Ixonos Plc Interim report 4 August 2010 at 9:45

Interim report for the period 1 January – 30 June 2010

IXONOS' TURNOVER AND PROFIT INCREASED IN THE FIRST HALF-YEAR AS PREDICTED

The review period in brief

- Turnover for the review period was EUR 42.4 million (2009: EUR 33.7 million), a change of 25.7 per cent.
- Operating profit was EUR 1.8 million (2009: EUR 1.0 million), 4.3 per cent of turnover.
- Review period included EUR 0.4 million one-off expenses.
- Net profit was EUR 0.9 million (2009: EUR 0.4 million), 2.2 per cent of turnover.
- Earnings per share were EUR 0.08 (2009: EUR 0.03).
- Diluted earnings per share were EUR 0.08 (2009: EUR 0.03).
- Net cash flow from operating activities was EUR 1.8 million (2009: EUR 0.7 million).

Q2/2010 in brief

- Turnover for the second quarter was EUR 21.9 million (2009: EUR 16.3 million), a change of 34.3 per cent.
- Operating profit was EUR 1.3 million (2009: EUR 1.0 million), 5.7 per cent of turnover.
- Net profit was EUR 0.7 million (2009: EUR 0.6 million), 3.0 per cent of turnover.
- Earnings per share were EUR 0.06 (2009: EUR 0.05).
- Diluted earnings per share were EUR 0.06 (2009: EUR 0.05).
- The rights issue was subscribed for in full, raising net proceeds of approximately EUR 5.6 million.

Future prospects in brief

- Turnover in the third quarter of this year is forecast to substantially surpass turnover for the corresponding period last year. Operating profit for the third quarter is envisaged to clearly exceed the operating profit (before the goodwill impairment in 2009) for the previous year.
- The entire year turnover is predicted to clearly exceed that of the previous year. Operating profit for the entire year is forecast to clearly exceed the operating profit of the previous year (before the goodwill impairment in 2009).

Kari Happonen, President and CEO:

In the first half-year, both demand for Ixonos' services and the company's turnover clearly outperformed the market. Our profitability has improved due to increased turnover as well as to rationalisation measures in the Group. Nevertheless, the tight market situation in Finland, our investments in new geographical areas and the one-off arbitration costs weakened the company's profitability during the first half-year. As a result, profitability has not yet risen to its normal level.

The Mobile Terminals & Software business area, which provides R&D services for mobile terminal devices and software, strongly increased its turnover in the first half-year and was able to maintain fair profitability. During the first half-year, turnkey projects in smartphone design were launched in the Device Creation Centre that was established in 2009, and these projects supported the growth of the segment's operations. We expect the unit to continue expanding in the second half-year.

The Media & Communities business area, which develops device-independent Internet services related to the delivery of digital media as well as to social network communication, has recovered from the temporary setback that affected its turnover in the previous year. The segment's turnover almost doubled compared to the first half-year of 2009. Due to strong investments, for example into the development of the international sales network and of partnerships, the unit's profitability remains low. We envisage that the segment will continue its forceful growth into the second half-year and that its profitability will improve.

The Business Solutions area provides development and implementation of online services to Finnish organisations in telecommunication and finance as well as in public administration. This business area continues to suffer from the difficult market situation in Finland. The unit's turnover fell short of the previous year's level, and operations continued to show a loss. However, the decrease in business has distinctly slowed down, and the programme to rationalise the segment's operations is expected to improve the unit's profitability in the second half-year. The programme seeks to achieve some EUR 1 million in annual savings, and the profitability of the unit is anticipated to reach a moderate level in the last part of the year.

As research institutes had forecast, Finland's ICT market has seen a slight upswing in the first half of 2010. The market of international customers is expected to grow clearly faster than the Finnish market. We expect that the business volume of the entire Group will continue to grow and that profitability will develop positively during the second half-year.

In June, we carried out a rights issue directed at our shareholders. Its objective was to strengthen the company's balance sheet and to finance coming corporate acquisitions. The oversubscription of the rights issue reflects the confidence our shareholders have in the company and its strategy. I would like to thank all participants for supporting the company's future development.

OPERATIONS

Ixonos is an ICT service company providing innovative solutions for mobile communications, social media and digital services. Together with its customers, the company develops products and services that inspire the digital experience regardless of place and time. The company's client organisations benefit from new business opportunities and new productivity.

By offering services that range from concept design, consulting and project management to software production and maintenance, Ixonos strives to be a strategic partner to leading innovators.

One of Ixonos' strategic objectives has been to expand the company's solutions and services to span the entire life cycle of mobile Internet services, from concept development to maintenance. Ixonos' solutions also encompass all sectors of the user experience, from terminal devices and user interfaces to back end systems for mobile Internet services. The Device Creation Centre that was established in 2009 expanded the Group's mobile-terminal R&D services to cover mechanical engineering and electronics design in addition to software development. With the centre, Ixonos can provide increasingly comprehensive R&D services for next generation smartphones, to existing international device-manufacturer and operator customers as well as to new ones. The unit develops smartphones based on new, powerful chipsets from the world's leading technology suppliers and on the Android and Symbian operating systems.

The company's clientele comprises globally leading mobile and smartphone manufacturers, network suppliers and telecom carriers as well as Finnish finance, industrial and service companies and public administration organisations.

Ixonos has offices in Finland, China, Denmark, Estonia, Germany, Great Britain, Slovakia and the U.S.

SEGMENTS

Ixonos' business operations are organised into three segments: Mobile Terminals & Software; Media & Communities; and Business Solutions. The Mobile Terminals & Software business area involves product development services for mobile terminal devices and their software. The Media & Communities area comprises device-independent Internet services related to the delivery of digital content and to social network communication. The Business Solutions area encompasses development services for corporate business software and systems as well as for e-government facilities.

As the Business Solutions area was incorporated, some of its customer projects were transferred to the Media & Communities business area during the review period. The turnover of those projects was EUR 1.2 million (2009: EUR 1.3 million) and their operating profit was EUR 0.2 million (2009: EUR 0.5 million). The transfer of projects has been taken into account in the presented segment figures for the first half of 2010 as well as in their comparative figures.

Mobile Terminals & Software

The Mobile Terminals & Software business area provides its customers with R&D services for mobile terminal devices and software.

The business area managed to boost its market share further as well as to increase turnover and operating profit for the review period compared to the previous year. Turnover increased by 34.7 per cent to EUR 25.2 million (2009: EUR 18.7 million). Operating profit increased by 4.8 per cent to EUR 3.1 million (2009: EUR 3.0 million), 12.3 per cent of turnover. During the review period, the first customer projects related to the design of complete mobile devices were launched in the Device Creation Centre that was established in 2009. In accordance with the company's accounting principles, the bulk of the margin for these projects will be recognised from the third quarter.

In addition to actively utilising the offering of the Group's international sites in Tallinn, Košice, Beijing and Chengdu, the Mobile Terminals & Software segment also continued its strong efforts to develop international sales.

Media & Communities

The Media & Communities business area provides its customers with device-independent Internet services related to the delivery of digital media, entertainment and information as well as to social network communication.

During the review period, the segment's turnover increased by 79.1 per cent to EUR 10.3 million (2009: EUR 5.8 million). Operating profit decreased by 14.3 per cent to EUR 0.6 million (2009: EUR 0.7 million), 6.0 per cent of turnover.

Strong investments in the construction of an international operations network, as well as in the development of partnerships, continued to weaken the segment's profitability. The Media & Communities area has actively used the offering of the Group's lower-cost sites, such as the one in Košice.

Investments in Internet distribution and sales of digital media as well as in social media services on the Internet are expected to see global growth at a notably faster rate than traditional ICT investments. The unique and comprehensive service package Ixonos offers its customers enables agile and cost-efficient creation of new Internet services; implementation of a smooth user experience in services and mobile terminals; and flexible further development and maintenance - including business critical hosting - of services.

The turnover of the Media & Communities business area is envisaged to increase forcefully this year. Profitability is anticipated to remain at its present level.

Business Solutions

The Business Solutions area provides development services for corporate business software and systems as well as for e-government facilities.

The turnover of the Business Solutions segment decreased by 4.4 per cent to EUR 8.8 million (2009: EUR 9.3 million) during the review period. Although operating profit remained negative, EUR -0.5 million, the losses were clearly reduced in comparison to the previous year (2009: EUR -1.4 million). The economic recession has led to weakened Finnish demand for ICT services, and this reduced the segment's turnover and operating profit.

The Business Solutions area focuses on acceleration of business processes, on document and case management, on e-commerce and e-government solutions and on specialist services in project management. As all the Group's units do, Business Solutions vigorously uses open source solutions and, in chosen areas, product platforms of technology partners. The unit aims, among other objectives, to diversify its solution delivery according to the SaaS (software as a service) business model by using the Group's advanced business-critical hosting services. The Business Solutions unit also aspires to improve its operating efficiency by concentrating maintenance and further development of certain product platforms so that such work is performed at the Group's site in Košice. The unit's e-commerce and e-government solutions have been well received, especially by customers in the public sector.

According to forecasts by research institutes such as Market-Visio, Finland's ICT market will only see moderate growth in 2010. Due to the continuously weak market situation in Finland, the Business Solutions area will continue to develop slower than the company's other operations.

TURNOVER

Consolidated turnover for the review period was EUR 42.4 million (2009: EUR 33.7 million), which is 25.7 per cent more than in the previous year. Of the total turnover of all segments, before eliminations, the Mobile Terminals & Software segment accrued 56.8 per cent (2009: 55.5 per cent), the Media & Communities segment accrued 23.2 per cent (2009: 17.1 per cent) and the Business Solutions segment accrued 19.9 per cent (2009: 27.4 per cent).

Turnover in the second quarter was EUR 21.9 million (2009: EUR 16.3 million), which is 34.3 per cent more than in the previous year.

Turnover by segment

EUR 1,000	**1–6 2010**	**1–6 2009**	**1–12 2009**
Mobile Terminals & Software	25,224	18,732	37,310
Media & Communities	10,312	5,759	12,716
Business Solutions	8,849	9,256	17,033
Eliminations	-1,958	0	0
Group total	**42,427**	**33,747**	**67,059**

FINANCIAL RESULT

Consolidated operating profit was EUR 1.8 million (2009: EUR 1.0 million). Profit before taxes was EUR 1.3 million (2009: EUR 0.5 million). Profit for the review period was EUR 0.9 million (2009: EUR 0.4 million). Diluted earnings per share were EUR 0.08 (2009: EUR 0.03). Diluted cash flow from operating activities was EUR 0.15 (2009: EUR 0.06) per share. The improved operating profit was due to increased turnover as well as to rationalisation measures in the company. To improve the operating profit, particularly in the Business Solutions area, a rationalisation programme was carried out in the first half-year. The programme is expected to enhance the unit's profitability from the second half of this year. The Group's administrative expenses have increased in particular due to rising costs connected to internationalisation management. The EUR 0.4 million arbitration costs relating to the acquisition of Cidercone Life-Cycle Solutions Oy increased Ixonos' expenses for the review period on a one-off basis. These arbitration costs were expensed in the second quarter.

Consolidated operating profit for the second quarter was EUR 1.3 million (2009: EUR 1.0 million); profit before taxes was EUR 0.9 million (2009: EUR 0.8 million). Profit for the second quarter was EUR 0.7 million (2009: EUR 0.6 million). Second-quarter diluted earnings per share were EUR 0.06 (2009: EUR 0.05). Diluted cash flow from operating activities in the second quarter was EUR 0.32 per share (2009: EUR 0.04).

Operating profit by segment

EUR 1,000	**1–6 2010**	**1–6 2009**	**1–12 2009**
Mobile Terminals & Software	3,104	2,962	5,667
Media & Communities	621	724	1,555
Business Solutions	-472	-1,444	-9,224
Administration	-1,444	-1,208	-1,990
Group total	**1,809**	**1,034**	**-3,993**

The EUR 7.2 million goodwill impairment allocated to the Business Solutions unit has been taken into account in the segment's operating profit for 1–12 2009.

RETURN ON CAPITAL

Consolidated return on equity (ROE) was 8.2 per cent (2009: 2.8 per cent). Return on investment (ROI) was 9.4 per cent (2009: 4.6 per cent).

BALANCE SHEET AND FINANCING

The balance sheet total was EUR 58.1 million (2009: EUR 56.8 million). Equity was EUR 26.0 million (2009: EUR 25.5 million). The equity ratio was 44.7 per cent (2009: 44.9 per cent). The Group's liquid assets at the end of the review period amounted to EUR 4.2 million (2009: EUR 2.3 million).

At the end of the review period, the company's balance sheet showed EUR 12.5 million (2009: EUR 16.4 million) in bank loans. This amount includes overdraft in use. The bank loans have covenants attached to them. The covenants are based on the company's equity ratio and on the proportion of interest-bearing bank loans (partly interest-bearing net liabilities) to the 12-month rolling operating profit.

The share issue that was carried out in the second quarter significantly affected the company's liquid assets as well as its balance sheet structure. The net effect of the share issue amounted to some EUR 5.6 million in equity financing raised from shareholders. The company's bank loans decreased by EUR 2.8 million during the review period.

GOODWILL

On 30 June 2010, the consolidated balance sheet included EUR 23.6 million in goodwill. In the third quarter of 2009, the company wrote EUR 7.2 million off the goodwill allocated to the Business Solutions area. The company monitors the effect of the rationalisation measures taken in the Business Solutions area, and it will assess the need for impairment of the unit's goodwill in the third quarter.

Pursuant to the arbitral decision on 5 May 2010, Ixonos was to raise by EUR 1.1 million the additional acquisition price of EUR 7.8 million that Ixonos had paid to the sellers of Cidercone Life-Cycle Solutions Oy. The entire additional acquisition price of EUR 1.1 million has been recorded as an addition to goodwill. Of this addition, EUR 0.8 million pertains to the review period. The arbitration caused the company to incur some EUR 0.4 million in costs. They were entirely expensed in the second quarter.

CASH FLOW

During the review period, consolidated cash flow from operating activities was EUR 1.8 million (2009: EUR 0.7 million). The change in cash flow from operating activities resulted from an improved operating result, but it is strained by an increased need for working capital. At 30 June 2010, the company had sold EUR 1.9 million in accounts receivable.

PERSONNEL

The number of personnel averaged 1,105 (2009: 967) during the review period and was 1,135 (2009: 956) at the end of the period. The staff increase focused on companies outside Finland. At the end of the review period, the Group had 756 employees (2009: 733) in Finnish companies, while Group companies in other countries employed 379 (2009: 223).

On 24 May 2010, the company commenced co-operation negotiations pertaining to specific personnel groups in Finland. The negotiations were aimed at adapting the company's Finnish operations to reduced demand in project management services, in testing and in variant work as well as at improving the profitability of the company's activities in Finland. The negotiations were completed on 10 June 2010. As a result of the negotiations, 28 employees in the above-mentioned fields of expertise as well as in related administration were laid off for not more than three months. The rationalisation is expected to result in savings of approximately EUR 0.3 million this year, from the third quarter of the current financial period.

TOP MANAGEMENT

On 30 June 2010, Ixonos announced changes to its Management Team. Taina Makkonen, MSc (Econ) will be appointed Vice President and Director, Human Resources, as well as new member of the Management Team, from 1 September 2010. Asko Vainionpää, Senior Vice President and CAO, retired on 30 June 2010. Mr Vainionpää was also a member of the Management Team. On 1 August 2010, Pasi Iljin, Vice President and Director, Service Production, member of the Management Team, left for a one-year study leave. Kari Happonen, President and CEO; Timo Leinonen, Senior Vice President; Kari Liuska, Senior Vice President; Timo Kaisla, Senior Vice President, and Esa Launis, Chief Shop Steward, continue on the Ixonos Group's Management Team.

SHARES AND SHARE CAPITAL

Share turnover and price

During the review period, the highest price of the company's share was EUR 2.99 (2009: EUR 2.13), and the lowest price was EUR 1.87 (2009: EUR 1.35). The closing price on 30 June 2010 was EUR 1.93 (2009: EUR 1.83). The average price over the review period was EUR 2.17 (2009: EUR 1.58). The number of shares traded during the review period was 1,048,559 (2009: 2,264,407), which corresponds to 11.3 per cent (2009: 24.3 per cent) of the total number of shares, excluding provisional shares, at the end of the review period. According to the closing price on 30 June 2010, the market value of the company's shares, including provisional shares, was EUR 28,245,268 (2009: EUR 21,513,236).

Share capital

At the beginning of 2010, the company's registered share capital was EUR 372,523.56. The number of shares was 9,313,089. At the end of the review period, Ixonos' registered share capital was EUR 372,523.56 and the total number of shares was 9,313,089.

As a result of the rights issue, the number of Ixonos shares increased by 5,321,765 to 14,634,854 and the share capital increased by EUR 212,870.60 to EUR 585,394.16. The changes became effective on 1 July 2010, when they were entered in the Trade Register.

Option plan 2006

Under the 2006 stock option plan, 140,000 options have been granted under AI; 140,000 options under AII; 60,000 options under BI; and 60,000 options under BII. Of the series A options, 15,000 AI options and 25,000 AII options have been returned to the company pursuant to the terms and conditions of the option plan. A total of 30,000 returned series A options have been converted to series B options, in accordance with the terms and conditions of the option plan, and redistributed. Of the series B options, 5,000 BI options and 10,000 BII options have been returned to the company pursuant to the terms and conditions of the option plan. The maximum number of shares that can be subscribed for with outstanding options under option plan 2006 is 366,500, which is equivalent to 3.9 per cent of the company's total shares. The subscription period for the 2006 AI options began on 1 October 2007. The subscription period for the AII and BI options began on 1 October 2008. The subscription period for the BII options began on 1 October 2009. At 30 June 2010, the subscription price is EUR 4.13 with AI and AII options and EUR 4.92 with BI and BII options. The subscription period for the 2006 options ends on 31 December 2011.

Because of the rights issue, the company's Board of Directors decided on 1 June 2010 to modify the subscription ratio and exercise price associated with the option rights. The change is intended to ensure equal treatment of option holders and shareholders. Under the new subscription ratio, each 2006A and 2006B option right entitles its holder to subscribe for 1.57 shares. The exercise price is based on the market price of the company's share at NASDAQ OMX Helsinki Ltd from January to March 2006 and 2007. However, the exercise price per share is at least EUR 3.0464 with option right 2006A and at least EUR 3.5491 with option right 2006B. On exercise, the total number of shares for which the option holder subscribes is rounded down to the nearest integer. The total exercise price is calculated using the rounded number of shares and rounded to the nearest cent. After the change, the maximum number of shares that can be subscribed for with option rights is 575,405, which equals 3.9 per cent of the number of shares after the rights issue.

The changes became effective on 1 July 2010, when they were entered in the Trade Register.

Shareholders

The company had 2,983 shareholders on 30 June 2010 (2009: 2,910). Private persons owned 56.9 per cent (2009: 55.0 per cent) and institutions 43.1 per cent (2009: 45.0 per cent) of the shares. Foreign ownership was 7.8 per cent (2009: 8.0 per cent) of the total number of shares.

Board authorisations

At the end of the review period, the Board of Directors held an authorisation, granted by the Extraordinary General Meeting on 1 June 2010, to issue 3,991,324 shares. The authorisation states that such shares as well as special rights entitling to shares may also be issued in a way that deviates from the pre-emptive rights of shareholders, if a weighty financial reason for this exists as laid out in the Limited Liability Companies Act (624/2006). In such a case, the authorisation may be used to finance corporate acquisitions or other investments related to the company's operations; to increase the commitment of employees; and to maintain and improve the Group's solvency. The authorisation is effective until the company's next Annual General Meeting.

DECISIONS OF THE EXTRAORDINARY GENERAL MEETING

On 1 June 2010, the Extraordinary General Meeting of Ixonos Plc authorised the Board of Directors to decide on a share issue and on issuing other such special rights entitling to shares as referred to in chapter 10, section 1 of the Limited Liability Companies Act.

Per the authorisation granted to the Board of Directors, the number of shares to be issued may not exceed 9,313,089, which is equivalent to 100 per cent of all company shares at the time of convening the Extraordinary General Meeting. The Board of Directors was granted authority to decide, within the limits of the authorisation, on all terms of the share issue as well as on those of the issue of special rights entitling to shares. The Board of Directors was also granted authority to decide on crediting the subscription price to the share capital or, in whole or in part, to the invested non-restricted equity fund.

Shares as well as special rights entitling to shares may also be issued in a way that deviates from the pre-emptive rights of shareholders, if a weighty financial reason for this exists as laid out in the Limited Liability Companies Act. In such a case, the authorisation may be used to finance corporate acquisitions or other investments related to the company's operations; to increase the commitment of employees; and to maintain and improve the Group's solvency.

The authorisation is effective until the 2011 Annual General Meeting.

RIGHTS ISSUE

Based on the authorisation granted by the Extraordinary General Meeting, the Board of Directors resolved on 1 June 2010 to conduct a rights issue directed at the company's shareholders.

According to the final result of Ixonos Plc's rights issue, 5,131,808 shares, corresponding to 96.4 per cent of all shares offered, were subscribed for with subscription rights. The remaining 189,957 shares were subscribed for without subscription rights. The total amount of subscriptions was approximately 126.5 per cent of all shares offered.

The rights issue increased the number of Ixonos shares by 5,321,765 to 14,634,854. The net proceeds from the rights issue amounted to some EUR 5.6 million.

ARBITRAL DECISION IN THE MATTER OF THE ADDITIONAL ACQUISITION PRICE FOR CIDERCONE LIFE-CYCLE SOLUTIONS OY'S SHARES

Pursuant to the arbitral decision on 5 May 2010, Ixonos was to raise by EUR 1.1 million the additional acquisition price of EUR 7.8 million that Ixonos had paid to the sellers of Cidercone Life-Cycle Solutions Oy. Thus, the total additional acquisition price became EUR 8.9 million. The sellers had claimed an additional acquisition price of some EUR 16.0 million. Consequently, the total acquisition price for the shares in Cidercone Life-Cycle Solutions Oy amounts to EUR 17.7 million.

The arbitration caused the company to incur some EUR 0.4 million in costs, which have been entirely expensed in the second quarter.

EVENTS AFTER THE REVIEW PERIOD

Entering in the Trade Register the new shares subscribed for in the rights issue

The company announced on 1 July 2010 that the new shares that had been subscribed for in the rights issue were entered in the Trade Register on 1 July 2010. After the entry of the new shares, the total number of Ixonos shares is 14,634,854. The new shares confer shareholder rights, including the right to dividend and to other distribution of assets, from the date of entry, 1 July 2010.

RISK MANAGEMENT AND NEAR-FUTURE UNCERTAINTY FACTORS

Ixonos Plc’s risk management aims to ensure undisturbed continuity and development of the company’s operations, to back up the implementation of the commercial targets set by the company and to support increasing the company’s value. Details on the risk management organisation and process as well as on recognised risks are presented on the company’s website, at www.ixonos.com/en/investors/risk_management.

Presently, the major uncertainty factors are related to potential ramifications of the recession that afflicted the entire world in 2009. The general economic uncertainty influences corporate investments and propensity to invest. It also affects the information systems development investments of Ixonos’ customers; such investments may be put on hold, or decisions regarding them may be postponed.

Ixonos’ acquisitions, its rapid growth in 2006–2008, the upswing in its project operations and the prolonged turnaround time of accounts receivable have increased the company’s need for working capital. The company manages this need by creating, together with financiers, adequate buffers to ensure sufficient funds as well as by facilitating the circulation of working capital. The company’s balance sheet also includes a significant amount of goodwill, which may be impaired should either internal or external factors reduce the profit expectations of the company or any of its cash-generating units. Goodwill is tested annually during the final quarter of the year and, if necessary, at other times.

The company’s financial agreements have covenants attached to them. A covenant violation may cause an increase in the company’s financing costs or a call for swift partial or full repayment of non-equity loans. The main risks related to covenant violations are associated with operating profit fluctuation due to the market situation and with a potential need to increase the company’s working capital through non-equity funding. The company manages this risk by negotiating with financiers and by maintaining readiness for various financing methods. Ixonos has in use the cash funds its normal operations require.

FUTURE PROSPECTS

Gartner research indicates that the total trade volume of the industry decreased globally in 2009 and that it has started to increase again in 2010. According to Market-Visio, Finland’s ICT market tailed off in 2009 although it will begin to grow slowly in 2010.

Because of the continuing general economic uncertainty, Ixonos’ corporate customers remain more than usually cautious in their software and information systems investments as well as in the launching of new projects. Services are also affected by price pressure, particularly in the context of international customer relationships.

Turnover in the third quarter of this year is forecast to substantially surpass turnover for the corresponding period last year. Operating profit for the third quarter is envisaged to clearly exceed the operating profit (before the goodwill impairment in 2009) for the previous year. The entire year turnover is predicted to clearly exceed that of the previous year. The entire year turnover is predicted to clearly exceed that of the previous year. Operating profit for the entire year is forecast to clearly exceed the operating profit of the previous year (before the goodwill impairment in 2009).

The company aims to continue rationalising its operations, developing its services, expanding its service production in lower-cost countries and strengthening the cash flow and profitability of its operations.

NEXT REPORTS

The interim report for the period 1 January – 30 September 2010 will be published on 27 October 2010.

IXONOS PLC
Board of Directors

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THE IXONOS GROUP

ABBREVIATED FINANCIAL STATEMENTS 1 JANUARY – 30 JUNE 2010

Accounting policies

This interim report has been prepared in accordance with IAS 34, Interim Financial Reporting. Income tax expense is based on the performance-based taxes corresponding to the result for the review period.

The same accounting policies and techniques that were applied to the previous annual financial statements have been applied to this interim report. In addition, the new IAS and IFRS standards that have been introduced in 2010 have been applied. The most significant such standards are IFRS 3 (revised), Business Combinations and IAS 27 (revised), Consolidated and Separate Financial Statements.

Preparing the financial statements in accordance with IFRS requires Ixonos' management to make estimates and assumptions that affect the amounts of assets and liabilities on the balance sheet date as well as the amounts of income and expenses for the financial period. In addition, judgment must be used in applying the accounting policies. As the estimates and assumptions are based on views at the time of the interim report, they may involve risks and uncertainty factors. Actual results may differ from estimates and assumptions.

The figures in the income statement and in the balance sheet are consolidated. The consolidated balance sheet includes all Group companies. The original interim report is in Finnish; the interim report in English is a translation of the original report.

As the figures in the report have been rounded, sums of individual figures may differ from the sums presented. The interim report is unaudited.

CONSOLIDATED INCOME STATEMENT, EUR 1,000

	1.1.–30.6.2010	1.1.–30.6.2009	Change, per cent	1.1.–31.12.2009
Turnover	42,427	33,747	25.7	67,059
Operating expenses	-40,619	-32,714	24.2	-63,853
OPERATING PROFIT BEFORE GOODWILL IMPAIRMENT	**1,809**	**1,034**	**75.0**	**3,207**
GOODWILL IMPAIRMENT	0	0		-7,200
OPERATING PROFIT	**1,809**	**1,034**	**75.0**	**-3,993**
Financial income and expenses	-525	-551	-4.7	-1,471
Profit before tax	1,283	482	166.0	-5,464
Income tax	-359	-125	186.1	-523
PROFIT FOR THE PERIOD	**925**	**357**	**159.0**	**-5,987**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME, EUR 1,000

Profit for the period	925	357	159.0	-5,987
Other comprehensive income				
Change in translation difference	104	0		5
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,029**	**357**	**188.2**	**-5,982**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION, EUR 1,000

ASSETS	30.6.2010	30.6.2009	31.12.2009
NON-CURRENT ASSETS			
Goodwill	23,647	30,133	22,826
Other intangible assets	5,042	5,629	5,061
Property, plant and equipment	4,659	3,201	3,942
Deferred tax assets	115	126	233
Available-for-sale investments	110	110	110
TOTAL NON-CURRENT ASSETS	**33,573**	**39,199**	**32,172**
CURRENT ASSETS			
Trade and other receivables	20,352	15,352	17,691
Cash and cash equivalents	4,180	2,266	2,278
TOTAL CURRENT ASSETS	**24,532**	**17,618**	**19,968**
TOTAL ASSETS	**58,105**	**56,818**	**52,140**
EQUITY AND LIABILITIES	30.6.2010	30.6.2009	31.12.2009
SHAREHOLDERS' EQUITY			
Share capital	373	373	373
Share premium reserve	219	219	219
Share issue	5,766	0	0
Invested non-restricted equity fund	14,808	14,808	14,808
Retained earnings	3,882	9,752	9,764
Profit for the period	925	357	-5,987
TOTAL SHAREHOLDERS' EQUITY	**25,972**	**25,508**	**19,177**
LIABILITIES			
Non-current liabilities	9,734	12,382	10,543
Current liabilities	22,399	18,927	22,420
TOTAL LIABILITIES	**32,133**	**31,310**	**32,963**
TOTAL EQUITY AND LIABILITIES	**58,105**	**56,818**	**52,140**

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDERS' EQUITY, EUR 1,000

EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT								
	Share capital	Share premium reserve	Share issue	Invested non-restricted equity fund	Translation difference	Retained earnings	Profit for the period	Total
Shareholders' equity at 1 January 2009	370	121	100	14 808	-16	9,751	0	25,135
Profit for the period							357	357
Other comprehensive income								
Change in translation difference								0
Transactions with shareholders								
Rights issue	2	98	-100					0
Share-based remuneration expense						16		16
Shareholders' equity at 30 June 2009	373	219	0	14,808	-16	9,767	357	25,508
Shareholders' equity at 1 January 2010	373	219	0	14,808	-11	3,789	0	19,177
Profit for the period							925	925
Other comprehensive income								
Change in translation difference					104			104
Transactions with shareholders								
Rights issue			5,766					5,766

Shareholders' equity at 30 June 2010	373	219	5,766	14,808	93	3,789	925	25,972

CONSOLIDATED CASH FLOW STATEMENT, EUR 1,000

	1.1.–30.6.2010	1.1.–30.6.2009	1.1.–31.12.2009
Cash flow from operating activities			
Profit for the period	925	357	-5,987
Adjustments to cash flow from operating activities			
Tax	359	125	523
Depreciation and impairment	1,546	1,554	3,158
Financial income and expenses	525	551	1,471
Goodwill impairment	0	0	7,200
Other adjustments	-47	59	93
Cash flow from operating activities before change in working capital	**3,308**	**2,647**	**6,457**
Change in working capital	-668	-1,036	-314
Interest received	4	4	25
Interest paid	-485	-327	-1,360
Gains from sales of fixed assets	0	4	5
Tax paid	-385	-592	-1,710
Net cash flow from operating activities	**1,774**	**701**	**3,103**
Cash flow from investing activities			
Investments in tangible and intangible assets	-1,213	-202	-1,369
Dividends received	4	2	2
Acquisition of subsidiaries	-1,052	-7,836	-7,486
Net cash flow from investment activities	**-2,262**	**-8,036**	**-8,853**
Net cash flow before financing	**-488**	**-7,335**	**-5,750**
Cash flow from financing activities			
Increase in long-term borrowings	0	4,000	4,000
Repayment of long-term borrowings	-1,413	-1,013	-2,425
Increase in short-term borrowings	2,630	4,149	4,563
Repayment of short-term borrowings	-4,470	-448	-1,024
Proceeds from share issue	5,642	0	0
Net cash flow from financing activities	**2,389**	**6,689**	**5,115**
Change in cash and cash equivalents	1,902	-647	-635
Liquid assets at the beginning of the period	2,278	2,913	2,913
Liquid assets at the end of the period	4,180	2,266	2,278

CONSOLIDATED INCOME STATEMENT, QUARTERLY, EUR 1,000

	Q2/2010 1.4.10 – 30.6.10	**Q1/2010** 1.1.10 – 31.3.10	**Q4/2009** 1.10.09 – 31.12.09	**Q3/2009** 1.7.09 – 30.9.09	**Q2/2009** 1.4.09 – 30.6.09
Turnover	21,897	20,531	19,472	13,840	16,304
Operating expenses	-20,644	-19,974	-17,758	-13,382	-15,257
OPERATING PROFIT BEFORE GOODWILL IMPAIRMENT	1,252	556	1,715	458	1,046
GOODWILL IMPAIRMENT	0	0	0	-7,200	0
OPERATING PROFIT	1,252	556	1,715	-6,742	1,046

Financial income and expenses	-307	-218	-654	-266	-228
Profit before tax	945	338	1,061	-7,008	818
Income tax	-288	-71	-347	-50	-229
PROFIT FOR THE PERIOD	657	268	714	-7,058	589

SEGMENT REPORTING

	1.1.–30.6.2010	1.1.–30.6.2009	1.1.–31.12.2009
Turnover by segment			
Mobile Terminals & Software	25,224	18,732	37,310
Media & Communities	10,312	5,759	12,716
Business Solutions	8,849	9,256	17,033
Eliminations	-1,958	0	0
Total turnover	42,427	33,747	67,059
Operating profit by segment			
Mobile Terminals & Software	3,104	2,962	5,667
Media & Communities	621	724	1,555
Business Solutions	-472	-1,444	-9,224
Administration	-1,444	-1,208	-1,990
Total operating profit	1,809	1,034	-3,993
Operating profit, per cent of turnover	4.3	3.1	-6.0
Financial income and expenses	-525	-551	-1,471
Profit before tax	1,283	482	-5,464
Tax	-359	-125	-523
PROFIT FOR THE PERIOD	925	357	-5,987

CHANGES IN FIXED ASSETS, EUR 1,000

	Goodwill	Intangible assets	Property, plant and equipment	Available-for-sale invest-ments	Total
Carrying amount at 1 January 2009	32,195	6,632	3,147	110	42,084
Additions		60	565		625
Disposals	-2,062		-19		-2,081
Depreciation and amortisation during the period		-1,063	-491		-1,554
Carrying amount at 30 June 2009	30,133	5,629	3,201	110	39,074
Carrying amount at 1 January 2010	22,826	5,061	3,942	110	31,939
Additions		918	1,337		2,255
Additions from corporate acquisitions	821				821
Disposals			-11		-11
Depreciation and amortisation during the period		-937	-609		-1,546
Carrying amount at 30 June 2010	23,647	5,042	4,659	110	33,457

FINANCIAL RATIOS

	1.1.–30.6.2010	1.1.–30.6.2009	1.1.–31.12.2009
Earnings per share, diluted, EUR	0.08	0.03	-0.51
Earnings per share, EUR	0.08	0.03	-0.51
Equity per share, EUR	1.77	2.74	2.06
Operating cash flow per share, diluted, EUR	0.15	0.06	0.26

Return on investment, per cent	9.4	4.6	-9.4
Return on equity, per cent	8.2	2.8	-27.0
Operating profit / turnover, per cent	4.3	3.1	-6.0
Net gearing, per cent	45.5	65.7	81.4

OTHER INFORMATION

	1.1.–30.6.2010	1.1.–30.6.2009	1.1.–31.12.2009
PERSONNEL Number of employees, average	1,105	967	985
Number of employees, at the end of the period	1,135	956	1,063
COMMITMENTS, EUR 1,000	30.6.2010	30.6.2009	31.12.2009
Collateral for own commitments			
Corporate mortgages	9,900	9,900	9,900
Leasing and other rental commitments			
Falling due within 1 year	4,549	4,015	4,130
Falling due within 1–5 years	6,647	6,932	7,515
Falling due after 5 years	0	0	0
Total	11,196	10,947	11,645
Nominal value of interest rate swap agreement			
Falling due within 1 year	2,307	0	2,579
Falling due within 1–5 years	2,464	6,171	3,321
Falling due after 5 years	0	0	0
Total	4,771	6,171	5,900
Fair value	-145	-195	-172

CALCULATION OF KEY FIGURES

Diluted earnings per share = profit for the period / number of shares, adjusted for issues and dilution, average

Earnings per share = profit for the period / number of shares, adjusted for issues, average

Shareholders’ equity per share = shareholders’ equity / number of shares, undiluted, on the closing date

Cash flow from operating activities, per share, diluted = net cash flow from operating activities / number of shares, adjusted for issues and dilution, average

Return on investment (ROI) = (profit before taxes + interest + other financial expenses) / balance sheet total − non-interest-bearing liabilities, average x 100

Return on equity (ROE) = net profit / shareholders’ equity, average x 100

Gearing = interest-bearing liabilities − liquid assets / shareholders’ equity x 100