

## Interim Report for Image Systems AB (publ) January – March 2014

### First quarter 2014

- Revenue amounted to MSEK 27.5 (28.5).
- The operating result before depreciation and amortisation EBITDA amounted to MSEK –6.4 (–4.2).
- The operating result amounted to MSEK –8.9 (–6.5).
- The result after taxes amounted to MSEK –9.6 (–7.1).
- Earnings per share amounted to SEK –0.01 (–0.04).
- Order bookings amounted to MSEK 34.8 (33.3).
- The order backlog was MSEK 44.0 (60.0).
- The gross margin was 75 (72) percent

### Significant events after the end of the period under review

- A loan in the amount of MSEK 15.0 obtained from the Company's principal owners.

### President's statement

Order bookings for the first quarter were slightly higher than last year and it was gratifying to note that Digital Vision accounted for a sharp improvement. RemaSawco and Motion Analysis were somewhat weaker than last year and revenue was affected by a low rate of invoicing and a growing backlog of orders.

The result EBITDA was slightly worse than for the corresponding year-ago period as a result of the rate of invoicing and temporary consultancy costs for product development.

The main reason for the lower rate of new orders at RemaSawco is that the market climate on the Swedish sawmill market continues to be difficult to assess. The willingness to invest among our customers was slightly lower during the quarter and most business was of a support and complementary character. Both revenue and the result was better than last year, however, which must be regarded as a sign of strength given the challenging market conditions. A dominating portion of the business area's installations are also made during the summer months and in early autumn. In terms of revenue and earnings the first quarter is usually weak.

The market climate for Digital Vision continues to be challenging, but thanks to our new offers, order bookings increased significantly during the quarter compared to the preceding year. It is primarily our upgraded scanners that have been well received in the market at the same time as we have closed a number of OEM deals. Most of the order bookings will not be invoiced until during the second half of the year, however. Invoicing and the result were therefore lower than last year. We are working tirelessly with development of more offerings and expect that the rising order bookings will have full impact in invoicing and earnings during the second half of 2014.

Motion Analysis shows order bookings which were slightly lower than last year. Sales and the result were better, however, than the year before, primarily because of final delivery of a defence scanner. The market was relatively stable in Asia, while the development in the United States was weaker with budget cuts in the defence industry. We are working on adding still more distributors globally in the interest of raising revenue and improving profitability for the business area and we now have a larger pipeline to work with than in many years.

We are continuing to work on the efficiency in the business areas and in addition thereto we have reduced central costs by more than MSEK 3 on an annual basis, with full effect to be achieved during the third quarter of the year.

The liquidity situation is strained, but was strengthened after the end of the period under review by a loan from the Company's principal owners. For more information, refer to "Events after the reporting day" below. Efforts to solve the long-term financing continue.

### Net revenue and result

#### First quarter

Order bookings amounted to MSEK 34.8 (33.3) and the order backlog was MSEK 44.0 (60.0) as of 31 March. Net revenue was MSEK 27.5 (28.5).

The gross margin was 75 (72) percent. The improvement is largely due to a relatively large proportion of sales of software and support with high margins. External costs increased by MSEK 1.5, mainly due to increased consultancy costs. Depreciation and amortisation according to plan was charged to income in the amount of MSEK 2.5 (2.3),

of which amortisation of consolidation surpluses amounted to MSEK 1.9 (1.8).

#### *Operating result*

The operating result before depreciation and amortisation EBITDA amounted to MSEK –6.4 (–4.2) and the result after taxes was MSEK –9.6 (–7.1). Revenue and operating result before depreciation and amortisation by business area is reported on page 4.

#### **Capital expenditures and financial position**

The Group's investments in non-current assets amounted to MSEK 0.0 (0.0). Available liquid funds, including the unutilised portion of a committed credit facility, amounted to MSEK 6.2 (3.1) as of 31 March 2014. The equity ratio stood at 49 (27) percent as of 31 March. The operative cash flow was MSEK –0.2 (–3.1). The net debt to equity ratio was 0.4 (1.3).

#### **Research and development**

During the period the Company's development resources were devoted to development of new products for launching during the second half of 2014.

#### **Parent Company**

The Parent Company's net revenue amounted to MSEK 5.2 (9.4) and the result after taxes amounted to MSEK –6/3 (–33.8). Investments in non-current assets amounted to MSEK 0.0 (0.0). The Parent Company's available liquid funds amounted to MSEK 0.8 (0.0) as of 31 March 2014. The Parent Company's equity amounted to MSEK 48.0 (13.2) as of 31 March 2014 and the equity ratio stood at 62 (19) percent.

#### **Related-party transactions**

No related party transaction occurred during the second quarter.

#### **Personnel**

The average number of employees was 93 (94).

#### **Number of shares outstanding**

As of 31 March 2014 the number of shares outstanding 31 mars 2014 was 882,275,185.

#### **Reporting schedule:**

<i>Interim Report April-June 2014</i>	<i>22 August 2014</i>
<i>Interim Report July-September 2014</i>	<i>7 November 2014</i>
<i>Year-end Report 2014</i>	<i>13 February 2015</i>

#### **Events after the reporting day**

On May 20 Image Systems obtained an additional loan in the amount of MSEK 15.0 from the principal owners, Tibia Konsult LMK and Horinge. The loan falls due for repayment 30 September 2014 and carries interest at a rate of 15 percent p.a. The loan solves the Company's short-term financial challenges. The Company continues to work on securing its long-term financing.

#### **Accounting policies**

This Interim Report has been compiled in accordance with International Financial Reporting Standards (IFRS) as adopted by EU. The Interim Report for the Image Systems Group has been compiled in accordance with IAS 34 Interim financial reporting and the Swedish Annual Accounts Act. The new and amended standards to be applied from 1 January 2014 had no material impact on the Group's financial reports.

In all other respects the accounting standards and calculation methods are unchanged compared to those applied in the 2014 Annual Report.

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.

#### **Risks and uncertainty factors**

The Company works with various activities to strengthen liquidity, among them continued efforts to reduce working capital through reduced inventories and improved routines for trade receivables. The owner loan, which falls due for repayment 30 September 2014 will either be handled by pushing forward the maturity date for a limited period until the Company is in a position to repay the loan from its own generated cash flow, or when other financing is obtained. In order to secure the Company's long-term liquidity needs, the Board of Directors has requested a mandate from the Annual General Meeting for a new issue of equity.

The Group's other principal risk and uncertainty factors include business risks associated with contracts with customer 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 2013. No other significant risks are deemed to have emerged during the period.

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

Linköping, 20 May 2014

*Hans Isoz*  
*President*

The information in this interim report is being published by Image Systems AB in accordance with the Swedish Act on Trading in Financial Instruments. The information herein was provided for publication at 13.30 (CET), 20 May 2014.

*The Company's interim reports will be available to the public at the Company's website [www.imagesystems.se](http://www.imagesystems.se)*

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## Summary Consolidated Income Statements

	Jan-Mar	Jan-Mar	Full year
MSEK	2014	2013	2013
Revenue	27.5	28.5	143.9
Raw materials and supplies	-6.9	-7.9	-48.6
Other external costs	-8.0	-6.6	-28.7
Personnel costs	-18.9	-17.8	-73.0
Depreciation and amortisation of & impairment charges against tangible non-current assets	-2.5	-2.3	-10.2
Other operating income	-	-	-
Other operating costs	-0.1	-0.4	-2.2
<b>Operating result</b>	<b>-8.9</b>	<b>-6.5</b>	<b>-18.8</b>
Net finance items	-0.7	-0.6	-4.0
<b>Result before taxes</b>	<b>-9.6</b>	<b>-7.1</b>	<b>-22.8</b>
Taxes	-	-	0.0
<b>Net result for the period</b>	<b>-9.6</b>	<b>-7.1</b>	<b>-22.8</b>
Of which attributable to the Parent Company's equity holders	-9.6	-7.1	-22.8
Earnings per share <sup>1)</sup>	-0.01	-0.04	-0.06
Earnings per share after dilution <sup>1)</sup>	-0.01	-0.04	-0.06
Average number of shares outstanding	882,275,185	176,455,037	411,728,420
Average number of shares outstanding, after dilution	882,275,185	176,455,037	411,728,420

## Statement of Consolidated Comprehensive Result

Net result for the period	-9.6	-7.1	-22.8
<b>Other comprehensive result</b>			
<b>Items that later may be transferred to the income statement</b>			
Translation differences	-0.2	-0.0	-0.2
Taxes related to other comprehensive result	-	-	-
<b>Total other comprehensive result</b>	<b>-0.2</b>	<b>-0.0</b>	<b>-0.2</b>
<b>TOTAL COMPREHENSIVE RESULT FOR THE PERIOD</b>	<b>-9.8</b>	<b>-7.1</b>	<b>-23.0</b>
Of which attributable to the Parent Company's equity holders	-9.8	-7.1	-23.0

<sup>1)</sup> Calculated based on average number of shares outstanding.

Group	Jan-Mar	Jan-Mar	Full year
Revenue and result by segment	2014	2013	2013
RemaSawco	16.3	14.2	84.5
Digital Vision	6.4	10.5	44.4
Motion Analysis	4.8	3.8	15.0
<b>Total revenue</b>	<b>27.5</b>	<b>28.5</b>	<b>143.9</b>
<b>EBITDA</b>			
RemaSawco	-1.0	-1.5	5.6
Digital Vision	-3.3	-0.5	-4.6
Motion Analysis	0.2	-0.4	-1.4
Administration, consolidation items	-2.3	-1.8	-8.2
<b>EBITDA Total</b>	<b>-6.4</b>	<b>-4.2</b>	<b>-8.6</b>
Depreciation and amortisation of & impairment charges against tangible non-current assets	-2.5	-2.3	-10.2
<b>Operating result</b>	<b>-8.9</b>	<b>-6.5</b>	<b>-18.8</b>
Net finance items	-0.7	-0.6	-4.0
<b>Result before taxes</b>	<b>-9.6</b>	<b>-7.1</b>	<b>-22.8</b>
Taxes	-	-	0.0
<b>Net result for the period</b>	<b>-9.6</b>	<b>-7.1</b>	<b>-22.8</b>

## Summary Consolidated Balance Sheet

MSEK	31 March 2014	31 March 2013	31 December 2013
<b>Non-current assets</b>			
Intangible non-current assets	63.2	70.1	65.5
Tangible non-current assets	1.2	1.4	1.3
Financial non-current assets	7.2	2.7	8.6
<b>Total non-current assets</b>	<b>71.6</b>	<b>74.2</b>	<b>75.4</b>
<b>Current assets</b>			
Inventories	16.6	16.7	15.5
Trade receivables	17.0	25.9	29.9
Other short-term receivables	9.8	11.1	7.8
Cash and cash equivalents	3.6	0.9	5.7
<b>Total current assets</b>	<b>47.0</b>	<b>54.6</b>	<b>58.9</b>
<b>TOTAL ASSETS</b>	<b>118.6</b>	<b>128.8</b>	<b>134.3</b>
<b>Equity</b> (attributable in its entirety to the Parent Company's equity holders)	<b>57.9</b>	<b>34.7</b>	<b>67.7</b>
<b>Long-term liabilities and provisions</b>			
Loans from credit institutions	2.5	4.5	2.5
Other provisions	0.4	0.4	0.4
<b>Total long-term liabilities and provisions</b>	<b>2.9</b>	<b>4.9</b>	<b>2.9</b>
<b>Current liabilities</b>			
Loans from credit institutions	9.2	17.8	11.1
Debenture loan	12.0	25.1	12.0
Trade payables	11.2	20.2	11.6
Other current liabilities	25.4	26.1	29.0
<b>Total current liabilities</b>	<b>57.8</b>	<b>89.2</b>	<b>63.7</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>118.6</b>	<b>128.8</b>	<b>134.3</b>

## Summary Report of Changes in Consolidated Equity

	31 March 2014	31 March 2013	Full year 2013
Opening equity according to the balance sheet	67.7	41.8	41.8
Net result for the period	-9.6	-7.1	-22.8
Other comprehensive result for the period	-0.2	-0.0	-0.2
<b>Total comprehensive result for the period</b>	<b>-9.8</b>	<b>-7.1</b>	<b>-23.0</b>
New issue	-	-	48.9
<b>Closing equity according to the balance sheet</b>	<b>57.9</b>	<b>34.7</b>	<b>67.7</b>

## Summary Consolidated Cash Flow Statements

MSEK	Jan-Mar 2014	Jan-Mar 2013	Full year 2013
<b>Cash flow from operating activities before changes in working capital</b>	<b>-7.4</b>	<b>-4.9</b>	<b>-13.3</b>
<b>Changes in working capital</b>			
Increase (-)/Decrease (+) in inventories	-1.1	-2.5	-0.9
Increase (-)/Decrease (+) in receivables	10.9	2.8	-4.1
Increase (+)/Decrease (-) in current liabilities	-4.0	1.0	-8.0
<b>Total change in working capital</b>	<b>5.8</b>	<b>1.3</b>	<b>-13.0</b>
<b>Cash flow from operating activities</b>	<b>-1.6</b>	<b>-3.6</b>	<b>-26.3</b>
<b>Investment activities</b>			
Acquisition of subsidiaries	-	-	-0.1
Acquisition of tangible non-current assets	-	-	-0.1
Decrease in financial non-current assets	1.4	0.5	1.4
<b>Cash flow from investment activities</b>	<b>1.4</b>	<b>0.5</b>	<b>1.2</b>
<b>Operating cash flow</b>	<b>-0.2</b>	<b>-3.1</b>	<b>-25.1</b>
<b>Financing activities</b>			
New issue	-	-	48.9
Increase (+) in loans	-	4.3	30.9
Decrease (-) in loans	-1.9	-0.5	-49.2
<b>Cash flow from financing activities</b>	<b>-1.9</b>	<b>3.8</b>	<b>30.6</b>
<b>Cash flow for the period</b>	<b>-2.1</b>	<b>0.7</b>	<b>5.5</b>
Cash and cash equivalents at beginning of period	5.7	0.2	0.2
Translation difference in cash and cash equivalents	0.0	0.0	0.0
<b>Cash and cash equivalents at end of period</b>	<b>3.6</b>	<b>0.9</b>	<b>5.7</b>

## Key Financial Indicators

Group	Jan-Mar	Jan-Mar	Full year
	2014	2013	2013
Order bookings, MSEK	34.8	33.3	136.7
Order backlog, MSEK	44.0	60.0	31.2
Gross margin, %	75	72	66
Operating margin, %	neg	neg	neg
Profit margin, %	neg	neg	neg
Return on capital employed, %	neg	neg	neg
Return on equity, %	neg	neg	neg
Equity ratio, %	49	27	50
Debt equity ratio	0.4	1.3	0.3
Net investments in non-current assets, MSEK	0.0	0.0	0.2
Depreciation and impairment of non-current assets, MSEK	2.5	2.3	10.2
Average number of employees	93	94	93
Number of shares outstanding at end of period, million	882.28	176.5	882.28
Number of shares outstanding, million	882.28	176.5	411.73
Earnings per share <sup>1)</sup> , SEK	-0.01	-0.04	-0.06
Cash flow per share <sup>1)</sup> , SEK	-0.00	-0.02	-0.06
Equity per share <sup>2)</sup> , SEK	0.07	0.20	0.08

<sup>1)</sup> Calculated based on average number of shares outstanding.

<sup>2)</sup> Calculated based on average number of shares outstanding at end of period.

## Quarterly Survey

Group	2014		2013		2012				2011	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Order bookings, MSEK	34.8	30.2	25.6	47.9	33.3	34.8	31.6	31.7	39.0	21.0
Revenue, MSEK	27.5	38.1	35.5	41.8	28.5	46.5	24.6	34.0	27.7	25.3
Gross margin, %	75	65	69	61	72	67	71	74	62	68
Operating result before depreciation and amortisation (EBITDA), MSEK	-6.4	-4.1	0.2	-0.5	-4.2	3.5	-5.0	-3.3	-7.3	-12.8
Operating result (EBIT), MSEK	-8.9	-7.0	-2.3	-3.0	-6.5	-18.0	-6.8	-5.1	-8.8	-14.1
Operating margin, %	neg	neg	neg							
Return on equity, %	neg	neg	neg							
Equity ratio, %	49	50	57	22	27	30	41	41	43	48
Earnings per share, SEK	-0.01	-0.01	-0.01	-0.03	-0.04	-0.10	-0.04	-0.03	-0.11	-0.39
Cash flow per share, SEK	-0.00	-0.00	-0.03	-0.03	-0.02	-0.01	-0.05	0.01	-0.49	0.03
Equity per share, SEK	0.07	0.08	0.09	0.17	0.20	0.24	0.34	0.39	0.42	1.17
Average number of shares outstanding (million)	882.28	882.28	411.73	176.45	176.45	176.45	176.45	176.45	85.11	39.44

## Definitions

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

### 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 in 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*

## Summary Parent Company Income Statements

MSEK	Jan-Mar 2014	Jan-Mar 2013	Full year 2013
Revenue	5.2	9.4	35.6
Raw materials and supplies	-5.9	-5.3	-23.2
Other external costs	-2.0	-1.2	-6.7
Personnel costs	-2.6	-2.6	-10.8
Depreciation and amortisation of & impairment charges against tangible non-current assets	-0.4	-0.4	-1.6
Other operating costs	-0.0	-0.4	-0.5
<b>Operating result</b>	<b>-5.7</b>	<b>-0.5</b>	<b>-7.2</b>
Result from Group companies	-	-32.9	-32.9
Net finance items	-0.6	-0.4	-2.6
<b>Result before taxes</b>	<b>-6.3</b>	<b>-33.8</b>	<b>-42.7</b>
Year-end allocations	-	-	1.1
Taxes	-	-	-
<b>Net result for the period</b>	<b>-6.3</b>	<b>-33.8</b>	<b>-41.6</b>

## Parent Company Statement of Comprehensive Result

Net result for the period	-6.3	-33.8	-41.6
Other comprehensive result	-	-	-
<b>Total other comprehensive result</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE RESULT FOR THE PERIOD</b>	<b>-6.3</b>	<b>-33.8</b>	<b>-41.6</b>

## Summary Parent Company Balance Sheet

MSEK	31 March 2014	31 March 2013	31 December 2013
<b>Non-current assets</b>			
Intangible non-current assets	5.5	6.8	5.8
Tangible non-current assets	0.4	0.7	0.4
Financial non-current assets	34.1	29.6	35.6
<b>Total non-current assets</b>	<b>40.0</b>	<b>37.1</b>	<b>41.8</b>
<b>Current assets</b>			
Inventories	11.2	11.3	10.0
Trade receivables	3.9	3.9	5.7
Due from Group companies	19.5	12.5	21.6
Other short-term receivables	1.5	3.5	1.2
Cash and cash equivalents	0.8	0.0	2.9
<b>Total current assets</b>	<b>36.9</b>	<b>31.2</b>	<b>41.4</b>
<b>TOTAL ASSETS</b>	<b>76.9</b>	<b>68.3</b>	<b>83.2</b>
<b>Equity</b>	<b>48.0</b>	<b>13.2</b>	<b>54.3</b>
<b>Current liabilities</b>			
Loans from credit institutions	-	5.0	-
Debenture loan	12.0	22.8	12.0
Trade payables	5.8	12.0	4.3
Due to Group companies	3.2	4.9	4.0
Other current liabilities	7.9	10.4	8.6
<b>Summa Total current liabilities</b>	<b>28.9</b>	<b>55.1</b>	<b>28.9</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>76.9</b>	<b>68.3</b>	<b>83.2</b>

## Summary Report of Changes in Parent Company Equity

MSEK	31 March 2014	31 March 2013	31 December 2013
Opening equity according to the balance sheet	54.3	47.0	47.0
Net result for the year	-6.3	-33.8	-41.6
Other comprehensive result for the year	-	-	-
<b>Total comprehensive result</b>	<b>-6.3</b>	<b>-33.8</b>	<b>-41.6</b>
New issue	-	-	48.9
<b>Closing equity according to the balance sheet</b>	<b>48.0</b>	<b>13.2</b>	<b>54.3</b>

## Summary Parent Company Cash Flow Statements

MSEK	Jan-Mar 2014	Jan-Mar 2013	Full year 2013
<b>Cash flow from operating activities before changes in working capital</b>	<b>-5.9</b>	<b>-0.5</b>	<b>-7.0</b>
<b>Changes in working capital</b>			
Increase (-)/decrease (+) in inventories	-1.1	-1.7	-0.4
Increase (-)/decrease (+) in receivables	1.5	2.3	-4.1
Increase (+)/decrease (-) in current liabilities	1.0	1.0	-8.8
<b>Total change in working capital</b>	<b>1.4</b>	<b>1.6</b>	<b>-13.3</b>
<b>Cash flow from operating activities</b>	<b>-4.5</b>	<b>1.1</b>	<b>-20.3</b>
<b>Investment activities</b>			
Decrease in financial non-current assets	1.4	0.4	1.4
Loans to subsidiaries	1.0	-1.7	-11.4
<b>Cash flow from investment activities</b>	<b>2.4</b>	<b>-1.3</b>	<b>-10.0</b>
<b>Operating cash flow</b>	<b>-2.1</b>	<b>-0.2</b>	<b>-30.3</b>
<b>Financing activities</b>			
New issue	-	-	48.9
Increase (+) in loans	-	0.3	28.6
Decrease (-) in loans	-	-0.3	-44.5
<b>Cash flow from financing activities</b>	<b>0.0</b>	<b>0.0</b>	<b>33.0</b>
<b>Cash Flow for the Period</b>	<b>-2.1</b>	<b>-0.2</b>	<b>2.7</b>
Cash and cash equivalents at beginning of period	2.9	0.2	0.2
<b>Cash and cash equivalents at end of period</b>	<b>0.8</b>	<b>0.0</b>	<b>2.9</b>