

Interim Report for Image Systems AB (publ) January – March 2016

A guarded start to the year

First quarter 2016

- Breakthrough order for RemaSawco in North America.
- Revenue amounted to MSEK 20.0 (24.7).
- The operating result before depreciation and amortisation EBITDA amounted to MSEK –4.2 (0.3).
- The operating result was MSEK –5.8 (–1.3).
- The result after taxes amounted to MSEK –6.0 (–2.7).
- Earnings per share was SEK –0.16 (–0.29).
- Order bookings declined to MSEK 32.9 (42.7).
- The order backlog was MSEK 38.2 (46.5).
- The gross margin was 77 (74) percent.

President's Statement

The development on the Company's main markets was somewhat guarded during the first quarter, but we are still expecting a gradual improvement during the rest of the year. The bright spot during the quarter was our breakthrough order in North America. Adaptation of our products to the North American market has taken considerable resources, both for us and for our partner Raptor. We have high hopes that these orders will be followed by more.

RemaSawco recorded strong order bookings, although somewhat lower than last year's large volume of orders during the quarter. During the past quarter we also made two strategically important deals totalling about MSEK 7 in the United States. These deals were made together with RemaSawco's partner Raptor in Canada. The orders are for a quality inspection system, RS-Board-Scanner Q, the first delivery of the system on the North American market, and also in co-operation with Raptor, delivery of a board dimension measuring system. Both deals are with customers in Northern California. The guarded attitude towards investment among sawmills in our domestic markets during the second quarter of 2015 continued during the first quarter this year. We are beginning to see some improvement for the Swedish sawmills due to the high level of activity in the

construction market. Revenue amounted to MSEK 14.3 (18.0) and the EBITDA result was MSEK –3.7 (–0.8), mainly due to slower sales.

Motion Analysis recorded a lower volume of orders for the quarter than last year's record order bookings. Several planned deals have been delayed, but we are expecting that they will materialize later during the year. Revenue contracted by just over MSEK 1 to MSEK 5.5 (6.7). The EBITDA profit declined to MSEK 1.3 (3.1), mainly due to lower sales and higher personnel costs, a consequence of continued investments in product development.

Net revenue and result

First quarter

Order bookings amounted to MSEK 32.9 (42.7) and the order backlog as of 31 March was MSEK 38.2 (46.5). Net revenue amounted to MSEK 20.0 (24.7).

The gross margin was 77 (74) percent. The operating result before depreciation and amortization EBITDA was MSEK –4.2 (0.3), mainly due to lower revenue and increased personnel costs. The result was charged with depreciation and amortisation according to plan in an amount of MSEK 1.6 (1.6), of which amortisation of consolidated surplus values amounted to MSEK 1.6 (1.6). The result after taxes was MSEK –6.0 (–2.7).

Revenue and operating result before depreciation and amortisation by business area are reported on page 3.

Capital expenditures and financial position

The Group's investments in non-current assets amounted to MSEK 1.3 (0.0) and refer in their entirety to capitalized development costs in RemaSawco. Available cash and cash equivalents, including the unutilized portion of a committed credit facility in the amount of MSEK 10.0 (10.0) amounted to MSEK 8.9 as of 31 March 2016 (4.9). The equity ratio as of 31 March stood at 67 percent (14). The operative cash flow MSEK 0.6 (–4.1). The net debt to equity ratio was 0.1 (3.3).

Research and development

During the period the Company's development resources continued work on, among other things, IS in RemaSawco and a number of customer projects in Motion Analysis. Most of these products under

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 2015 consolidated revenue amounted to MSEK 125. 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

development will be launched during 2016. The Automatic strength sorting application, which is fully integrated with RS BoardScannerQ, has been developed and was certified in March 2016 by SP Sveriges Tekniska Forskningsinstitut AB.

Parent Company

The Parent Company's net revenue amounted to MSEK 0.2 (0.3) and the result after taxes was MSEK -1.8 (-3.3). Investments in non-current assets amounted to MSEK 0.0 (0.0). The Parent Company's cash and cash equivalents amounted to MSEK 0.3 as of 31 March 2016 (0.1). The Parent Company's equity was MSEK 58.5 as of 31 March 2106 (15.4) and the equity ratio was 84 (negative) percent.

Related party transactions

Remaining owner loans amounted to MSEK 3.7 as of 31 March 2016 and fall due on 31 December 2016 and carry interest at a rate of 8 percent p.a. Instalments and interest are paid quarterly.

Personnel

The average number of employees was 69 (68). However, the comparison is skewed by the fact that during 2015 Q1 4 employees belonged to business area Digital Vision which has been sold.

Number of shares

The number of shares outstanding as of 31 March was 38,231,922.

Reporting schedule:

<i>Interim Report April-June 2016</i>	<i>24 August 2016</i>
<i>Interim Report July-September 2016</i>	<i>9 November 2016</i>
<i>Year-end Report 2016</i>	<i>15 February 2017</i>

Linköping, 12 May 2016

Peter Johansson
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 1:00 p.m. (CET), 12 May 2016.

The 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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Events after this report

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

Accounting policies

Image Systems applies 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 2016 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 2015 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 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 2015. No other significant risks are deemed to have emerged during the period.

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

Summary Consolidated Income Statements

MSEK	Jan-Mar 2016	Jan-Mar 2015	Full year 2015
Revenue	20.0	24.7	125.5
Raw materials and supplies	-4.6	-6.4	-42.6
Other external costs	-4.6	-4.4	-17.8
Personnel costs	-15.0	-13.7	-54.9
Depreciation and amortisation of and impairment charges against tangible non-current assets	-1.6	-1.6	-6.4
Other operating revenue	0.0	0.1	-
Other operating costs	-	-	-0.6
Operating result	-5.8	-1.3	3.2
Net finance items	-0.2	-1.4	-2.9
Result before taxes	-6.0	-2.7	0.3
Taxes	-	-	0.0
Result after taxes	-6.0	-2.7	0.3
Of which attributable to the Parent Company's equity holders	-6.0	-2.7	0.3
Earnings per share ¹⁾	-0.16	-0.29	0.01
Earnings per share after dilution ¹⁾	-0.16	-0.29	0.01
Average number of shares outstanding	38,231,922	8,822,752	25,978,101
Average number of shares outstanding, after dilution	38,231,922	8,822,752	25,978,101

Consolidated Report of Comprehensive Result

Result for the period	-6.0	-2.7	0.3
Other comprehensive result			
Items that may later be transferred to the income statement			
Translation differences	0.0	-0.1	-0.1
Tax relating to other comprehensive result	-	-	-
Total other comprehensive result	0.0	-0.1	-0.1
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	-6.0	-2.8	0.2
Of which attributable to the Parent Company's equity holders	-6.0	-2.8	0.2

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

Group	Jan-Mar 2016	Jan-Mar 2015	Full year 2015
Revenue and result by segment			
RemaSawco	14.3	18.0	100.3
Motion Analysis	5.5	6.7	24.3
Parent Company and consolidation items	0.2	-	0.9
Total revenue	20.0	24.7	125.5
EBITDA			
RemaSawco	-3.7	-0.8	9.2
Motion Analysis	1.3	3.1	7.1
Parent Company and consolidation items	-1.8	-2.0	-6.7
EBITDA Total	-4.2	0.3	9.6
Depreciation and amortisation of and impairment charges against tangible non-current assets	-1.6	-1.6	-6.4
Operating result	-5.8	-1.3	3.2
Net finance items	-0.2	-1.4	-2.9
Result before taxes	-6.0	-2.7	0.3
Taxes	-	-	0.0
Result for the period	-6.0	-2.7	0.3

Summary Consolidated Balance Sheets

MSEK	31 March 2016	31 March 2015	31 December 2015
Non-current assets			
Intangible non-current assets	50.4	51.5	50.7
Tangible non-current assets	0.2	0.1	0.2
Financial non-current assets	0.0	5.0	0.0
Total non-current assets	50.6	56.6	50.9
Current assets			
Inventories	7.0	7.5	7.0
Trade receivables	13.7	24.2	27.2
Other short-term receivables	16.3	5.3	13.4
Cash and cash equivalents	3.9	2.9	3.1
Total current assets	40.9	39.9	50.7
TOTAL ASSETS	91.5	96.5	101.6
Equity (attributable to the Parent Company's equity holders in its entirety)	61.1	13.3	67.1
Long-term liabilities and provisions			
Other provisions	-	0.4	-
Total long-term liabilities and provisions	-	0.4	-
Current liabilities			
Loans from credit institutions	5.7	10.6	4.8
Debenture loans	3.7	35.3	4.5
Trade payables	4.5	10.6	6.7
Other current liabilities	16.5	26.3	18.5
Total current liabilities	30.4	82.8	34.5
TOTSL EQUITY AND LIABILITIES	91.5	96.5	101.6

Summary Report of Changes in Consolidated Equity

	31 March 2016	31 March 2015	Full year 2015
Opening equity according to the balance sheet	67.1	16.1	16.1
Result for the year	-6.0	-2.7	0.3
Other comprehensive result for the period	0.0	-0.1	-0.1
Total comprehensive result for the period	-6.0	-2.8	0.2
New issue	-	-	50.8
Closing equity according to the balance sheet	61.1	13.3	67.1

Summary Consolidated Cash Flow Statements

MSEK	Jan-Mar 2016	Jan-Mar 2015	Full year 2015
Cash flow from operating activities before changes in working capital	-4.3	-1.1	7.7
Changes in working capital			
Increase (-)/Decrease (+) of inventories	-0.1	-1.6	-1.3
Increase (-)/Decrease (+) of receivables	10.6	-0.8	-7.6
Increase (+)/Decrease (-) of current liabilities	-4.3	-0.6	-12.4
Total change in working capital	6.2	-3.0	-21.3
Cash flow from operating activities	1.9	-4.1	-13.6
Investment activities			
Acquisition of subsidiary	-	-	-0.3
Acquisition of intangible non-current assets	-1.3	-	-4.0
Acquisition of tangible non-current assets	-0.0	-	-0.1
Decrease in financial non-current assets	-	0.0	0.0
Cash flow from investment activities	-1.3	0.0	-4.4
Operating cash flow	0.6	-4.1	-18.0
Financing activities			
New issue	-	-	24.2
Increase (+) in loans	0.2	5.8	9.0
Decrease (-) in loans	-	-	-13.3
Cash flow from financing activities	0.2	5.8	19.9
Cash flow for the period	0.8	1.7	1.9
Cash and cash equivalents at beginning of period	3.1	1.2	1.2
Translation difference in cash and cash equivalents	0.0	0.0	0.0
Cash and cash equivalents at end of period	3.9	2.9	3.1

Key Financial Indicators

Group	Jan-Mar	Jan-Mar	Full year
	2016	2015	2015
Order bookings, MSEK	32.9	42.7	120.0
Order backlog, MSEK	38.2	46.5	22.8
Gross margin, %	77	74	66
Operating margin, %	neg		2.5
Profit marginal, %	neg	neg	0.2
Return on capital employed, %	neg	neg	4.8
Return on equity, %	neg	neg	0.7
Equity ratio, %	67	14	66
Debt equity ratio	0.1	3.3	0.1
Net investments in non-current assets, MSEK	1.3	0.0	4.4
Depreciation and impairment of non-current assets, MSEK	1.6	1.6	6.4
Average number of employees	69	68	67
Number of shares outstanding at end of period, million	38.23	8.82	38.23
Average Number of shares outstanding at end of period, million	38.23	8.82	25.98
Earnings per share ¹⁾ , SEK	-0.16	-0.29	0.01
Cash flow per share ¹⁾ , SEK	0.02	-0.46	-0.47
Equity per share ²⁾ , SEK	1.60	1.51	1.75

¹⁾ Calculated based on average number of shares outstanding.

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

Quarterly Survey

Koncernen	2016		2015		2014		2013			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Order bookings, MSEK	32,9	17,0	18,0	42,3	42,7	23,6	18,1	37,0	20,8	20,5
Revenue, MSEK	20.0	37.5	29.8	33.5	24.7	35.7	21.0	23.7	21.1	28.0
Gross margin, %	77	68	59	64	74	69	80	76	76	63
Operating result before depreciation and amortisation (EBITDA), MSEK	-4.2	5.7	1.8	1.8	0.3	5.4	1.3	-1.1	-3.5	-1.8
Operating result (EBIT), MSEK	-5.8	4.1	0.2	0.2	-1.3	3.4	-0.2	-2.6	-5.0	-3.9
Operating margin, %	neg	10.9	0.6	0.6	neg	9.5	neg	neg	neg	neg
Return on equity, %	neg	6.0	neg	neg	neg	13.8	neg	neg	neg	neg
Equity ratio %	67	66	66	56	14	17	30	38	49	50
Earnings per share, SEK	-0.16	0.10	-0.01	-0.02	-0.29	0.25	-0.27	-0.42	-0.65	-0.55
Cash flow per share, SEK	0.02	-0.20	0.12	-0.60	-0.46	0.00	0.01	-1.78	-0.02	-0.37
Equity per share, SEK	1.60	1.75	1.66	1.67	1.51	1.81	3.62	5.57	6.56	7.68
Average number of shares outstanding, million	38.23	38.23	38.23	18.62	8.82	8.82	8.82	8.82	8.82	8.82

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 period.

Summary Parent Company Income Statements

MSEK	Jan-Mar 2016	Jan-Mar 2015	Full year 2015
Revenue	0.2	0.3	1.0
Raw materials and supplies	-	-0.2	-0.5
Other external costs	-0.8	-0.7	-2.7
Personnel costs	-1.1	-1.3	-4.1
Other operating costs	-	-0.0	-0.4
Operating result	-1.7	-1.9	-6.7
Result from Group companies	-	-	5.4
Net finance items	-0.1	-1.4	-2.1
Result before taxes	-1.8	-3.3	-3.4
Year-end allocations	-	-	25.0
Taxes	-	-	-
Result for the period	-1.8	-3.3	21.6
Parent Company Report of Comprehensive Result			
Result for the period	-1.8	-3.3	21.6
Other comprehensive result	-	-	-
Total other comprehensive result	-	-	-
TOTAL COMPREHENSIVE RESULT FOR THE PERIOD	-1.8	-3.3	21.6

Summary Parent Company Balance Sheets

MSEK	31 March 2016	31 March 2015	31 December 2015
Non-current assets			
Financial non-current assets	56.1	31.1	56.1
Total non-current assets	56.1	31.1	56.1
Current assets			
Trade receivables	0.2	1.8	0.1
Due from Group companies	7.2	4.2	7.2
Other short-term receivables	6.0	1.3	5.8
Cash and cash equivalents	0.3	0.1	0.3
Total current assets	13.7	7.4	13.4
TOTAL ASSETS	69.8	38.5	69.5
Equity	58.5	-15.4	60.3
Current liabilities			
Debenture loan	3.7	35.3	4.8
Trade payables	0.7	2.6	0.7
Due to Group companies	3.6	5.2	0.6
Other current liabilities	3.3	10.8	3.1
Total current liabilities	11.3	53.9	9.2
TOTAL EQUITY AND LIABILITES	69.8	38.5	69.5

Summary Report of Changes in Parent Company Equity

MSEK	31 March 2016	31 March 2015	31 December 2015
Opening equity according to the balance sheet	60.3	-12.1	-12.1
Result for the year	-1.8	-3.3	21.6
Other comprehensive result for the year	-	-	-
Total comprehensive result	-1.8	-3.3	21.6
New issue	-	-	50.8
Closing equity according to the balance sheet	58.5	-15.4	60.3

Summary Parent Company Cash Flow Statements

MSEK	Jan-Mar 2016	Jan-Mar 2015	Full year 2015
Cash flow from operating activities			
before changes in working capital	-1.8	-3.2	-8.7
Changes in working capital			
Increase (-)/Decrease (+) in inventories	-	-	-
Increase (-)/Decrease (+) in receivables	-0.3	0.7	2.7
Increase (+)/Decrease (-) in current liabilities	0.2	-2.5	-9.0
Total change in working capital	-0.1	-1.8	-6.3
Cash flow from operating activities	-1.9	-5.0	-15.0
Investment activities			
Decrease in financial non-current assets	-	0.2	0.2
Loans to subsidiaries	3.0	0.6	-6.6
Cash flow from investment activities	3.0	0.8	-6.4
Operating cash flow	1.1	-4.2	-21.4
Financing activities			
New issue	-	-	24.2
Increase (+) in loans	-	5.0	5.0
Decrease (-) in loans	-1.1	-0.8	-7.6
Cash flow from financing activities	-1.1	4.2	21.6
Cash flow for the period	0.0	0.0	0.2
Cash and cash equivalents at beginning of period	0.3	0.1	0.1
Cash and cash equivalents at end of period	0.3	0.1	0.3