

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

Second quarter 2014

- Revenue amounted to MSEK 29.4 (41.8).
- The operating result before depreciation and amortisation EBITDA amounted to MSEK –5.4 (–0.5).
- The operating result amounted to MSEK –7.6 (–3.0).
- The result after taxes amounted to MSEK –8.8 (–4.6).
- Earnings per share amounted to SEK –0.01 (–0.03).
- Order bookings amounted to MSEK 44.2 (47.9).
- The order backlog amounted to MSEK 55.1 (55.4).
- The gross margin was 74 (61) percent

First quarter 2014

- Revenue amounted to MSEK 56.9 (70.3).
- The operating result before depreciation and amortisation EBITDA amounted to MSEK –11.8 (–4.7).
- The operating result amounted to MSEK –16.5 (–9.5).
- The result after taxes amounted to MSEK –18.4 (–11.7).
- Earnings per share amounted to SEK –0.02 (–0.07).
- Order bookings amounted to MSEK 79.0 (81.2).
- The order backlog amounted to MSEK 55.1 (55.4).
- The gross margin was 74 (66) percent

President's statement

Order bookings during the second quarter were the second highest in the Company's history. RemaSawco as well as Motion Analysis performed at the top of their game and we now have an order backlog that opens great opportunities for an improved result during the second half of the year. Invoicing for the period was low, however, as a consequence of the fact that Digital Vision was unable to continue the positive development during the first quarter. Also, RemaSawco took in much of its orders late during the period. The result EBITDA

was therefore worse than for the corresponding year-ago period.

RemaSawco recorded order bookings of more than MSEK 30 for the period, which is one of the highest levels ever for the business area. Swedish sawmill activity remains difficult to judge, but we are sensing a somewhat more positive undertone during the past couple of months, with greater willingness to invest and stronger demand for sawn timber products. One additional Boardscanner unit was also sold during the quarter on the Swedish market. Both revenue and result were lower than for the previous quarter, but with the current order backlog, the opportunities for gaining ground lost during the first six months of the year must be regarded as good. The business area's major installations are usually made during summer and early autumn. Profit recognition is gradual.

The market climate for Digital Vision continues to be challenging and the business area was unable to achieve last year's numbers neither for order bookings nor for result. It is true, however, that based on the positive order bookings during the first quarter, the situation is marginally better than last year, but it is also true that the second quarter was a disappointment across the board. Our efforts to develop more offerings continue and we are expecting that the current order backlog will result in increased invoicing yielding a better result during the third and fourth quarters of 2014.

Motion Analysis recorded order bookings during the quarter at the highest level for many years, and significantly better than last year. It was primarily the U.S market that showed signs of strength during the quarter, at the same time as we are beginning to see the results of our efforts to identify new distributors. The profit for the period of just short of MSEK 2 is equivalent to an operating margin of as much as 35 percent. New software aimed at the camera market will be launched during the autumn months and more streamlining measures will also have a positive effect on earnings.

Net revenue and result

Second quarter

Order bookings amounted to MSEK 44.2 (47.9) and the order backlog amounted to MSEK 55.1 (55.4) as of 30 June. Net revenue amounted to MSEK 29.4 (41.8). The lower level of revenue is primarily the result of a low level of invoicing in Digital Vision, as a

large portion of order bookings will be invoiced during the second half of the year.

The gross margin was 74 (61) percent. The improvement is largely due to the fact that a relatively large proportion of sales were in the form of software and support with high margin. External costs increased by MSEK 1.0, in large part because of consultancy expenses. Depreciation and amortisation according to plan was charged to earnings in an amount of MSEK 2.2 (2.5), of which amortisation of consolidated surplus values amounted to MSEK 1.7 (1.9).

Operating result

The operating result before depreciation and amortisation EBITDA amounted to MSEK -5.4 (-0.5) and the result after taxes was MSEK -8.8 (-4.6). Revenue and operating result before depreciation and amortisation are reported on page 4.

First six months

Order bookings amounted to MSEK 79.0 (81.2) and the order backlog as of 30 June amounted to MSEK 55.1 (55.4). Net revenue amounted to MSEK 56.9 (70.3).

The gross margin was 74 (66) percent. The improvement is largely due to the fact that a relatively large proportion of sales were in the form of software and support with high margin. External costs increased by MSEK 2.5, in large part because of consultancy expenses. Depreciation and amortisation according to plan was charged to earnings in an amount of MSEK 4.7 (4.8), of which amortisation of consolidated surplus values amounted to MSEK 3.6 (3.7).

Operating result

The operating result before depreciation and amortisation EBITDA amounted to MSEK -11.8 (-4.7) and the result after taxes amounted to MSEK -18.4 (-11.7). Revenue and operating result before depreciation and amortisation are reported on page 4.

Capital expenditures and financial position

The Group's investments in non-current assets amounted to MSEK 0.3 (2.2). Available liquid funds, including the unutilised portion of a committed credit facility, amounted to MSEK 5.8 as of 30 June 2014 (5.4). The equity ratio as of 30 June stood at 38 (22) percent. The operative cash flow was MSEK -15.9 (-9.4). The net debt to equity ratio was 0.7 (1.6).

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 10.1 (22.4) and the result after taxes

amounted to MSEK -12.7 (-34.2). Investments in non-current assets amounted to MSEK 0.0 (0.0). The Parent Company's available liquid funds amounted to MSEK 2.5 as of 30 June 2014 (0.4). The Parent Company's equity amounted to MSEK 41.6 as of 30 June (12.8) and the equity ratio stood at 50 (16) percent.

Related-party transactions

On 20 May Image Systems received an additional loan of MSEK 15.0 from the principal owners, Tibia Konsult LMK and Horninge. Both loans outstanding will be extended until 1 January 2015.

Personnel

The average number of employees was 94 (95).

Number of shares outstanding

The number of shares outstanding as of 30 June 2014 was 882,275,185.

Events after the reporting day

No significant events have occurred after the end of the period under review.

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.

Affirmation of the Board of Directors

The undersigned hereby confirm that this semi-annual report provides a fair overview of the Parent Company's and the Group's business, financial position and result, and describes significant risks and uncertainty factors facing the Parent Company and the companies included in the Group.

Linköping, 22 August 2014

Board of Directors

Thomas Wernhoff
Chairman

Ingemar Andersson
Director

Katarina G Bonde
Director

Fredrik Lindgren
Director

Hans Isoz
President

Reporting schedule:

Interim Report July - September 2014 7 November 2014
Year-end Report 2014 13 February 2015

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 8.30 (CET), 22 August 2014.

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

Questions will be answered by:

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Klas Åström, CFO, telephone +46-8-546 182 23. e-mail klas.astrom@imagesystems.se

Image Systems AB, Ågatan 40, SE-582 22 Linköping, Sweden. Corporate identity number 556319-4041.

Summary Consolidated Income Statements

MSEK	April-June 2014	April-June 2013	Jan-June 2014	Jan-June 2013	Full year 2013
Revenue	29.4	41.8	56.9	70.3	143.9
Raw materials and supplies	-7.7	-16.3	-14.6	-24.2	-48.6
Other external costs	-8.3	-7.3	-16.3	-13.8	-28.7
Personnel costs	-19.0	-19.1	-37.9	-36.9	-73.0
Depreciation and amortisation of & impairment charges against tangible non-current assets	-2.2	-2.5	-4.7	-4.8	-10.2
Other operating income	-	-	-	-	-
Other operating income/expenses	0.2	0.4	0.1	-0.1	-2.2
Operating result	-7.6	-3.0	-16.5	-9.5	-18.8
Net finance items	-1.2	-1.6	-1.9	-2.2	-4.0
Result before taxes	-8.8	-4.6	-18.4	-11.7	-22.8
Taxes	-	-	-	-	0.0
Net result for the period	-8.8	-4.6	-18.4	-11.7	-22.8
Of which attributable to the Parent Company's Equity holders	-8.8	-4.6	-18.4	-11.7	-22.8
Earnings per share ¹⁾	-0.01	-0.03	-0.02	-0.07	-0.06
Earnings per share after dilution ¹⁾	-0.01	-0.03	-0.02	-0.07	-0.06
Average number of shares outstanding	882,275,185	176,455,037	882,275,185	176,455,037	411,728,420
Average number of shares outstanding after dilution	882,275,185	176,455,037	882,275,185	176,455,037	411,728,420

Summary consolidated report of comprehensive result

Net result for the period	-8.8	-4.6	-18.4	-11.7	-22.8
Other comprehensive result					
Translation differences	0.0	0.0	-0.2	0.0	-0.2
Taxes related to other comprehensive result	-	-	-	-	-
Total comprehensive result	0.0	0.0	-0.2	0.0	-0.2
TOTAL COMPREHENSIVE RESULT AT FOR THE PERIOD	-8.8	-4.6	-18.6	-11.7	-23.0
Of which attributable to the Parent Company's equity holders	-8.8	-4.6	-18.6	-11.7	-23.0

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

Group	April-June 2014	April-June 2013	Jan-June 2014	Jan-June 2013	Full year 2013
Revenue by segment (business area)					
RemaSawco	18.2	24.4	34.5	38.6	84.5
Digital Vision	5.7	13.7	12.1	24.2	44.4
Motion Analysis	5.5	3.7	10.3	7.5	15.0
Total	29.4	41.8	56.9	70.3	143.9
EBITDA					
RemaSawco	-0.6	2.1	-1.6	0.6	5.6
Digital Vision	-4.6	-0.1	-7.9	-0.6	-4.6
Motion Analysis	1.9	-0.4	2.1	-0.8	-1.4
Administration, consolidation items	-2.1	-2.1	-4.4	-3.9	-8.2
EBITDA total	-5.4	-0.5	-11.8	-4.7	-8.6
Depreciation and amortisation of & impairment charges against tangible non-current assets	-2.2	-2.5	-4.7	-4.8	-10.2
Operating result	-7.6	-3.0	-16.5	-9.5	-18.8
Net finance items	-1.2	-1.6	-1.9	-2.2	-4.0
Result before taxes	-8.8	-4.6	-18.4	-11.7	-22.8
Taxes	-	-	-	-	0.0
Net result for the period	-8.8	-4.6	-18.4	-11.7	-22.8

Summary Consolidated Balance Sheets

MSEK	30 June 2014	30 June 2013	31 December 2013
Non-current assets			
Intangible non-current assets	61.2	70.0	65.5
Tangible non-current assets	1.1	1.2	1.3
Financial non-current assets	6.9	2.3	8.6
Total non-current assets	69.2	73.5	75.4
Current assets			
Inventories	18.9	18.6	15.5
Trade receivables	29.0	31.7	29.9
Other short-term receivables	7.5	12.5	7.8
Cash and cash equivalents	3.9	2.6	5.7
Total current assets	59.3	65.4	58.9
TOTAL ASSETS	128.5	138.9	134.3
Equity (attributable to the Parent Company's equity holders in its entirety)	49.1	30.1	67.7
Long-term liabilities and provisions			
Loans from credit institutions	2.5	4.5	2.5
Other provisions	0.4	0.4	0.4
Total long-term liabilities and provisions	2.9	4.9	2.9
Current liabilities			
Loans from credit institutions	10.2	17.2	11.1
Debenture loans	27.0	34.0	12.0
Trade payables	10.8	23.2	11.6
Other current liabilities	28.5	29.5	29.0
Total current liabilities	76.5	103.9	63.7
TOTAL EQUITY AND LIABILITIES	128.5	138.9	134.3

Summary Report of Changes in Consolidated Equity

	30 June 2014	30 June 2013	Full year 2013
Opening equity according to the balance sheet	67.7	41.8	41.8
Net result for the period	-18.4	-11.7	-22.8
Other comprehensive result for the period	-0.2	-0.0	-0.2
Total comprehensive result for the period	-18.6	-11.7	-23.0
New issue	-	-	48.9
Closing equity according to the balance sheet	49.1	30.1	67.7

Summary Consolidated Cash Flow Statements

MSEK	April-June 2014	April-June 2013	Jan-June 2014	Jan-June 2013	Full year 2013
Cash flow from operating activities before changes in working capital	-6.4	-2.1	-13.8	-7.0	-13.3
Changes in working capital					
Increase (-)/Decrease (+) of inventories	-2.3	-0.7	-3.4	-3.2	-0.9
Increase (-)/Decrease (+) of receivables	-9.8	-6.7	1.1	-3.9	-4.1
Increase (+)/Decrease (-) of current liabilities	2.8	2.9	-1.2	3.9	-8.0
Total change in working capital	-9.3	-4.5	-3.5	-3.2	-13.0
Cash flow from operating activities	-15.7	-6.6	-17.3	-10.2	-26.3
Investment activities					
Acquisition of subsidiaries	-0.3	-0.1	-0.3	-0.1	-0.1
Acquisition of tangible non-current assets	-	-	-	-	-0.1
Decrease in financial non-current assets	0.3	0.4	1.7	0.9	1.4
Cash flow from investment activities	0.0	0.3	1.4	0.8	1.2
Operating cash flow	-15.7	-6.3	-15.9	-9.4	-25.1
Financing activities					
New issue	-	-	-	-	48.9
Increase (+) in loans	17.7	14.6	17.7	18.9	30.9
Decrease (-) in loans	-1.7	-6.6	-3.6	-7.1	-49.2
Cash flow from financing activities	16.0	8.0	14.1	11.8	30.6
Cash flow for the period	0.3	1.7	-1.8	2.4	5.5
Cash and cash equivalents at beginning of period	3.6	0.9	5.7	0.2	0.2
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	3.9	2.6	3.9	2.6	5.7

Key Financial Indicators

Group	April-June	April-June	Jan-June	Jan-June	Full year
	2014	2013	2014	2013	2013
Order bookings, MSEK	44.2	47.9	79.0	81.2	136.7
Order backlog, MSEK	55.1	55.4	55.1	55.4	31.2
Gross margin, %	74	61	74	66	66
Operating margin, %	neg	neg	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, %	38	22	38	22	50
Debt equity ratio	0.7	1.6	0.7	1.6	0.3
Net investments in non-current assets, MSEK	0.3	0.2	0.3	2.2	0.2
Depreciation and impairment of non-current assets, MSEK	2.2	2.5	4.7	4.8	10.2
Average number of employees	93	95	94	95	93
Number of shares outstanding at end of period, million	882.28	176.45	882.28	176.45	882.28
Average number of shares outstanding, million	882.28	176.45	882.28	176.45	411.73
Result per share ¹⁾ , SEK	-0.01	-0.03	-0.02	-0.07	-0.06
Cash flow per share ¹⁾ , SEK	-0.02	-0.03	-0.02	-0.05	-0.06
Equity per share ²⁾ , SEK	0.06	0.17	0.06	0.17	0.08

¹⁾ Calculated based on average number of shares outstanding.

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

Quarterly Survey

Group	2014			2013			2012			
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Order bookings, MSEK	44.2	34.8	30.2	25.6	47.9	33.3	34.8	31.6	31.7	39.0
Revenue, MSEK	29.4	27.5	38.1	35.5	41.8	28.5	46.5	24.6	34.0	27.7
Gross margin, %	74	75	65	69	61	72	67	71	74	62
Operating result before depreciation and amortisation (EBITDA), MSEK	-5.4	-6.4	-4.1	0.2	-0.5	-4.2	3.5	-5.0	-3.3	-7.3
Operating result (EBIT), MSEK	-7.6	-8.9	-7.0	-2.3	-3.0	-6.5	-18.0	-6.8	-5.1	-8.8
Operating margin, %	neg	neg								
Return on equity, %	neg	neg								
Equity ratio, %	38	49	50	57	22	27	30	41	41	43
Earnings per share, SEK	-0.01	-0.01	-0.01	-0.01	-0.03	-0.04	-0.10	-0.04	-0.03	-0.11
Cash flow per share, SEK	-0.02	-0.00	-0.00	-0.03	-0.03	-0.02	-0.01	-0.05	0.01	-0.49
Equity per share, SEK	0.06	0.07	0.08	0.09	0.17	0.20	0.24	0.34	0.39	0.42
Average number of shares outstanding, million	882.28	882.28	882.28	411.73	176.45	176.45	176.45	176.45	176.45	85.11

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

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 p period.

Summary Parent Company Income Statements

MSEK	April-June 2014	April-June 2013	Jan-June 2014	Jan-June 2013	Full year 2013
Revenue	4.9	13.0	10.1	22.4	35.6
Raw materials and supplies	-6.3	-7.7	-12.2	-13.0	-23.2
Other external costs	-1.7	-1.7	-3.7	-2.9	-6.7
Personnel costs	-2.7	-2.9	-5.3	-5.5	-10.8
Depreciation and amortisation of & impairment charges against tangible non-current assets	-0.4	-0.4	-0.8	-0.8	-1.6
Other operating income/expenses	0.2	0.3	0.2	-0.1	-0.5
Operating result	-6.0	0.6	-11.7	0.1	-7.2
Result from Group companies	-	-	-	-32.9	-32.9
Net finance items	-0.4	-1.0	-1.0	-1.4	-2.6
Result before taxes	-6.4	-0.4	-12.7	-34.2	-42.7
Year-end allocations	-	-	-	-	1.1
Taxes	-	-	-	-	-
Net result for the period	-6.4	-0.4	-12.7	-34.2	-41.6

Summary Parent Company Report of Comprehensive Result

Net result for the period	-6.4	-0.4	-12.7	-34.2	-41.6
Other comprehensive result	-	-	-	-	-
Total other comprehensive result	-	-	-	-	-
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	-6.4	-0.4	-12.7	-34.2	-41.6

Summary Parent Company Balance Sheets

MSEK	30 June 2014	30 June 2013	31 December 2013
Non-current assets			
Intangible non-current assets	5.2	6.4	5.8
Tangible non-current assets	0.3	0.6	0.4
Financial non-current assets	33.7	29.2	35.6
Total non-current assets	39.2	36.2	41.8
Current assets			
Inventories	12.4	10.9	10.0
Trade receivables	5.8	5.8	5.7
Due from Group companies	21.6	19.8	21.6
Other short-term receivables	1.7	6.6	1.2
Cash and cash equivalents	2.5	0.4	2.9
Total current assets	44.0	43.5	41.4
TOTAL ASSETS	83.2	79.7	83.2
Equity	41.6	12.8	54.3
Current liabilities			
Loans from credit institutions	0.2	9.0	-
Debenture loan	27.0	32.5	12.0
Trade payables	4.0	12.5	4.3
Due to Group companies	0.7	2.5	4.0
Other current liabilities	9.7	10.4	8.6
Total current liabilities	41.6	66.9	28.9
TOTAL EQUITY AND LIABILITIES	83.2	79.7	83.2

Summary Report of Changes in Consolidated Equity

MSEK	30 June 2014	30 June 2013	31 December 2013
Opening equity according to the balance sheet	54.3	47.0	47.0
Net result for the period	-12.7	-34.2	-41.6
Other comprehensive result for the period	-	-	-
Total comprehensive result	-12.7	-34.2	-41.6
New issue	-	-	48.9
Closing equity according to the balance sheet	41.6	12.8	54.3

Summary Parent Company Cash Flow Statements

MSEK	April-June 2014	April-June 2013	Jan-June 2014	Jan-June 2013	Full year 2013
Cash flow from operating activities before changes in working capital	-6.7	-0.4	-12.6	-0.9	-7.0
Changes in working capital					
Increase (-)/Decrease (+) in inventories	-1.2	0.4	-2.3	-1.3	-0.4
Increase (-)/Decrease (+) in receivables	-1.4	-4.5	0.1	-2.2	-4.1
Increase (+)/Decrease (-) in current liabilities	0.0	0.5	1.0	1.5	-8.8
Total change in working capital	-2.6	-3.6	-1.2	-2.0	-13.3
Cash flow from operating activities	-9.3	-4.0	-13.8	-2.9	-20.3
Investment activities					
Decrease in financial non-current assets	0.4	0.5	1.8	0.9	1.4
Loans to subsidiaries	-4.6	-9.7	-3.6	-11.4	-11.4
Cash flow from investment activities	-4.2	-9.2	-1.8	-10.5	-10.0
Operative cash flow	-13.5	-13.2	-15.6	-13.4	-30.3
Financing activities					
New issue	-	-	-	-	48.9
Increase (+) in loans	15.2	15.0	15.2	15.3	28.6
Decrease (-) in loans	-	-1.4	-	-1.7	-44.5
Cash flow from financing activities	15.2	13.6	15.2	13.6	33.0
Cash flow for the period	1.7	0.4	-0.4	0.2	2.7
Cash and cash equivalents at beginning of period	0.8	0.0	2.9	0.2	0.2
Cash and cash equivalents at end of period	2.5	0.4	2.5	0.4	2.9