans to subsidiaries	2.2	4.6	4.3	7.6	10.1
Cash flow from investment activities	2.2	4.6	4.3	7.6	10.1
Operative cash flow	0.0	1.3	0.0	2.4	4.2
Financing activities					
Decrease (-) in loans	-	-1.2	-	-2.3	-4.5
Cash flow from financing activities	-	-1.2	-	-2.3	-4.5
Cash flow for the period	0.0	0.1	0.0	0.1	-0.3
Cash and cash equivalents at beginning of period	0.0	0.3	0.0	0.3	0.3
Cash and cash equivalents at end of period	0.0	0.4	0.0	0.4	0.0

Relevant Reconciliation of Non-IFRS-based Key Financial Indicators Group

Operating result before depreciation, amortisation and interest EBITDA

MSEK	April-June 2017	April-June 2016	Jan-June 2017	Jan-June 2016	Full year 2016
Operating result	-3.2	0.2	-4.7	-5.6	-5.0
Depreciation and amortisation of and impairment charges against tangible and intangible non-current assets	1.9	1.6	3.6	3.2	6.4
Operating profit before depreciation, amortisation and interest EBITDA	-1.3	1.8	-1.1	-2.4	1.4

Net liabilities

MSEK	30 June 2017	30 June 2016	31 December 2016
Cash and cash equivalents	0.9	1.2	1.1
Interest-bearing liabilities	10.1	9.3	8.7
Net liabilities	9.2	8.1	7.6